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

REGISTRATION NO. 333-75725

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 4

TO

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

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

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

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

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

Copies to:

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

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

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

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

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

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

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

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

EXPLANATORY NOTE

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

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

PROSPECTUS (Subject to Completion)

Issued July 27, 1999

8,500,000 Shares

[LENNOX INTERNATIONAL INC. LOGO]

COMMON STOCK

LENNOX INTERNATIONAL INC. IS OFFERING 8,088,490 SHARES OF COMMON STOCK AND THE SELLING STOCKHOLDERS ARE OFFERING 411,510 SHARES OF COMMON STOCK. THIS IS OUR INITIAL PUBLIC OFFERING AND NO PUBLIC MARKET CURRENTLY EXISTS FOR OUR SHARES. WE ANTICIPATE THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN $17 AND $20 PER SHARE.

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

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

PRICE $ A SHARE

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

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

Lennox International Inc. has granted the underwriters the right to purchase up to an additional 1,275,000 shares of common stock to cover over-allotments. Morgan Stanley & Co. Incorporated expects to deliver the shares of common stock to purchasers on , 1999.

MORGAN STANLEY DEAN WITTER

CREDIT SUISSE FIRST BOSTON

WARBURG DILLON READ LLC

, 1999

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

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

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

PROSPECTUS SUMMARY

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

LENNOX

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

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

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

COMPETITIVE STRENGTHS

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

- strong brand recognition and reputation, particularly with the well recognized "Lennox" name;

- one of the broadest distribution systems of any major HVACR manufacturer;

- leading heat transfer design and manufacturing expertise;

- commitment to product innovation and technological leadership; and

- demonstrated manufacturing efficiency for our products.

GROWTH STRATEGY

Our growth strategy is designed to capitalize on our competitive strengths in order to expand our market share and profitability in the worldwide HVACR markets. We will continue to pursue internal programs and strategic acquisitions that broaden our product and service offerings, expand our market opportunities and enhance our technological expertise. The key elements of this strategy include:

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

- exploiting international opportunities through acquisitions and internal growth;

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

- continuing to invest in research and new product development.

RECENT OPERATING RESULTS

For the three months ended June 30, 1999, we expect that net sales will be approximately $591.9 million, an increase of 29.8% from $456.0 million for the three months ended June 30, 1998. Income from operations is expected to increase by $12.9 million, or 37.9%, to approximately $46.9 million for the three months ended June 30, 1999, as compared to $34.0 million for the corresponding period in 1998. We expect that net income will be approximately $23.6 million for the three months ended June 30, 1999, an increase of 37.2% from $17.2 million for the three months ended June 30, 1998.

For the six months ended June 30, 1999, we expect that net sales will be approximately $1,080.9 million, an increase of 29.4% from $835.6 million for the six months ended June 30, 1998. Income from operations is expected to increase by $14.8 million, or 28.5%, to approximately $66.7 million for the first six months of this year, as compared to $51.9 million for the corresponding period in 1998. We expect that net income will be approximately $30.2 million for the six months ended June 30, 1999, an increase of 18.4% from $25.5 million for the six months ended June 30, 1998.

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

THE OFFERING

Common stock offered by:	
Lennox	8,088,490 shares
Selling stockholders	411,510 shares
Total	8,500,000 shares
Common stock offered in:	
U.S. offering	6,800,000 shares
International offering	1,700,000 shares
Total	8,500,000 shares
Common stock to be outstanding after this offering	44,660,740 shares
Use of proceeds	We estimate that we will receive approximately $138.4 million in net proceeds from the offering. The net proceeds will be used to repay a portion of the amounts borrowed under our revolving credit facility and term credit agreement. We will not receive any proceeds from the sale of the shares of common stock offered by the selling stockholders.
Proposed NYSE symbol	LII

All information in this prospectus relating to the number of shares of our common stock or options has been adjusted to reflect a 33-for-one stock split of our common stock which occurred on July 6, 1999.

Unless we specifically state otherwise, the information in this prospectus does not take into account the issuance of up to 1,275,000 shares of common stock which the underwriters have the option to purchase solely to cover over-allotments. If the underwriters exercise their over-allotment option in full, 45,935,740 shares of common stock will be outstanding after the offering.

The number of shares of our common stock to be outstanding immediately after the offering does not take into account 3,868,458 shares of our common stock that will be issuable upon the exercise of stock options, substantially all of which were awarded under our stock option plans. Stock options for 2,838,858 shares of common stock are currently exercisable. For more information on our stock option plans, see "Management -- 1998 Incentive Plan."

SUMMARY FINANCIAL AND OTHER DATA

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

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1996	1997	1998	1998	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF OPERATIONS DATA:					
Net sales	$1,364,546	$1,444,442	$1,821,836	$379,646	$489,059
Cost of goods sold	961,696	1,005,913	1,245,623	261,802	337,481
Gross profit	402,850	438,529	576,213	117,844	151,578
Selling, general and administrative expenses	298,049	326,280	461,143	97,255	129,268
Other operating expense, net	4,213	7,488	8,467	2,612	2,518
Product inspection charge(1)	--	140,000	--	--	--
Income (loss) from operations	100,588	(35,239)	106,603	17,977	19,792
Interest expense, net	13,417	8,515	16,184	2,620	6,558
Other	(943)	1,955	1,602	230	(211)
Minority interest	--	(666)	(869)	(502)	(516)
Income (loss) before income taxes	88,114	(45,043)	89,686	15,629	13,961
Provision (benefit) for income taxes	33,388	(11,493)	37,161	7,323	7,331
Net income (loss)	$ 54,726	$ (33,550)	$ 52,525	$ 8,306	$ 6,630
Earnings (loss) per share:					
Basic	$ 1.62	$ (0.99)	$ 1.50	$ 0.24	$ 0.19
Diluted	1.59	(0.99)	1.47	0.24	0.18
Weighted average shares outstanding:					
Basic	33,693	33,924	34,914	34,452	35,541
Diluted	34,386	33,924	35,739	35,112	36,366
Dividends per share	$ 0.26	$ 0.28	$ 0.32	$ 0.08	$ 0.09
OTHER DATA:					
Depreciation and amortization	$ 34,149	$ 33,430	$ 43,545	$ 9,787	$ 13,502
Capital expenditures	31,903	34,581	52,435	12,316	20,050
Research and development expenses	23,235	25,444	33,260	7,376	9,567

	MARCH 31, 1999	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
BALANCE SHEET DATA:		
Cash and cash equivalents	$ 30,262	$ 30,262
Working capital	215,279	353,716
Total assets	1,292,534	1,292,534
Total debt	449,921	311,484
Stockholders' equity	374,319	512,756

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(1) Represents a pre-tax charge taken in the fourth quarter of 1997 for estimated costs of an inspection program for our Pulse furnaces installed from 1982 to 1990 in the U.S. and Canada. We initiated the inspection program because we received anecdotal reports of accelerated corrosion of a component of these products under extreme operating conditions. We periodically review the reserve balance and at this time we believe the remaining reserve of $13.6 million at March 31, 1999 will be adequate to cover the remaining costs associated with this inspection program. This program ends on June 30, 1999.

RISK FACTORS

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

RISK FACTORS RELATING TO OUR BUSINESS

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

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

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

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

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

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

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

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

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

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

With our recently initiated program of acquiring heating and air conditioning dealers in the U.S. and Canada, we face the risk that dealers owned by consolidators and independent dealers may discontinue using our heating and air conditioning products because we are and increasingly will be in competition with them. We sold approximately $50 million of heating and air conditioning products to consolidators in 1998, representing 2.7% of our net sales.

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

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

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

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

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

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

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

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

- instability of foreign economies and governments;

- price and currency exchange controls;

- unfavorable changes in monetary and tax policies and other regulatory changes;

- fluctuations in the relative value of currencies;

- expropriation and nationalization of our foreign assets; and

- war and civil unrest.

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

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

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

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

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

EXPOSURE TO ENVIRONMENTAL LIABILITIES COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS

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

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

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

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

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

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

The ability of the Norris family to exercise significant control over Lennox may discourage, delay or prevent a takeover attempt that a stockholder might consider in his or her best interest and that might result in a stockholder receiving a premium for his or her common stock. Following the closing of the offering, approximately 110 descendants of or persons otherwise related to D.W. Norris, one of our original owners, will be able to collectively control over 70% of the outstanding shares of our common stock. Accordingly, if the Norris family were to act together, it would have the ability to:

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

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

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

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

RISK FACTORS RELATING TO SECURITIES MARKETS

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

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

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

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

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

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

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

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

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

Sales of a substantial number of shares of our common stock into the public market after the offering, or the perception that these sales could occur, could adversely affect our stock price or could impair our ability to obtain capital through an offering of equity securities. After the offering, we will have outstanding 44,660,740 shares of common stock. Of these shares, the shares sold in this offering will be freely tradeable without restriction or further registration under the Securities Act of 1933, except for any shares purchased by our "affiliates" as that term is defined by Rule 144. The remaining 36,160,740 shares of common stock outstanding, which will represent approximately 81% of the total outstanding shares of common stock, will be "restricted" as that term is defined by Rule 144. You should read the "Shares Eligible For Future Sale" section for a more complete discussion of these matters.

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

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

- actual or anticipated fluctuations in our operating results;

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

- announcements of new products or technological innovations; and

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted.

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

USE OF PROCEEDS

We estimate that our net proceeds from the sale of our common stock in the offering, after deducting estimated expenses of $1.1 million and underwriting discounts and commissions, will be approximately $138.4 million, or approximately $160.4 million if the underwriters exercise their over-allotment option in full, at an assumed initial public offering price of $18.50 per share. We will use all of the proceeds from the offering to repay a portion of the borrowings under our revolving credit facility and term credit agreement. Borrowing availability under our revolving credit facility will be used:

- to fund some of the cash portion of the purchase of additional dealers and for other acquisitions;

- to provide working capital for our expanded operations;

- to fund capital expenditures; and

- for other general corporate purposes.

As of July 1, 1999 approximately $120 million was outstanding under our revolving credit facility at an average interest rate of 5.2% and approximately $90 million was outstanding under our term credit agreement at an interest rate of 6.0%. Borrowings under our revolving credit facility and term credit agreement, along with cash flow from operations, were used for:

- seasonal working capital needs;

- the acquisitions of the hearth products companies;

- the acquisitions of heating and air conditioning dealers in Canada;

- certain international acquisitions, including McQuay do Brasil S.A.;

- the acquisition of Livernois Engineering Holding Company and its licensed patents; and

- expenses incurred in our Pulse inspection program.

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

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

DIVIDEND POLICY

We paid cash dividends of $0.26, $0.28 and $0.32 per share on our common stock during 1996, 1997 and 1998, respectively. We anticipate that we will continue to pay cash dividends on our common stock, but any future determination as to the payment or amount of dividends will depend upon our future results of operations, capital requirements, financial condition and other factors as our board of directors may consider. In addition, our revolving credit facility, term credit agreement and our other debt instruments prohibit the payment of dividends unless we can incur $1.00 of additional indebtedness according to the terms of these instruments. For more information about our debt instruments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

CAPITALIZATION

The following table presents our cash and cash equivalents, short-term debt and capitalization as of March 31, 1999 and as adjusted to give effect to the offering and the use of the net proceeds as described under "Use of Proceeds." The outstanding share information excludes 2,857,008 shares of common stock issuable upon the exercise of outstanding options as of March 31, 1999. You should read the information presented below together with our consolidated financial statements and notes, "Selected Financial and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Management -- 1998 Incentive Plan" included elsewhere in this prospectus.

	MARCH 31, 1999	
	ACTUAL	AS ADJUSTED
	(DOLLARS IN THOUSANDS)	
Cash and cash equivalents	$ 30,262	$ 30,262
Short-term debt (including current maturities of long-term debt)	$216,426	$ 77,989
Long-term debt	$233,495	$233,495
Stockholders' equity:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, no shares issued or outstanding	--	--
Common stock, $.01 par value, 200,000,000 shares authorized, 35,561,757 shares issued and outstanding actual and 43,650,247 shares as adjusted	356	437
Additional paid-in capital	33,086	171,442
Retained earnings	354,444	354,444
Currency translation adjustments	(13,567)	(13,567)
Total stockholders' equity	374,319	512,756
Total capitalization	$607,814	$746,251

DILUTION

Our net tangible book value as of March 31, 1999 was approximately $164.5 million or $4.63 per share of common stock. Net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock issued and outstanding. After giving effect to the sale of the 8,088,490 shares of common stock offered by us at an assumed initial public offering price of $18.50 per share and the use of the net proceeds as described under "Use of Proceeds", our pro forma net tangible book value as of March 31, 1999 would have been $302.9 million, or $6.94 per share. This represents an immediate increase in net tangible book value of $2.31 per share to existing stockholders and an immediate dilution of $11.56 per share to new investors.

The following table illustrates this per share dilution:

Assumed initial public offering price.......................		$18.50
Net tangible book value before the offering...............	$4.63	
Increase in pro forma net tangible book value attributable to new investors......................................	2.31	
Pro forma net tangible book value after the offering........		6.94
Dilution to new investors..................................		$11.56

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

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders.........	35,561,757	81.5%	$ 33,442,000	19.5%	$ 0.94
New investors..........	8,088,490	18.5	138,437,000	80.5	17.12
Total........	43,650,247	100.0%	$171,879,000	100.0%	

The computations in the tables above exclude 2,857,008 shares of common stock issuable upon exercise of stock options substantially all of which were awarded under our stock option plans. For more information on our stock option plans, see "Management -- 1998 Incentive Plan."

SELECTED FINANCIAL AND OTHER DATA

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

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1997	1998	1998	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						
STATEMENT OF OPERATIONS DATA:							
Net sales	$1,168,099	$1,306,999	$1,364,546	$1,444,442	$1,821,836	$ 379,646	$ 489,059
Cost of goods sold	815,511	946,881	961,696	1,005,913	1,245,623	261,802	337,481
Gross profit	352,588	360,118	402,850	438,529	576,213	117,844	151,578
Selling, general and administrative expenses	273,421	285,938	298,049	326,280	461,143	97,255	129,268
Other operating expense, net	7,460	2,555	4,213	7,488	8,467	2,612	2,518
Product inspection charge(1)	--	--	--	140,000	--	--	--
Income (loss) from operations	71,707	71,625	100,588	(35,239)	106,603	17,977	19,792
Interest expense, net	20,830	20,615	13,417	8,515	16,184	2,620	6,558
Other	836	(622)	(943)	1,955	1,602	230	(211)
Minority interest	--	--	--	(666)	(869)	(502)	(516)
Income (loss) before income taxes	50,041	51,632	88,114	(45,043)	89,686	15,629	13,961
Provision (benefit) for income taxes	19,286	17,480	33,388	(11,493)	37,161	7,323	7,331
Net income (loss)	$ 30,755	$ 34,152	$ 54,726	$ (33,550)	$ 52,525	$ 8,306	$ 6,630
Earnings (loss) per share:							
Basic	$ 0.93	$ 1.04	$ 1.62	$ (0.99)	$ 1.50	$ 0.24	$ 0.19
Diluted	0.93	1.04	1.59	(0.99)	1.47	0.24	0.18
Weighted average shares outstanding:							
Basic	32,938	32,899	33,693	33,924	34,914	34,452	35,541
Diluted	32,994	32,964	34,386	33,924	35,739	35,112	36,366
Dividends per share	$ 0.20	$ 0.22	$ 0.26	$ 0.28	$ 0.32	$ 0.08	$ 0.09
OTHER DATA:							
Depreciation and amortization	$ 32,896	$ 32,212	$ 34,149	$ 33,430	$ 43,545	$ 9,787	$ 13,502
Capital expenditures	36,189	26,675	31,903	34,581	52,435	12,316	20,050
Research and development expenses	22,773	22,682	23,235	25,444	33,260	7,376	9,567

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

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(1) Represents a pre-tax charge taken in the fourth quarter of 1997 for estimated costs of an inspection program for our Pulse furnaces installed from 1982 to 1990 in the U.S. and Canada. We initiated the inspection program because we received anecdotal reports of accelerated corrosion of a component of these products under extreme operating conditions. We periodically review the reserve balance and at this time we believe the remaining reserve of $13.6 million at March 31, 1999 will be adequate to cover the remaining costs associated with this inspection program. This program ends on June 30, 1999.

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

OVERVIEW

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

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

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

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

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

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

We acquired James N. Kirby Pty. Ltd., an Australian company that participates in the commercial refrigeration and heat transfer markets in Australia, in June 1999 for approximately $67 million in cash, common stock and seller financing. In addition, we assumed approximately $28 million of Kirby's debt. Kirby had revenues of approximately $68 million and $86 million for the twelve months ended June 30, 1998 and the nine months ended March 31, 1999, respectively.

We recently initiated a program to acquire high quality heating and air conditioning dealers in metropolitan areas in the U.S. and Canada to market "Lennox" and other brands of heating and air conditioning products. This strategy will enable us to extend our distribution directly to the consumer and permit us to participate in the revenues and margins available at the retail level while strengthening and protecting our brand equity. We believe that the retail sales and service market represents a significant growth opportunity because this market is large and highly fragmented. The retail sales and service market in the U.S. is comprised of over 30,000 dealers. In addition, we believe that the heating and air conditioning service business is somewhat less seasonal than the business of manufacturing and selling heating and air conditioning products. As of July 2, 1999, we had acquired 50 dealers in Canada and two in the U.S. for an aggregate purchase price of approximately $74 million and had signed letters of intent to acquire nine additional Canadian dealers and 11 U.S. dealers for an aggregate purchase price of approximately $79 million. As we acquire more heating and air conditioning dealers, we expect that we will incur additional costs to expand our infrastructure to effectively manage these businesses.

We have assigned a 40-year life to the goodwill acquired in the acquisitions of the hearth products companies and the dealers acquired to date. These companies and dealers are all profitable and all have been in business for extended periods of time. They all operate in established industries where the basic product technology has changed very little over time. In addition, all of these companies and dealers have strong brand names and market share in their respective industries or markets. Based upon these factors, we concluded that the anticipated future cash flows associated with the goodwill recognized in the acquisitions will continue for at least 40 years.

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

RESULTS OF OPERATIONS

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

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

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

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

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

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

Net sales related to the North American residential segment were $284.9 million during the three months ended March 31, 1999, an increase of $81.3 million, or 39.9%, from $203.6 million for the corresponding three months in 1998. Of the $81.3 million increase, $35.9 million was due to sales from the hearth products acquisitions which occurred in the third quarter of 1998 and the first quarter of 1999, $16.7 million was due to sales from our Canadian dealers and $5.0 million was due to sales from acquired heating and air conditioning distributors. The remaining $23.7 million increase in North American residential net sales was primarily due to an 11.6% increase in sales of our existing businesses, almost all of which resulted from increased sales volumes, principally caused by three factors. First, the hot summer in 1998 depleted the inventory levels at our distributors and they increased their purchases in the first quarter of 1999 to refill their inventories. Second, we offered our Armstrong distributors preferential credit terms to encourage them to accumulate inventory in anticipation of a possible work stoppage at our Bellevue, Ohio factory. Third, our volume increased as a result of sales to new dealers, which were added as a result of programs to expand our dealer base.

Commercial air conditioning net sales increased $10.7 million, or 13.1%, to $92.5 million for the three months ended March 31, 1999 compared to the corresponding three months in 1998. Of this increase, $8.5 million was due to increased sales volumes in North America primarily due to the effectiveness of recently established commercial sales districts. Net sales related to the commercial refrigeration segment were $61.6 million during the three months ended March 31, 1999, an increase of $13.7 million, or 28.6%, from $47.9 million for the corresponding three months in 1998. McQuay do Brasil, which we acquired in September 1998, contributed $3.3 million to commercial refrigeration revenues in the first quarter of 1999 and Lovelock Luke Pty. Limited, which we acquired in December 1998, contributed $11.4 million. North American commercial refrigeration sales increased $2.4 million primarily due to strong sales volumes to our supermarket customers and increased activity with our large distributors, while sales in Europe decreased $3.4 million as compared to the prior period principally due to reduced sales in Russia and Eastern Europe. Heat transfer revenues increased $3.7 million, or 8.0%, to $50.0 million for the three months ended March 31, 1999 compared to the corresponding three months in 1998. This increase was primarily due to increased sales volumes to original equipment manufacturers in North America.

Domestic sales increased $78.3 million, or 25.7%, to $383.1 million for the first quarter of 1999 from $304.8 million for the first quarter of 1998. International sales increased $31.1 million, or 41.6%, to $105.9 million for the first quarter of 1999 from $74.8 million for the first quarter of 1998. Sales in Brazil for the first quarter of 1999 were $3.3 million but would have been approximately $4.9 million if devaluation of the Brazilian currency had not occurred in this quarter. As a result of the devaluation, we had to reduce the carrying value of our Brazilian investment by $5.9 million, thereby causing a reduction in our investments in joint ventures on our balance sheet.

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

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

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

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

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

Interest expense, net. Interest expense, net for the three months ended March 31, 1999 increased to $6.6 million from $2.6 million for the same period in 1998. Of the $4.0 million increase in interest expense, $1.3 million was due to the incurrence of $75 million in additional long-term borrowings in April 1998 and $2.7 million was due to increased usage of our credit lines. Short-term borrowing increased in the first quarter of 1999 as a result of acquisitions, payments related to the Pulse inspection program and increased working capital for seasonal needs.

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

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

Provision for income taxes. The provision for income taxes was $7.3 million for both the three months ended March 31, 1999 and 1998. The effective tax rate of 52.5% and 46.9% for the three months ended March 31, 1999 and 1998, respectively, differs from the statutory federal rate of 35.0% principally due to state and local taxes and valuation reserves provided for foreign operating losses. No tax benefits are being recognized for our tax loss carryforwards in Europe, which will not be used until our operations in Europe are profitable.

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

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

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

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

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

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

Selling, general and administrative expenses. Selling, general and administrative expenses were $461.1 million for 1998, an increase of $134.8 million, or 41.3%, from $326.3 million for 1997. Selling, general and administrative expenses represented 25.3% and 22.6% of total net revenues for 1998 and 1997, respectively. If the effect of the consolidation of Ets. Brancher is excluded, selling, general and administrative expenses would have been $413.9 million for 1998, an increase of $99.8 million, or 31.8%, from $314.1 million for 1997, representing 25.4% and 22.4% of total net sales for 1998 and 1997, respectively. Approximately $16.7 million of the increase in selling, general and administrative expenses is composed of three non-recurring items: $7.1 million associated with the settlement of a lawsuit; approximately $5.0 million of incremental expense associated with the implementation of the SAP enterprise business software system; and $4.6 million associated with increased expenses of a terminated performance share plan. If the effect of these non-recurring items and the consolidation of Ets. Brancher is excluded, selling, general and administrative expenses would have been $397.2 million for 1998, an increase of $83.1 million, or 26.5%, from $314.1 million for 1997, representing 24.4% and 22.4% of total net sales for 1998 and 1997, respectively. The remaining increase in selling, general and administrative expenses is primarily due to increased variable costs associated with sales growth in North America and costs associated with creating infrastructure to manage international businesses, such as the establishment of a sales office in Singapore and the business development functions for our global operation.

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

Product inspection charge. In the fourth quarter of 1997, we recorded a non-recurring pre-tax charge of $140.0 million to provide for management's best estimate of the projected expenses of the product inspection program related to our Pulse furnace. As part of our normal warranty process, we continuously monitor the replacement rate for, among other components, heat exchangers in our products. During 1997, it was determined that, under certain circumstances, certain joint connections on Pulse furnace heat exchangers manufactured between 1982 and 1988 could fail and potentially create a safety hazard in the home. Once this was determined, we publicly announced the Pulse inspection program in 1997. Under the program, we have offered the owners of all Pulse furnaces installed between 1982 and 1990 a subsidized inspection and a free carbon monoxide detector. The inspection includes a severe pressure test to determine the serviceability of the heat exchanger. If the heat exchanger does not pass the test, we will either replace the heat exchanger or offer a new furnace and subsidize the labor costs for installation. The cost required for the program depends on the number of units we find, the number of units that fail the pressure test, whether consumers select to replace the heat exchanger or receive a new furnace and the cost of the replacement products. Based on the results of our historical experience, input from our dealers and consultation with the Consumer Products Safety Commission, we estimated we could ultimately locate approximately 67% of the Pulse furnaces that were manufactured between 1982 and 1988. In terms of estimated failure rates, we utilized the data gathered from "field experience" tests, which indicated a failure rate of approximately 30%. In terms of consumer selection, we estimated that half would elect the new heat exchanger and half would elect the new furnace. Finally, we utilized our standard costs of heat exchangers and new furnaces, the cost of the dealer inspection allowance and the cost of the dealer replacement allowance in calculating the liability. We believe we had adequate information to develop reasonable assumptions in estimating the cost of the Pulse inspection program.

We periodically review the reserve balance and at this time believe the remaining reserve of $13.6 million at March 31, 1999 will be adequate to cover the remaining costs associated with this inspection program. This program ends on June 30, 1999.

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

Domestic income from operations was $108.7 million during 1998 as compared to a loss of $(17.8) million during 1997. International income (loss) from operations was $(2.1) million during 1998 and $(17.4) million for 1997.

Interest expense, net. Interest expense, net for 1998 increased to $16.2 million from $8.5 million for 1997. Of the $7.7 million increase in interest expense, $3.6 million was due to the incurrence of $75 million in additional long-term borrowings in April 1998, $1.6 million was due to the consolidation of Ets. Brancher for the full year and the remainder was due to less interest income in 1998.

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

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

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

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

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

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

Net sales related to the North American residential segment were $865.1 million during 1997, an increase of 0.9% from $857.1 million for 1996. This increase was principally due to increases in the number of heating and air conditioning units sold by us, despite the fact that industry shipments were generally down 5%

for 1997. The weather in 1997 was mild with a cool spring and modest winter over most of the U.S., and inventory levels for both dealers and distributors were higher than normal at the end of 1996. Commercial air conditioning revenues increased $49.9 million, or 21.8%, to $278.8 million for 1997 compared to 1996. Of the $49.9 million increase, 49.3% was due to increased volumes of rooftop air conditioner sales in North America and the balance was due to the consolidation of Ets. Brancher in the fourth quarter of 1997. Rooftop air conditioner business increased in 1997 principally due to focused sales efforts through commercial districts that we established early in 1997 as well as the continued roll out of the L Series rooftop product line. Net sales related to the commercial refrigeration segment were $154.3 million during 1997, an increase of 13.8% from $135.6 million for 1996. This increase was primarily due to the consolidation of Ets. Brancher in the fourth quarter of 1997. Heat transfer revenues increased $3.3 million, or 2.3%, to $146.2 million for 1997 compared to 1996. Ets. Brancher contributed $3.3 million to heat transfer product sales in 1997.

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

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

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

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

Income (loss) from operations. Income (loss) from operations was $(35.2) million in 1997, a decrease of $135.8 million from $100.6 million in 1996. The $135.8 million decrease was primarily due to the $140.0 million non-recurring pre-tax charge relating to the Pulse inspection program. Excluding the special charge for the Pulse inspection program and the consolidation of Ets. Brancher, income from operations would have been $106.1 million in 1997, representing 7.6% of net sales, the same percent as in 1996.

Domestic income (loss) from operations was $(17.8) million during 1997 as compared to $98.0 million during 1996. International income from operations was $(17.4) million during 1997 and $2.6 million for 1996.

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

In the past, we have used a combination of internally generated funds, external borrowings and our stock to make acquisitions. We intend to acquire additional heating and air conditioning dealers in the U.S. and Canada. We plan to finance these acquisitions with a combination of cash, stock and debt. As of July 2, 1999, we had acquired 50 dealers in Canada and two in the U.S. for an aggregate purchase price of approximately $74 million and had signed letters of intent to acquire nine additional Canadian dealers and 11 U.S. dealers for an aggregate purchase price of approximately $79 million. On June 25, 1999, we filed a shelf registration statement for $100 million of our common stock to use in connection with acquisitions.

We have agreed to purchase on March 31, 2000 the remaining 30% interest in Ets. Brancher not owned by us for approximately $17 million. In June 1999, we acquired James N. Kirby Pty. Ltd. for approximately $67 million. In addition, we assumed approximately $28 million of Kirby's debt. The purchase price consisted of approximately $17 million in cash, $36 million in deferred payments and 650,430 shares of common stock. The $36 million in deferred payments will be made in installments of approximately $12 million per year over the next three years. If our common stock does not trade at a price greater than $29.09 per share for five consecutive days from the period from June 1999 to June 2000, then we are obligated to pay the former owners of Kirby the difference between the trading price for the last five days of this period and $29.09 for 577,500 of the shares of common stock.

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

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

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

In March 1999, we entered into a term credit agreement which provides for borrowings of up to $115 million. Repayments of borrowings result in a permanent reduction of the commitment. Loans bear interest, at our option, at a rate equal to (a) the rate offered by the administrative agent in its London offices plus 1.00% to 1.75%, depending upon the period, or (b) the greater of (1) the Federal Funds Effective Rate plus 0.5% or (2) the Prime Rate, in each case plus 0% to 0.75%, depending upon the period. Under the term credit agreement, we are obligated to pay fees, including (a) a quarterly commitment fee equal to 0.15% of the unused portion of the commitment and (b) administrative fees to the administrative agent. We are required to use the net proceeds from any issuance of our securities, including the net proceeds from this offering, to repay any amounts outstanding under the term credit agreement. The term credit agreement expires upon completion of this offering. The term credit agreement otherwise expires on December 31, 1999.

We have entered into a new $300 million revolving credit facility with a syndicate of banks led by Chase Bank of Texas, National Association, as administrative agent, Wachovia Bank, N.A., as syndication agent, and The Bank of Nova Scotia, as documentation agent, to take effect upon completion of this offering. It is a requirement that we receive not less than $140 million in net proceeds from this offering before the new revolving credit facility will go into effect and we can make borrowings under this facility. This new facility is designed to replace our existing revolving credit facility and term credit agreement. However, in the event that we do not receive at least $140 million in net proceeds from this offering, we will maintain our existing credit facility. The new credit facility has restrictive covenants and maintenance tests identical to those in our existing revolving credit facility and notes, plus two additional financial covenants. First, the ratio of total funded debt to earnings before interest, taxes, depreciation and amortization, hereinafter referred to as "EBITDA," cannot exceed 3.0 based upon a rolling four quarter basis. Second, the ratio of EBITDA less capital expenditures to interest expense should be greater than 3.0 based on a rolling four quarter basis. Pursuant to the terms of the notes, we will be required to add these additional financial covenants to the notes. Borrowings under this new credit facility will bear interest, at our option, at a rate equal to either (a) the greater of the administrative agent's prime rate or the federal funds rate plus 0.5% or (b) the London Interbank Offered Rate plus a margin equal to 0.5% to 1.125%, depending upon our ratio of total funded debt to EBITDA. We will pay a commitment fee equal to 0.15% to 0.30% of the unused commitment, depending upon the ratio of total funded debt to EBITDA. This new credit facility will have a term of five years.

We are currently negotiating an agreement with The Prudential Insurance Company of America or its affiliates which, if entered into, will allow us to borrow up to $100 million in the form of senior notes from time to time within the first three years of the agreement. We expect that the minimum amount of notes that we could draw at any one time would be $10 million and that the maturity and interest rate would be selected from alternatives provided by Prudential at the time the notes are issued, up to a maximum maturity of 15 years. We expect that the master shelf agreement will have customary covenants and that they will be substantially similar to those contained in our outstanding series of notes.

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

QUARTERLY RESULTS OF OPERATIONS

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

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

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

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

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

MARKET RISK

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

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

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

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

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

From time to time we enter into foreign currency exchange contracts to hedge receivables from our foreign subsidiaries. These contracts do not subject us to risk from exchange rate movements because the gains or losses on the contracts offset losses or gains, respectively, on the receivables being hedged. As of

March 31, 1999, we had obligations to deliver the equivalent of $61.7 million of various foreign currencies by June 30, 1999, for which the counterparties to the contracts will pay fixed contract amounts.

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

INFLATION

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

YEAR 2000 COMPLIANCE

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

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

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

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

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

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

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

BUSINESS

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

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

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

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

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

From our beginning in 1895 until the mid-1980's, we focused primarily on the North American residential heating and air conditioning market. In the 1980's, we expanded our product offerings by acquiring several heat transfer and commercial refrigeration businesses. In the mid-1990's, we increased our international presence, product offerings and brand portfolio through acquisitions in Europe, Latin America and the Asia Pacific region. The most significant international acquisition was the purchase in 1996 of a 50% interest in two operating subsidiaries of Ets. Brancher for approximately $22.0 million, which significantly expanded our geographic presence and provided us with an entry into the commercial air conditioning and refrigeration markets in Europe. In 1997, we increased our ownership interest in Ets. Brancher to 70% for an additional $18.4 million. In September 1998, we acquired a majority interest in McQuay do Brasil S.A., a Brazilian company which participates in the commercial refrigeration and heat transfer markets in Brazil and surrounding countries, for $20.5 million. We recently expanded our product offerings to include hearth products through the acquisitions of Superior Fireplace Company, Marco Mfg., Inc. and Pyro Industries, Inc. in the third quarter of 1998 and Security Chimneys International, Ltd. in the first quarter of 1999 for an aggregate purchase price of approximately $120 million. As a result of these acquisitions, we are one of the largest manufacturers of hearth products in the U.S. and Canada, offering a broad line of products through a variety of distribution channels. In the fourth quarter of 1998, we acquired the assets of Lovelock Luke Pty. Limited, a distributor of refrigeration and related equipment in Australia and New Zealand, for approximately $7 million. In May 1999, we acquired Livernois Engineering Holding Company and related patents for approximately $21 million. Livernois produces heat transfer manufacturing equipment for the HVACR and automotive industries. In May 1999, we entered into a letter of intent to acquire essentially all of the assets of the air conditioning and heating division of The Ducane Company, based in South Carolina, for approximately $45 million. This acquisition, if completed, will give us additional capacity to manufacture heating and air conditioning products. We acquired James N. Kirby Pty. Ltd., an Australian company that participates in the commercial refrigeration and heat transfer markets in Australia, in June 1999 for approximately $67 million.

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

INDUSTRY OVERVIEW

NORTH AMERICAN RESIDENTIAL

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

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

Services in the residential market in North America consist of the installation, replacement, maintenance and repair of heating and air conditioning systems at existing residences and the installation of heating and air conditioning systems at newly constructed homes. This market is served by small, owner-operated businesses operating in a single geographic area and dealers owned by consolidators, utility companies and others, some of whom may operate under a uniform trade name and in multiple geographic locations. The retail sales and service market in the U.S. is comprised of over 30,000 dealers.

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

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

COMMERCIAL AIR CONDITIONING

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

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

COMMERCIAL REFRIGERATION

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

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

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

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

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

HEAT TRANSFER

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

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

COMPETITIVE STRENGTHS

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

STRONG BRAND RECOGNITION AND REPUTATION

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

BREADTH OF DISTRIBUTION

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

PROVEN HEAT TRANSFER EXPERTISE

Heat transfer surfaces, which include evaporator and condenser coils, are critical to the operation of most HVACR products. For a given application, a variety of factors must be evaluated, such as the size of the HVACR unit and desired energy efficiency, while considering such additional elements as manufacturing ease. Since our acquisition of the Heatcraft business in 1986, we have devoted significant resources to the development of heat transfer surfaces. We use computer-aided design and other advanced software to improve the efficiency of designs and simulate and evaluate the movement of refrigerants even before a prototype is built. Since we also produce coils for sale to third parties, we are able to spread our research and development costs over third party purchases of heat transfer products as well as sales of our own HVACR products. We acquired Livernois Engineering Holding Company and related patents in May 1999 which provides us with access to additional heat transfer technology. Livernois produces heat transfer manufacturing equipment for the HVACR and automotive industries.

COMMITMENT TO PRODUCT INNOVATION AND TECHNOLOGICAL LEADERSHIP

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

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

We have invested approximately $127 million over the last five years on research and development activities, and we intend to continue to invest in these activities to create innovative and technologically superior products.

DEMONSTRATED MANUFACTURING EFFICIENCY

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

GROWTH STRATEGY

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

EXPAND MARKET IN NORTH AMERICA

Our program to acquire heating and air conditioning dealers in the U.S. and Canada represents a new direction for the heating and air conditioning industry because, to our knowledge, no other major manufacturer has made a significant investment in retail distribution. This strategy will enable us to extend our distribution directly to the consumer, thereby permitting us to participate in the revenues and margins available at the retail level while strengthening and protecting our brand equity. We believe that the retail sales and service market represents a significant growth opportunity because this market is large and highly fragmented. The retail sales and service market in the U.S. is comprised of over 30,000 dealers. We started this program in September 1998, and as of July 2, 1999 we had acquired 50 dealers in Canada and two in the U.S. for an aggregate purchase price of approximately $74 million and had signed letters of intent to acquire nine additional Canadian and 11 U.S. dealers for an aggregate purchase price of approximately $79 million. We intend to start acquiring dealers in the U.S. by initially focusing on our existing "Lennox" dealers and will try to achieve a balance between residential new construction, residential replacement and light commercial activities. We believe our long history of direct relationships with our dealers through the one-step distribution system and the resulting knowledge of local markets will give us advantages in identifying and acquiring suitable candidates. We have assembled an experienced management team to administer the dealer operations, and we have developed a portfolio of training programs, management procedures and goods and services that we believe will enhance the quality, effectiveness and profitability of dealer operations.

In addition to our acquisition program, we have initiated a program to strengthen our independent dealer network by providing all dealers with a broad array of services and support. Participants in a newly-created associate dealer program will receive retirement and other benefits in exchange for agreeing that at least 75% of their residential heating and air conditioning purchases will be of our products and for granting us a right of first refusal to acquire their businesses. As of July 2, 1999, over 1,200 dealers in the U.S. and Canada had joined our associate dealer program. All independent dealers, including participants in the associate dealer program, will be provided with access to Lennox-sponsored volume purchasing programs with third parties for goods and services used in their businesses.

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

- selectively expanding our "Lennox" independent dealer network;

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

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

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

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

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

EXPLOIT INTERNATIONAL OPPORTUNITIES

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

INCREASE PRESENCE IN HEARTH PRODUCTS MARKET

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

CONTINUE PRODUCT INNOVATION

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

PRODUCTS

NORTH AMERICAN RESIDENTIAL PRODUCTS AND SERVICES

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

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

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

Retail Service. With our recently initiated program of acquiring dealers in the U.S. and Canada, we have begun to provide installation, maintenance, repair and replacement services for heating and air conditioning systems directly to both residential and light commercial customers. Installation services include the installation of heating and air conditioning systems in new construction and the replacement of existing systems. Other services include preventative maintenance, emergency repairs and the replacement of parts associated with heating and air conditioning systems. We also sell a wide range of mechanical and electrical equipment, parts and supplies in connection with these services.

COMMERCIAL AIR CONDITIONING

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

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

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

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

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

COMMERCIAL REFRIGERATION

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

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

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

In the third quarter of 1998, we acquired an 84% interest in McQuay do Brasil S.A., a Brazilian company that manufactures condensing units and unit coolers. We believe this acquisition gives us the leading market share for commercial refrigeration products in Brazil.

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

In June 1999, we acquired James N. Kirby Pty. Ltd. for approximately $67 million. Kirby is an Australian company that manufactures commercial refrigeration and heat transfer products in Australia and distributes commercial refrigeration equipment through its and Lovelock Luke's distribution network. Kirby also designs and manufactures precision machining stations primarily for the automobile industry. The Kirby acquisition provides a technological and manufacturing base for the growth of our commercial refrigeration and heat transfer business in the Asia Pacific region.

HEAT TRANSFER

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

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

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

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

MARKETING AND DISTRIBUTION

We manage numerous distribution channels for our products in order to better penetrate the HVACR market. Generally, our products are sold through a combination of distributors, independent and company-owned dealers, wholesalers, manufacturers' representatives, original equipment manufacturers and national accounts. We have also established separate distribution networks in each country in which we conduct operations. We deploy dedicated sales forces across all our business segments and brands in a manner designed to maximize the ability of each sales force to service its particular distribution channel. To maximize enterprise-wide effectiveness, we have active cross-functional and cross-organizational teams working on issues such as pricing and coordinated approaches to product design and national account customers with interests cutting across business segments. We have approximately 1,600 persons employed in sales and marketing positions and spent $50.2 million on advertising, promotions and related marketing activities in 1998.

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

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

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

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

MANUFACTURING

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

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

PURCHASING

We rely on various suppliers to furnish the raw materials and components used in the manufacture of our products. To maximize our buying power in the marketplace, we utilize a "purchasing council" that consolidates purchases of our entire domestic requirements of particular items across all business segments. The purchasing council generally concentrates its purchases for a given material or component with one or two suppliers, although we believe that there are alternative suppliers for all of our key raw material and component needs. Compressors, motors and controls constitute our most significant component purchases, while steel, copper and aluminum account for the bulk of our raw material purchases. Although most of the compressors used by us are purchased directly from major compressor manufacturers, we own a 24.5% interest in a joint venture to manufacture compressors in the one and one-half to seven horsepower range. We expect that this joint venture, which began limited production in April 1998, will be capable of providing us with a substantial portion of our compressor requirements in the residential air conditioning market after achieving full production levels, which is expected in 2001.

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

INFORMATION SYSTEMS

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

TECHNOLOGY AND RESEARCH AND DEVELOPMENT

We support an extensive research and development program focusing on the development of new products and improvements to our existing product lines. We spent an aggregate of $23.2 million, $25.4 million and $33.3 million on research and development during 1996, 1997 and 1998, respectively. As of December 31, 1998, we employed approximately 480 persons dedicated to research and development activities. We have a number of research and development facilities located around the world, including a limited number of "centers for excellence" that are responsible for the research and development of particular core competencies vital to our business, such as combustion technology, vapor compression, heat transfer and low temperature refrigeration.

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

PATENTS AND PROPRIETARY RIGHTS

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

COMPETITION

Substantially all of the markets in which we participate are highly competitive. The most significant competitive factors facing us are product reliability, product performance, service and price, with the relative importance of these factors varying among our product lines. In addition, as we acquire more heating and air conditioning dealers, we will face increasing competition from independent dealers and dealers owned by consolidators and utility companies. Our competitors may have greater financial and marketing resources than we have. Listed below are some of the companies that we view as our main manufacturing competitors in each segment we serve, with relevant brand names, when different than the company name, shown in parentheses.

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

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

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

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

EMPLOYEES

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

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

PROPERTIES

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

DOMESTIC FACILITIES

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

INTERNATIONAL FACILITIES

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

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

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

REGULATION

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

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

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

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

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

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

Remediation Activity. In addition to affecting our ongoing operations, applicable environmental laws can impose obligations to remediate hazardous substances at our properties, at properties formerly owned or operated by us and at facilities to which we sent or send waste for treatment or disposal. We are currently involved in remediation activities at our facility in Grenada, Mississippi and at a formerly owned site in Ft. Worth, Texas. In addition, former hazardous waste management units at two of our facilities, Danville, Illinois and Wilmington, North Carolina, are currently in the process of being closed under the Resource Conservation and Recovery Act.

The Resource Conservation and Recovery Act closure process can result in the need to conduct soil and/or groundwater remediation to address any on-site releases. The Grenada facility is subject to an administrative order issued by the Mississippi Department of Environmental Quality under which we will conduct groundwater remediation. We have established a $1.8 million reserve to cover costs of remediation at the Grenada facility and possible costs associated with the Resource Conservation and Recovery Act closure at the Danville facility. We also have installed and are operating a groundwater treatment system at our previously owned facility in Ft. Worth, Texas. We have established a reserve having a balance of approximately $200,000 to cover the projected $50,000 annual operating costs for ongoing treatment at the Ft. Worth site. Resource Conservation and Recovery Act closure activities at the Wilmington facility include an ongoing groundwater remediation project. This project is being conducted and funded by a prior owner of the facility, under an indemnification obligation under the contract pursuant to which we acquired the facility. We have no reason to believe that the prior owner will not continue to conduct and pay for the required remediation at the Wilmington facility. However, if the prior owner refused to meet its contractual obligations, we would be required to complete the remediation. Through soil and groundwater sampling, usually obtained during site acquisition due diligence, we are aware of contamination at some of our other facilities. Based on the levels of the contaminants detected, however, we do not believe we are required to remediate the contamination at these facilities under existing environmental laws. Nonetheless, it is possible that we may be required to conduct remediation at these facilities in the future. Also, it is possible that third parties may file property damage or personal injury claims against us related to this contamination, particularly if the contamination on our property has migrated offsite.

During environmental due diligence for a plant we acquired in 1998 in Czechoslovakia, we learned of soil and groundwater contamination at the site. The source of the contamination is not known and it is not known at this time whether the applicable governmental authority will require us to remediate the contamination. If remediation is required, a preliminary estimate of remediation costs prepared in 1995 is $114,000. Additional evaluation would need to be performed to refine this estimate and it is possible that the actual cost to remediate the plant would significantly exceed this preliminary estimate.

From time to time we have received notices that we are a potentially responsible party along with other potentially responsible parties in Superfund proceedings for cleanup of hazardous substances at certain sites to which the potentially responsible parties are alleged to have sent waste. At present, our only active Superfund involvements are at the Granville Solvents Superfund Site located in Ohio, the Envirochem Third Site in Illinois and the Operating Industries site in California. Since 1994, we have spent an average of $49,000 per year for costs related to the Granville Solvents site and expect to incur similar costs at the site over the next few years. Total estimated exposure costs at the Envirochem Third Site are approximately $30,000. Marco Mfg., an indirect subsidiary of Lennox, is one of more than 4,000 companies identified as potentially responsible parties for the Operating Industries site. In June 1998, Marco Mfg. received a settlement offer from the Operating Industries steering committee to settle its liability as a de minimis party for approximately $60,000. Marco rejected the settlement offer and has no reason to believe that its ultimate liability will exceed the proposed settlement amount. In May 1999, we received a settlement offer from the Gurley-Related Sites Group, a group of potentially responsible parties for two related Superfund sites in Arkansas -- the South 8th Street Landfill and the Gurley Pit Sites -- to settle our potential liability at those sites for $10,500. Although we accepted the settlement offer and paid the settlement amount, under the terms of the settlement agreement, there is the possibility for additional liability in the event the Gurley-Related Sites Group is not successful in its effort to finalize its settlement in principle with the EPA and the Arkansas Department of Pollution Control and Technology. In the event additional liability should arise, however, we do not expect it to be material. Based on the facts presently known, we do not believe that environmental cleanup costs associated with these Superfund sites will have a material adverse effect on our financial position or results of operations.

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

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

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

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

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

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

LEGAL PROCEEDINGS

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

MANAGEMENT

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

NAME	AGE	POSITION
John W. Norris, Jr.	63	Chairman of the Board and Chief Executive Officer
H. E. French	57	President and Chief Operating Officer, Heatcraft Inc.
Robert E. Schjerven	56	President and Chief Operating Officer, Lennox Industries Inc.
Michael G. Schwartz	41	President and Chief Operating Officer, Armstrong Air Conditioning Inc.
Harry J. Ashenhurst	51	Executive Vice President, Human Resources
Scott J. Boxer	48	Executive Vice President, Lennox Global Ltd. and President, European Operations
Carl E. Edwards, Jr.	58	Executive Vice President, General Counsel and Secretary
W. Lane Pennington	43	Executive Vice President, Lennox Global Ltd. and President, Asia Pacific Operations
Clyde W. Wyant	60	Executive Vice President, Chief Financial Officer and Treasurer
John J. Hubbuch	56	Vice President, Controller and Chief Accounting Officer
Linda G. Alvarado	48	Director
David H. Anderson	58	Director
Richard W. Booth	67	Director
Thomas W. Booth	41	Director
David V. Brown	51	Director
James J. Byrne	63	Director
Janet K. Cooper	45	Director
John E. Major	53	Director
Donald E. Miller	68	Director
Terry D. Stinson	57	Director
Richard L. Thompson	59	Director

There are currently two vacancies on our board of directors which we expect to fill with non-employee directors. The following biographies describe the business experience of our executive officers and directors.

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

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

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

Conditioning Inc. Mr. Schjerven spent the first 20 years of his career with the Trane Company, a HVACR manufacturer, and McQuay-Perfex Inc.

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

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

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

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

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

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

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

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

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

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

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

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

James J. Byrne has served as a director of Lennox since 1990. He has been chairman and chief executive officer of OpenConnect Systems Incorporated, a developer of computer software products, since May 1999. In addition, he serves as chairman of Byrne Technology Partners, Ltd., a management services company for technology companies, a position he has held since January 1996. Prior to his current role, he held a number of positions in the technology industry including President of Harris Adacom Corporation, a network products and services company, Senior Vice President of United Technologies Corporation's Semiconductor Operation and President of North American group of Mohawk Data Sciences, a manufacturer of distributed computer products. Mr. Byrne began his career with General Electric Company. Mr. Byrne is a director of STB Systems Inc., a developer of video boards for personal computer manufacturers.

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

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

Donald E. Miller has served as a director of Lennox since 1987. Mr. Miller spent his 35 year career with The Gates Corporation, an industrial and automotive rubber products manufacturer. He retired as Vice Chairman of that company in 1996. From 1987 until 1994 he held the position of President and Chief Operating Officer of The Gates Corporation. Mr. Miller serves on the board of directors of Sentry Insurance Corporation, a mutual insurance company, OEA, Inc., a company engaged in specialized automotive and aerospace technologies, and Chateau Communities Inc., a real estate investment trust, and is the President of the Board of Colorado School of Mines Foundation.

Terry D. Stinson has served as a director of Lennox since 1998. Mr. Stinson has been the Chairman and Chief Executive Officer of Bell Helicopter Textron Inc., the aircraft segment of Textron Inc., a multi-industry corporation, since 1998 and was its President from 1996 to 1998. From 1991 to 1996, Mr. Stinson served as

Group Vice President and Segment President of Textron Aerospace Systems and Components for Textron Inc. Prior to that position, he had been the President of Hamilton Standard Division of United Technologies Corporation, a defense supply company, since 1986.

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

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

INFORMATION REGARDING THE BOARD OF DIRECTORS AND COMMITTEES

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

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

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

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

The human resource committee is responsible for succession planning, management development programs and other human resource matters. The following directors currently serve on the human resource committee: James J. Byrne (chair), Linda G. Alvarado, David V. Brown, John E. Major and Richard L. Thompson.

The compensation committee is responsible for evaluating the performance of our chief executive officer, making recommendations with respect to the salary of our chief executive officer, approving the compensation of executive staff members, approving the compensation for non-employee directors and committee members, approving incentive stock options for senior management, approving all employee benefit plan designs and other matters relating to the compensation of our directors, officers and employees. The following directors currently serve on the compensation committee: Richard L. Thompson (chair), Linda G. Alvarado, James J. Byrne and John E. Major. During 1998, the following directors served on the compensation committee or its predecessor committee: Linda G. Alvarado, David V. Brown, James J. Byrne, Thomas B. Howard, Jr., a former director, Robert W. Norris, a former director, and Richard L. Thompson.

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

COMPENSATION OF DIRECTORS

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

EXECUTIVE COMPENSATION

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

SUMMARY COMPENSATION TABLE

			LONG-TERM COMPENSATION			
			AWARDS		PAYOUTS	
	ANNUAL COMPENSATION					
NAME	SALARY	BONUS(1)	RESTRICTED STOCK AWARDS(2)	SECURITIES UNDERLYING OPTIONS/SARS GRANTED	LTIP PAYOUTS(3)	ALL OTHER COMPENSATION(4)
John W. Norris, Jr.......	$648,660	$1,130,003	$1,960,304	148,500	$2,043,909	$146,600
Robert L. Jenkins(5).....	361,200	370,158	288,206	0	859,815	91,425
Robert E. Schjerven......	335,400	323,562	739,038	49,500	750,994	86,656
H.E. French..............	309,852	328,902	502,320	36,300	595,940	80,389
Clyde W. Wyant...........	291,300	348,639	516,762	36,300	718,883	67,645

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

(2) Represents performance share awards of the following number of shares of restricted common stock granted pursuant to the 1998 incentive plan in December 1998 multiplied by the stock price on the grant date, $19.03 per share: Mr. Norris -- 103,026; Mr. Jenkins -- 15,147; Mr. Schjerven -- 38,841; Mr. French -- 26,400; and Mr. Wyant -- 27,159. Such shares represent all of such individual's holdings of restricted common stock at December 31, 1998. For the named executive officers, 27,423 shares will vest at December 31, 1999, 75,900 shares will vest at December 31, 2000 and the remainder will vest at December 31, 2001, in each case if performance targets are met. Shares which do not vest in any

performance period due to failure to achieve such goals will vest in 2006, 2007 and 2008, respectively. Information about performance share awards made under the 1998 incentive plan in December 1998 which do not vest unless certain performance goals are met is set forth in the table titled "Long-Term Incentive Plans -- Awards in Last Fiscal Year."

(3) Represents awards of shares of common stock multiplied by the stock price on the award date, $19.03 per share, in connection with the termination of the performance share plan.

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

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

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

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

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

OPTION/SAR GRANTS IN LAST FISCAL YEAR

	INDIVIDUAL GRANTS				
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED	PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE	EXPIRATION DATE	GRANT DATE PRESENT VALUE(1)
John W. Norris, Jr....	148,500	16.7%	$19.03	December 11, 2008	$755,325
Robert L. Jenkins.....	0	--	--	--	--
Robert E. Schjerven...	49,500	5.6	19.03	December 11, 2008	251,775
H. E. French..........	36,300	4.1	19.03	December 11, 2008	184,635
Clyde W. Wyant........	36,300	4.1	19.03	December 11, 2008	184,635

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(1) The grant date present values shown in the table were determined using the Black-Scholes option valuation model using the following assumptions: stock price volatility of 35.4% which represents an average volatility among general industry companies; expected option life of 10.0 years; dividend yield of 1.66%; risk free interest rate of 4.53%; Hewitt Associates Modified Derived Value: $5.09 which includes the following additional assumptions: discounts for the probability of termination for death, disability, retirement and voluntary/involuntary terminations.

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

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

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT DECEMBER 31, 1998		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT DECEMBER 31, 1998(1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
John W. Norris, Jr.........	--	--	249,150	148,500	$1,872,771	0
Robert L. Jenkins..........	160,380	$ 812,648	--	--	--	--
Robert E. Schjerven........	166,980	1,042,300	--	49,500	--	0
H. E. French...............	147,906	1,363,807	--	36,300	--	0
Clyde W. Wyant.............	33,660	360,121	126,720	36,300	1,106,297	0

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(1) Calculated on the basis of the fair market value of the underlying securities as of December 31, 1998, $19.03 per share, minus the exercise price of "in-the-money" options

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

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

NAME	NUMBER OF SHARES, UNITS OR OTHER RIGHTS	PERFORMANCE OR OTHER PERIOD UNTIL MATURATION OR PAYOUT
John W. Norris, Jr......................	103,026	3 years
Robert L. Jenkins.......................	15,147	3 years
Robert E. Schjerven.....................	38,841	3 years
H. E. French............................	26,400	3 years
Clyde W. Wyant..........................	27,159	3 years

1998 INCENTIVE PLAN

GENERAL

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

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

The 1998 incentive plan provides for awards to be made in respect of a maximum of 4,603,500 shares of our common stock, of which 3,943,500 shares will be available for awards to our employees and independent contractors and the remainder of which will be available for awards to non-employee directors. No participant under the 1998 incentive plan may be granted in any 12-month period awards consisting of stock options or stock appreciation rights for more than 165,000 shares of common stock, stock awards for more than 165,000 shares of common stock or cash awards in excess of $5,000,000. Shares of common stock which are the subject of awards that are forfeited or terminated or expire unexercised will again immediately become available for awards under the 1998 incentive plan.

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

- provide for the extension of the exercisability of an award;

- accelerate the vesting or exercisability of an award to our employees;

- eliminate or make less restrictive any restrictions contained in an award to our employees;

- waive any restriction or other provision of the 1998 incentive plan or in any award to our employees; or

- otherwise amend or modify an award to our employees in any manner that is either not adverse to the employee holding the award or consented to by such employee.

EMPLOYEE AWARDS

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

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

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

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

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

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

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

DIRECTOR AWARDS

Our board of directors will administer the 1998 incentive plan as it relates to awards to non-employee directors. The board will have the right to determine on an annual basis, or at any other time in its sole discretion, to award options which are non-qualified stock options to non-employee directors. No such options awarded in any year shall provide for the purchase of more than 16,500 shares of common stock. All options awarded to directors shall have a term of 10 years and shall vest and become exercisable in increments of one-third on each of the three succeeding anniversaries after the date of grant. Unvested options awarded to directors shall be forfeited if a director resigns without the consent of the majority of our board of directors.

OTHER PROVISIONS

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

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

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

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

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

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

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

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

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

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

RETIREMENT PLANS

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

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

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

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

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

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

As of December 31, 1998, the final average pay and the eligible years of credited service for each of the named executive officers was as follows: Mr. Norris, $855,001 -- 38.25 years; Mr. Jenkins, $483,948 --

14.00 years; Mr. Wyant, $402,391 -- 8.30 years; Mr. Schjerven, $411,416 -- 12.80 years; Mr. French, $340,666 -- 9.80 years.

EMPLOYMENT AGREEMENTS

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

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

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

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

CHANGE OF CONTROL EMPLOYMENT AGREEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- we have no right of offset;

- the officer is not required to mitigate damages; and

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

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

INDEMNIFICATION AGREEMENTS

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

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

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

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

- against expenses actually and reasonably incurred by such person or on his or her behalf in connection with a proceeding to the extent that such indemnitee is, by reason of his or her corporate status, a witness or otherwise participates in any proceeding at a time when such person is not a party in the proceeding; and

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

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

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

PRINCIPAL AND SELLING STOCKHOLDERS

The following table contains information regarding the beneficial ownership of our common stock as of May 31, 1999 and as adjusted to reflect the offering by the following individuals:

- each person known by us to own more than 5% of the outstanding shares of common stock;

- each of our directors;

- each named executive officer;

- all executive officers and directors as a group; and

- each selling stockholder.

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

The information contained in this table reflects "beneficial ownership" as defined in Rule 13d-3 of the Securities Exchange Act of 1934. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that were exercisable on May 31, 1999 or became exercisable within 60 days following May 31, 1999 are considered outstanding. However, such shares are not considered outstanding for the purpose of computing the percentage ownership of any other person. To our knowledge and unless otherwise indicated, each stockholder has sole voting and investment power over the shares listed as beneficially owned by such stockholder, subject to community property laws where applicable. Percentage of ownership is based on 35,920,104 shares of common stock outstanding as of May 31, 1999 and 44,008,594 shares of common stock outstanding after the completion of the offering. As of May 31, 1999, we had approximately 265 record holders of our common stock.

	SHARES BENEFICIALLY OWNED BEFORE THE OFFERING			SHARES BENEFICIALLY OWNED AFTER THE OFFERING	
BENEFICIAL OWNER	NUMBER	PERCENTAGE	SHARES TO BE SOLD IN THE OFFERING	NUMBER	PERCENTAGE
John W. Norris, Jr.(1)	3,997,125	11.1%	--	3,997,125	9.0%
H. E. French	92,499	*	--	92,499	*
Robert E. Schjerven	215,226	*	--	215,226	*
Robert L. Jenkins	242,220	*	--	242,220	*
Clyde W. Wyant(2)	226,842	*	--	226,842	*
Linda G. Alvarado(3)	117,150	*	--	117,150	*
David H. Anderson(4)	4,429,788	12.3	165,000(5)	4,264,788	9.7
Richard W. Booth(6)	5,156,217	14.3	--	5,156,217	11.7
Thomas W. Booth(7)	2,787,279	7.8	--	2,787,279	6.3
David V. Brown(8)	1,327,788	3.7	--	1,327,788	3.0
James J. Byrne(9)	148,830	*	--	148,830	*
Janet K. Cooper	0	--	--	0	--
John E. Major(10)	130,614	*	--	130,614	*
Donald E. Miller(11)	121,143	*	--	121,143	*
Terry D. Stinson	297	*	--	297	*
Richard L. Thompson(12)	135,531	*	--	135,531	*
All executive officers and directors as a group (21 persons)(13)	17,341,929	46.4	165,000	17,176,929	37.8
A.O.C. Corporation(14)	2,695,770	7.5	--	2,695,770	6.1
Robert W. Norris(15)	2,514,303	7.0	56,100(16)	2,458,203	5.6
Frank E. Zink(17)	2,553,210	7.1	66,000	2,487,210	5.7
Phillip L. Zink(18)	4,310,460	12.0	--	4,310,460	9.8
William N. Consler	7,293	*	990	6,303	*
David S. Miller	1,683	*	1,683	0	--
Steven P. Miller	1,683	*	1,683	0	--
Eileen F. Murphy(19)	61,182	*	33,000	28,182	*
Thomas R. Thompson	12,243	*	1,980	10,263	*
David W. Zink	500,247	1.4	81,675	418,572	1.0
John P. Zink(19)(20)	65,604	*	3,399	62,205	*

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* Less than 1%

(1) Includes:
(a)321,750 shares held by the Robert W. Norris Trust A of which John W. Norris, Jr. is a co-trustee;
(b)321,750 shares held by the John W. Norris, Jr. Trust A of which John W. Norris, Jr. is a co-trustee;
(c)663,135 shares held by the Megan E. Norris Trust A of which John W. Norris, Jr. is a co-trustee;
(d)120,120 shares of the Robert W. Norris Irrevocable Descendants' Trust of which John W. Norris, Jr. is the trustee; and
(e)204,600 shares subject to options.

(2) Includes 126,720 shares of common stock subject to options.

(3) Includes 117,150 shares subject to options.

(4) Includes:

(a)1,246,872 shares held by the Leo E. Anderson Trust of which David H. Anderson is the trustee;

(b)199,881 shares held by the Kristin H. Anderson Trust of which David H. Anderson is a co-trustee;
(c)2,711,280 shares held by the David H. Anderson Trust of which David H. Anderson is the trustee;
(d)66,825 shares held by the Betty Oakes Trust of which David H. Anderson is the trustee;
(e)87,780 shares held by David H. Anderson's child; and
(f)117,150 shares subject to options.

(5) Represents shares held by the David H. Anderson Trust.

(6) Includes:
(a)52,470 shares held by the 1996 Anderson GST Exempt Trust of which Richard W. Booth is the trustee;
(b)2,029,731 shares held by trusts for the benefit of Richard W. Booth of which Richard W. Booth is a co-trustee;
(c)2,036,364 shares held by trusts for the benefit of Anne Zink of which Richard W. Booth is a co-trustee; and
(d)117,150 shares subject to options.

(7) Includes:
(a)2,029,731 shares held by trusts for the benefit of Richard W. Booth of which Thomas W. Booth is a co-trustee;
(b)40,062 shares held by the Thomas W. Booth Trust of which Thomas W. Booth is the trustee;
(c)71,181 shares held by Thomas W. Booth's children; and
(d)2,475 shares subject to options.

(8) Includes:
(a)315,117 shares held by David V. Brown's children; and
(b)117,150 shares subject to options.

(9) Includes 117,150 shares subject to options.

(10) Includes 117,150 shares subject to options.

(11) Includes:
(a)3,993 shares held by the Donald E. Miller Trust of which Donald E. Miller is a co-trustee; and
(b)117,150 shares subject to options.

(12) Includes 117,150 shares subject to options.

(13) Includes 1,449,492 shares subject to options.

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

(15) From 1967 to May 1999, Mr. Norris was a director of Lennox. Share numbers include:
(a)321,750 shares held by the Robert W. Norris Trust A of which Robert W. Norris is a co-trustee;
(b)321,750 shares held by the John W. Norris, Jr. Trust A of which Robert W. Norris is a co-trustee;
(c)1,181,169 shares held by the Robert W. Norris Revocable Trust of which Robert W. Norris is the trustee;

(d)153,714 shares held by the Christina Marie Dammann 1991 Revocable Trust of which Robert W. Norris is the trustee;

(e)196,812 shares held by the Stefan Robert Norris Revocable Trust of which Robert W. Norris is the trustee; and
(f)181,302 shares held by the Nicholas W. Norris 1991 Revocable Trust of which Robert W. Norris is the trustee; and
(g)127,050 shares subject to options.

(16) Represents 33,000 shares held by the Robert W. Norris Revocable Trust, 13,200 shares held by the Christina Marie Dammann 1991 Revocable Trust and 9,900 shares held by the Nicholas W. Norris 1991 Revocable Trust.

(17) Includes 2,036,364 shares held by trusts for the benefit of Anne Zink of which Frank E. Zink is a co-trustee.

(18) Includes:
(a) 2,029,731 shares held by trusts for the benefit of Richard W. Booth of which Phillip L. Zink is a co-trustee;
(b) 2,036,364 shares held by trusts for the benefit of Anne Zink of which Phillip L. Zink is a co-trustee; and
(c) 94,578 shares held by the Zink Family Grandchildren's Education Trust of which Phillip L. Zink is the trustee.

(19) Eileen F. Murphy and John P. Zink are spouses.

(20) Represents shares held by the Zink Family Irrevocable Trust of which John P. Zink is the trustee.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

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

From time to time we have entered into stock disposition agreements which allowed our executives, directors and stockholders to borrow money and use our capital stock held by them as collateral. The stock disposition agreements provided that in the event of a default on the underlying loan, we would do one of several things, including registering the capital stock under the Securities Act of 1933 finding a buyer to purchase the stock or purchasing the stock ourself. There were never any defaults under these agreements. Currently, there are stock disposition agreements in existence covering 1,814,439 shares of common stock. We will not enter into these type of agreements following completion of the offering.

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

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 200,000,000 shares of common stock and 25,000,000 shares of preferred stock, par value $.01 per share. Of the 200,000,000 shares of common stock authorized, 8,500,000 are being offered in the offering, or 9,775,000 shares if the underwriters' over-allotment option is exercised in full, and 4,603,500 shares have been reserved for issuance under our 1998 incentive plan. See "Management -- 1998 Incentive Plan" for a description of the 1998 incentive plan. None of the preferred stock is outstanding.

COMMON STOCK

The holders of common stock are entitled to one vote per share on all matters to be voted on by stockholders. Generally, all matters to be voted on by stockholders must be approved by a majority (or, in the case of election of directors, by a plurality) of the votes entitled to be cast by all shares of common stock present in person or represented by proxy, voting together as a single class, except as may be required by law and subject to any voting rights granted to holders of any preferred stock. However, the removal of a director from office, the approval and authorization of specified business combinations and amendments to specified provisions of our certificate of incorporation each require the approval of not less than 80% of the combined voting power of our outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class. See "-- Certificate of Incorporation and Bylaw Provisions". The common stock does not have cumulative voting rights.

Subject to the prior rights of the holders of any shares of our preferred stock, the holders of common stock shall be entitled to receive, to the extent permitted by law, such dividends as may be declared from time to time by our board of directors. On our liquidation, dissolution or winding up, after payment in full of the amounts required to be paid to holders of preferred stock, if any, all holders of common stock are entitled to share ratably in any assets available for distribution to holders of shares of common stock.

The outstanding shares of common stock are legally issued, fully paid and nonassessable. The common stock does not have any preemptive, subscription or conversion rights. Additional shares of authorized common stock may be issued, as authorized by our board of directors from time to time, without stockholder approval, except as may be required by applicable stock exchange requirements.

PREFERRED STOCK

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

- the designation of the series;

- the consideration for which the shares of any such series are to be issued;

- the rate or amount per annum, if any, at which holders of the shares of such series shall be entitled to receive dividends, the dates on which such dividends shall be payable, whether the dividends shall be cumulative or noncumulative, and if cumulative, the date or dates from which such dividends shall be cumulative;

- the redemption rights and price or prices, if any, for shares of the series;

- the amounts payable on and the preferences, if any, of shares of the series in the event of dissolution or upon distribution of our assets;

- whether the shares of the series will be convertible into or exchangeable for other of our securities, and the price or prices or rate or rates at which conversion or exchange shall be exercised;

- the terms and amounts of any sinking fund provided for the purchase or redemption of shares of the series;

- the voting rights, if any, of the holders of shares of the series; and

- such other preferences and rights, privileges and restrictions applicable to any such series as may be permitted by law.

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

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

BUSINESS COMBINATION STATUTE

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

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

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

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

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

CERTIFICATE OF INCORPORATION AND BYLAW PROVISIONS

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

- restrictions on the rights of stockholders to remove directors;

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

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

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

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

Our certificate of incorporation and bylaws provide that the board of directors shall be divided into three classes, designated Class I, Class II and Class III, with the classes to be as nearly equal in number as possible. The term of office of each class shall expire at the third annual meeting of stockholders for the election of directors following the election of such class. See "Management -- Information Regarding the Board of Directors and Committees" for a discussion of the directors in each class. Each director is to hold office until his or her successor is duly elected and qualified, or until his or her earlier resignation or removal.

Our bylaws provide that the number of directors will be fixed from time to time by to a resolution adopted by the board of directors; provided that the number so fixed shall not be more than 15 nor less than three directors. Our bylaws also provide that any vacancies will be filled only by the affirmative vote of a majority of the remaining directors, even if less than a quorum. Accordingly, absent an amendment to the bylaws, our board of directors could prevent any stockholder from enlarging the board of directors and filling the new directorships with such stockholder's own nominees. Moreover, our certificate of incorporation and bylaws provide that directors may be removed only for cause and only upon the affirmative vote of holders of at least 80% of our voting stock at a special meeting of stockholders called expressly for that purpose.

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

The classification provisions could also have the effect of discouraging a third party from initiating a proxy contest, making a tender offer or otherwise attempting to obtain control of us, even though such an attempt might be beneficial to us and our stockholders. The classification of the board of directors could thus increase the likelihood that incumbent directors will retain their positions. In addition, because the classification provisions may discourage accumulations of large blocks of our stock by purchasers whose objective is to take control of us and remove a majority of the board of directors, the classification of the board of directors could tend to reduce the likelihood of fluctuations in the market price of the common stock that might result from accumulations of large blocks. Accordingly, stockholders could be deprived of opportunities to sell their shares of common stock at a higher market price than might otherwise be the case.

NO STOCKHOLDER ACTION BY WRITTEN CONSENT; SPECIAL MEETINGS

Our certificate of incorporation and bylaws provide that stockholder action can be taken only at an annual or special meeting of stockholders and stockholder action may not be taken by written consent in lieu of a meeting. Special meetings of stockholders can be called only by our board of directors by a resolution adopted by a majority of the board of directors, or by the chairman of the board, vice chairman or the president. Moreover, the business permitted to be conducted at any special meeting of stockholders is limited to the business brought before the meeting under the notice of meeting given by us.

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

ADVANCE NOTICE PROVISIONS FOR STOCKHOLDER NOMINATIONS AND STOCKHOLDER PROPOSALS

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

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

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

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

FAIR PRICE PROVISION

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

- any merger, consolidation or share exchange;

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

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

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

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

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

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

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

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

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

(b) any transaction in which:

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

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

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

LIABILITY OF DIRECTORS; INDEMNIFICATION

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

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

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

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

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

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

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

AMENDMENTS

Our certificate of incorporation provides that we reserve the right to amend, alter, change, or repeal any provision contained in our certificate of incorporation, and all rights conferred to stockholders are granted subject to such reservation. The affirmative vote of holders of not less than 80% of our voting stock, voting together as a single class, shall be required to alter, amend, adopt any provision inconsistent with or repeal specified provisions of our certificate of incorporation, including those provisions discussed in this section. In addition, the 80% vote described in the prior sentence shall not be required for any alteration, amendment, adoption of inconsistent provision or repeal of the "fair price" provision discussed under "-- Fair Price Provision" above which is recommended to the stockholders by two-thirds of the continuing directors of Lennox and such alteration, amendment, adoption of inconsistent provision or repeal shall require the vote, if any, required under the applicable provisions of the Delaware General Corporation Law and our certificate of incorporation. In addition, our certificate of incorporation provides that stockholders may only adopt, amend or repeal our bylaws by the affirmative vote of holders of not less than 80% of our voting stock, voting together as a single class. Our bylaws may be amended by our board of directors.

RIGHTS TO PURCHASE SECURITIES AND OTHER PROPERTY

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

LISTING

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

TRANSFER AGENT AND REGISTRAR

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

SHARES ELIGIBLE FOR FUTURE SALE

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

Upon completion of the offering, we will have 44,660,740 shares of common stock issued and outstanding, or 45,935,740 shares if the underwriters' over-allotment option is exercised in full. Of these shares, the 8,500,000 shares of common stock to be sold in the offering will be freely tradable without restrictions or further registration under the Securities Act of 1933, except that shares purchased by an "affiliate" of ours, as that term is defined in Rule 144 under the Securities Act of 1933, will be subject to the resale limitations of Rule 144. The remaining 36,160,740 shares of common stock outstanding will be "restricted securities" as that term is defined by Rule 144.

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

- one percent of the then outstanding shares of the common stock; or

- the average weekly reported volume of trading of the common stock during the four calendar weeks preceding such sale.

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

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

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

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

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

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

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

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

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

DIVIDENDS

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

SALE OR DISPOSITION OF COMMON STOCK

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

- the gain is effectively connected with a trade or business of the Non-U.S. Holder in the U.S.;

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

- the Non-U.S. Holder is subject to tax pursuant to the provisions of U.S. federal income tax law applicable to certain U.S. expatriates; or

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

BACKUP WITHHOLDING AND INFORMATION REPORTING

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

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

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

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

FEDERAL ESTATE TAXES

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

UNDERWRITERS

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

NAME	NUMBER OF SHARES
U.S. Underwriters:	
Morgan Stanley & Co. Incorporated	
Credit Suisse First Boston Corporation	
Warburg Dillon Read LLC, a subsidiary of UBS AG	
Subtotal	
International Underwriters:	
Morgan Stanley & Co. International Limited	
Credit Suisse First Boston (Europe) Limited	
UBS AG, acting through its division Warburg Dillon Read	
Subtotal	
Total	8,500,000

The U.S. underwriters and the international underwriters, and the U.S. representatives and the international representatives, are collectively referred to as the "underwriters" and the "representatives", respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and the selling stockholders and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus, other than those covered by the U.S. underwriters' over-allotment option described below, if any such shares are taken.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Lennox has granted to the U.S. underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of 1,275,000 additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The U.S. underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each U.S. underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to such U.S. underwriter's name in the preceding table bears to the total number of shares of common stock listed next to the names of all U.S. underwriters in the preceding table. If the U.S. underwriters' option is exercised in full, the total price to the public would be $, the total underwriters' discounts and commissions would be $ and total proceeds to Lennox would be $.

At the request of Lennox, the underwriters have reserved for sale, at the initial public offering price, up to 425,000 shares for directors, officers, employees, business associates and related persons of Lennox. The number of shares of common stock available for sale to the general public will be reduced to the extent these persons purchase reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered under this prospectus.

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

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

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

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

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

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

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

- the sale of shares to the underwriters;

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

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

- the granting by Lennox of stock options and/or performance share awards pursuant to Lennox's existing employee benefit plans; or

- the issuance of up to 5.4 million shares of common stock in connection with acquisitions.

In the event that consent to a waiver of these restrictions is requested by Lennox or any such person, Morgan Stanley & Co. Incorporated will consider the specific facts and circumstances of the request in deciding whether to grant its consent.

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

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

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

PRICING OF THE OFFERING

Prior to this offering, there has been no public market for the common stock. The initial public offering price will be determined by negotiations between Lennox and the U.S. representatives. Among the factors to be considered in determining the initial public offering price will be the future prospects of Lennox and its industry in general, sales, earnings and certain other financial operating information of Lennox in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to those of Lennox. The estimated initial public offering price range set forth on the cover page of this prospectus is subject to change as a result of market conditions and other factors.

Pursuant to the repayment of our revolving credit facility and term credit agreement, will receive an amount greater than 10% of the net proceeds of the sale of our common stock. is an affiliate of , which is a member of the National Association of Securities Dealers. Accordingly, the underwriting arrangements related to our sale of common stock must comply with Rule 2710(c)(8) and Rule 2720(c)(3) of the Conduct Rules of the National Association of Securities Dealers. The rules provide that when a National Association of Securities Dealer member is to receive an amount greater than 10% of the net proceeds of an offering, the initial public offering price can be no higher than that recommended by a "qualified independent underwriter" that meets the standards outlined in the rule. To comply with this requirement, Morgan Stanley & Co. Incorporated will serve as a qualified independent underwriter and will recommend a price in compliance with the requirements of Rule 2720. In connection with our offering of common stock, Morgan Stanley & Co. Incorporated, in its role as qualified independent underwriter, has performed due diligence and investigations and reviewed and participated in the preparation of this prospectus and the registration statement.

LEGAL MATTERS

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

EXPERTS

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

WHERE YOU CAN FIND MORE INFORMATION

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

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

INDEX TO FINANCIAL STATEMENTS

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1998 AND MARCH 31, 1999
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31, 1998	MARCH 31, 1999 (UNAUDITED)
CURRENT LIABILITIES:		
Short-term debt	$ 56,070	$ 189,766
Current maturities of long-term debt	18,778	26,660
Accounts payable	149,824	175,308
Accrued expenses	207,040	188,473
Income taxes payable	534	1,719
Total current liabilities	432,246	581,926
LONG-TERM DEBT	242,593	233,495
DEFERRED INCOME TAXES	11,628	12,179
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	16,511	16,706
OTHER LIABILITIES	60,845	61,318
Total liabilities	763,823	905,624
MINORITY INTEREST	12,689	12,591
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, no shares issued or outstanding	--	--
Common stock, $.01 par value, 200,000,000 shares authorized, 35,546,940 shares and 35,561,757 shares issued and outstanding for 1998 and 1999, respectively	355	356
Additional paid-in capital	32,889	33,086
Retained earnings	350,851	354,444
Currency translation adjustments	(7,655)	(13,567)
Total stockholders' equity	376,440	374,319
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,152,952	$1,292,534

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND 1999
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE DATA)

	FOR THE THREE MONTHS ENDED MARCH 31, 1998	1999
NET SALES	$379,646	$489,059
COST OF GOODS SOLD	261,802	337,481
Gross profit	117,844	151,578
OPERATING EXPENSES:		
Selling, general and administrative	97,255	129,268
Other operating expense, net	2,612	2,518
Income from operations	17,977	19,792
INTEREST EXPENSE, net	2,620	6,558
OTHER	230.....	(211)
MINORITY INTEREST	(502)	(516)
Income before income taxes	15,629	13,961
PROVISION FOR INCOME TAXES	7,323	7,331
Net income	$ 8,306	$ 6,630
EARNINGS PER SHARE:		
Basic	$ 0.24	$ 0.19
Diluted	$ 0.24	$ 0.18

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND 1999
(UNAUDITED, IN THOUSANDS)

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

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

LENNOX INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 1998 AND 1999
(UNAUDITED)

1. BASIS OF PRESENTATION AND OTHER ACCOUNTING INFORMATION

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

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

2. PRODUCT INSPECTION CHARGE

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

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

3. REPORTABLE BUSINESS SEGMENTS

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

LENNOX INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

NET SALES	FOR THE THREE MONTHS ENDED MARCH 31, 1998	1999
North American residential	$203,646	$284,924
Commercial air conditioning	81,800	92,468
Commercial refrigeration	47,900	61,598
Heat transfer(1)	46,300	50,069
	$379,646	$489,059

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

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

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

4. INVENTORIES:

Components of inventories are as follows (in thousands):

	DECEMBER 31, 1998	MARCH 31, 1999
Finished goods	$177,490	$226,258
Repair parts	31,674	31,093
Work in process	15,574	17,431
Raw materials	102,876	97,747
	327,614	372,529
Reduction for last-in, first-out	52,935	48,567
	$274,679	$323,962

LENNOX INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. LONG-TERM DEBT AND LINES OF CREDIT:

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

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

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

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

6. EARNINGS PER SHARE:

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

	THREE MONTHS ENDED MARCH 31, 1998	THREE MONTHS ENDED MARCH 31, 1999
Net income	$ 8,306	$ 6,630
Weighted average shares outstanding	34,452	35,541
Effect of assumed exercise of options	660	825
Weighted average shares outstanding, as adjusted	35,112	36,366
Diluted earnings per share	$ 0.24	$ 0.18

7. INVESTMENTS IN SUBSIDIARIES

SECURITY CHIMNEY

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

CANADIAN DEALERS

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

HART-GREER

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

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	1998	1999
Net sales	$416,346	$493,259
Net income	10,306	6,730
Basic earnings per share	0.30	0.19
Diluted earnings per share	0.29	0.19

8. SUBSEQUENT EVENTS

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

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

Between April 1, 1999, and July 2, 1999, the Company had acquired 14 dealers in Canada and two dealers in the U.S. for an aggregate purchase price of approximately $17 million in cash. The Company also signed letters of intent to acquire nine additional Canadian dealers and 11 U.S. dealers for an aggregate purchase price of approximately $79 million.

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

In June 1999, the Company acquired James N. Kirby Pty. Ltd., an Australian company that participates in the commercial refrigeration and heat transfer markets in Australia, for approximately $67 million.

In July 1999, the Company declared a 33-for-one common stock split. Accordingly, all information related to the number of shares of the Company's common stock and options has been adjusted to reflect the stock split.

In July 1999, the Company entered into a new $300 million revolving credit facility with a syndicate of banks. It is a requirement that the Company receive not less than $140 million in net proceeds from an initial public offering of common stock before the new revolving credit facility will go into effect. Borrowings under this new credit facility will bear interest, at the Company's option, at a rate equal to either (a) the greater of the administrative agent's prime rate or the federal funds rate plus 0.5% or (b) the London Interbank Offered Rate plus a margin equal to 0.5% to 1.125%. Additionally, the Company is obligated to pay a commitment fee equal to 0.15% to 0.30% of the unused commitment. The new credit facility will have a term of 5 years.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

ARTHUR ANDERSEN LLP

Dallas, Texas,
February 18, 1999

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

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

ASSETS

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	1997	1998
CURRENT LIABILITIES:		
Short-term debt	$ 6,021	$ 56,070
Current maturities of long-term debt	8,926	18,778
Accounts payable	104,679	149,824
Accrued expenses	210,668	207,040
Income taxes payable	4,320	534
Total current liabilities	334,614	432,246
LONG-TERM DEBT	183,583	242,593
DEFERRED INCOME TAXES	2,690	11,628
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	17,288	16,511
OTHER LIABILITIES	92,471	60,845
Total liabilities	630,646	763,823
MINORITY INTEREST	14,768	12,689
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, no shares issued or outstanding	--	--
Common stock, $.01 par value, 200,000,000 shares authorized, 34,407,384 shares and 35,546,940 shares issued and outstanding for 1997 and 1998, respectively	344	355
Additional paid-in capital	19,260	32,889
Retained earnings	309,610	350,851
Currency translation adjustments	(3,736)	(7,655)
Total stockholders' equity	325,478	376,440
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$970,892	$1,152,952

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

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

	FOR THE YEARS ENDED DECEMBER 31,		
	1996	1997	1998
NET SALES	$1,364,546	$1,444,442	$1,821,836
COST OF GOODS SOLD	961,696	1,005,913	1,245,623
Gross profit	402,850	438,529	576,213
OPERATING EXPENSES:			
Selling, general and administrative	298,049	326,280	461,143
Other operating expense, net	4,213	7,488	8,467
Product inspection charge	--	140,000	--
Income (loss) from operations	100,588	(35,239)	106,603
INTEREST EXPENSE, net	13,417	8,515	16,184
OTHER	(943)	1,955	1,602
MINORITY INTEREST	--	(666)	(869)
Income (loss) before income taxes	88,114	(45,043)	89,686
PROVISION (BENEFIT) FOR INCOME TAXES	33,388	(11,493)	37,161
Net income (loss)	$ 54,726	$ (33,550)	$ 52,525
EARNINGS (LOSS) PER SHARE:			
Basic	$ 1.62	$ (0.99)	$ 1.50
Diluted	$ 1.59	$ (0.99)	$ 1.47

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

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

	COMMON STOCK						
	SHARES ISSUED AND OUTSTANDING	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	CURRENCY TRANSLATION ADJUSTMENTS	TOTAL STOCKHOLDERS' EQUITY	COMPREHENSIVE INCOME
BALANCE AT DECEMBER 31, 1995	32,956	$330	$ 3,758	$313,044	$(1,819)	$315,313	$ --
Net income	--	--	--	54,726	--	54,726	54,726
Dividends, $0.26 per share	--	--	--	(8,845)	--	(8,845)	--
Stock dividend -- 2%	660	6	6,091	(6,097)	--	--	--
Foreign currency translation adjustments	--	--	--	--	(156)	(156)	(156)
Common stock repurchased	(138)	(1)	(1,459)	--	--	(1,460)	--
Common stock issued	225	2	1,884	--	--	1,886	--
Comprehensive income	--	--	--	--	--	--	54,570
BALANCE AT DECEMBER 31, 1996	33,703	337	10,274	352,828	(1,975)	361,464	--
Net loss	--	--	--	(33,550)	--	(33,550)	(33,550)
Dividends, $0.28 per share	--	--	--	(9,668)	--	(9,668)	--
Foreign currency translation adjustments	--	--	--	--	(1,761)	(1,761)	(1,761)
Common stock repurchased	(369)	(4)	(4,888)	--	--	(4,892)	--
Common stock issued	1,073	11	13,874	--	--	13,885	--
Comprehensive income (loss)	--	--	--	--	--	--	(35,311)
BALANCE AT DECEMBER 31, 1997	34,407	344	19,260	309,610	(3,736)	325,478	--
Net income	--	--	--	52,525	--	52,525	52,525
Dividends, $0.32 per share	--	--	--	(11,284)	--	(11,284)	--
Foreign currency translation adjustments	--	--	--	--	(3,919)	(3,919)	(3,919)
Common stock repurchased	(506)	(5)	(8,505)	--	--	(8,510)	--
Common stock issued	1,646	16	22,134	--	--	22,150	--
Comprehensive income	--	--	--	--	--	--	$ 48,606
BALANCE AT DECEMBER 31, 1998	35,547	$355	$32,889	$350,851	$(7,655)	$376,440	

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998
(IN THOUSANDS)

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

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

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

1. NATURE OF OPERATIONS:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION

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

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

CASH EQUIVALENTS

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

ACCOUNTS AND NOTES RECEIVABLE

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

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

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

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

GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

PRODUCT WARRANTIES

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

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

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

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

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

INCOME TAXES

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

REVENUE RECOGNITION

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

RESEARCH AND DEVELOPMENT EXPENSES

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

ADVERTISING

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

TRANSLATION OF FOREIGN CURRENCIES

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

FOREIGN CURRENCY CONTRACTS

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

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

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

PURCHASE COMMITMENTS

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

USE OF ESTIMATES

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

3. PRODUCT INSPECTION CHARGE

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

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

4. REPORTABLE BUSINESS SEGMENTS:

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

	FOR THE YEARS ENDED DECEMBER 31,		
	1996	1997	1998
Net Sales			
North American residential	$ 857,131	$ 865,147	$1,013,747
Commercial air conditioning	228,935	278,837	392,053
Commercial refrigeration	135,566	154,247	237,264
Heat transfer(1)	142,914	146,211	178,772
	$1,364,546	$1,444,442	$1,821,836

	FOR THE YEARS ENDED DECEMBER 31,		
	1996	1997	1998
Income (Loss) from Operations			
North American residential(2)	$ 99,658	$ (47,516)	$ 123,426
Commercial air conditioning	(9,477)	4,521	(6,579)
Commercial refrigeration	13,717	15,407	20,383
Heat transfer	17,311	16,857	12,700
Corporate and other(3)	(20,621)	(24,508)	(43,327)
	$ 100,588	$ (35,239)	$ 106,603

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

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

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

(3) The increase in corporate and other from 1997 to 1998 is primarily due to $7.1 million of expense for the settlement of a lawsuit in 1998 and $4.6 million associated with increased expenses of the Company's Performance Plan.

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

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

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

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

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

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

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

5. INVENTORIES:

Components of inventories are as follows (in thousands):

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

6. PROPERTY, PLANT AND EQUIPMENT:

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

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

7. INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES:

ALLIANCE

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

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

ETS. BRANCHER

In May 1996, the Company's subsidiary, Lennox Global Ltd., acquired a 50% interest in HCF-Lennox, a manufacturer of air conditioning and refrigeration equipment. In addition to acquiring an interest in HCF-Lennox, the Company increased its ownership of an existing joint venture, Friga-Bohn, from 20% to 50%. The aggregate purchase price for these acquisitions was approximately $22 million in cash. The aggregate purchase price exceeded the Company's interests in the underlying equity in the ventures at the date of acquisition. As a result, the Company recorded goodwill of approximately $2.9 million, which is being amortized on a straight-line basis over a 30-year period.

Effective September 30, 1997, Lennox Global Ltd. acquired an additional 20% interest in HCF-Lennox and Friga-Bohn. In conjunction with the purchase, the stock of HCF-Lennox and Friga-Bohn was combined into an existing holding company, Ets. Brancher S.A. Ets. Brancher also owns certain land and buildings that were leased to HCF-Lennox and Friga-Bohn. As a result of the acquisition, Lennox Global Ltd. owns 70% of HCF-Lennox and Friga-Bohn as well as a 70% interest in the land and buildings through its ownership of 70% of the stock of Ets. Brancher S.A. The aggregate purchase price for this acquisition was $18.4 million, of which $10 million was in cash and $8.4 million was in Company stock (631,389 shares). The acquisition was accounted for in accordance with the purchase method of accounting. Accordingly, the purchase price has been allocated to the assets and liabilities based upon their estimated fair values at the date of acquisition. As a result, the Company recorded additional goodwill of approximately $6.4 million, which is being amortized on a straight-line basis over a 30-year period.

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

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

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

	YEAR ENDED DECEMBER 31,	
	1996	1997
Net sales	$1,576,418	$1,588,985
Net income (loss)	54,605	(33,381)
Basic earnings per share	1.62	(0.98)
Diluted earnings per share	1.59	(0.98)

CANADIAN DEALERS

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

HEARTH COMPANIES

During June and July 1998, the Company's Hearth Products Inc. subsidiary, which is included in the North American residential segment, purchased substantially all of the assets and certain liabilities of Superior Fireplace Co. and all of the outstanding stock of Marco Mfg. Inc. and Pyro Industries Inc. The aggregate purchase price for these acquisitions was $102.9 million, of which $99.1 million was in cash and $3.8 million was in the form of a note payable. These acquisitions were accounted for in accordance with the purchase method of accounting. Accordingly, the aggregate purchase price has been allocated to assets totaling $131.5 million and to liabilities totaling $28.6 million of the acquired companies based upon the fair value of those assets and liabilities. As a result, the Company recorded goodwill of approximately $73.8 million which is being amortized on a straight-line basis over 40 years. The results of operations of the acquired Hearth companies, including sales of $68.6 million and net income of $1.9 million, have been fully consolidated with those of the Company since the dates of acquisition.

MCQUAY DO BRASIL

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

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

	YEAR ENDED DECEMBER 31,	
	1997	1998
Net sales	$1,648,642	$1,944,036
Net income (loss)	(37,750)	47,325
Basic earnings per share	(1.11)	1.36
Diluted earnings per share	(1.11)	1.32

8. LONG-TERM DEBT AND LINES OF CREDIT:

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

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

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

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

The Company has bank lines of credit aggregating $164 million, of which $56 million was outstanding at December 31, 1998. Included in the bank lines is a $135 million revolving credit facility. The revolving credit facility provides for both "standby loans" and "offered rate loans." Standby loans are made ratably by all lenders under the revolving credit facility, while offered rate loans are, subject to the terms and conditions of the credit facility, separately negotiated between the Company and one or more members of the lending syndicate. Standby loans bear interest at a rate equal to either (a) the London Interbank Offered Rate plus a margin equal to 0.150% to 0.405% depending on the ratio of debt to total capitalization, or (b) the greater of (1) the Federal Funds Effective Rate plus 0.5%, and (2) the Prime Rate. Offered rate loans bear interest at a fixed rate negotiated with the lender or lenders making such loans. Under the revolving credit facility, the Company is obligated to pay certain fees, including (a) a quarterly facility fee to each lender under the credit facility equal to a percentage, varying from 0.100% to 0.220% (depending on the ratio of debt to total capitalization), of each lender's total commitment, whether used or unused, under the revolving credit facility and (b) certain administrative fees to the administrative agent and documentation agent under the revolving credit facility. The revolving credit facility will expire on July 13, 2001, unless earlier terminated pursuant to its terms and conditions. The unsecured promissory note agreements and lines of credit provide for restrictions with respect to additional borrowings, maintenance of minimum working capital and payment of dividends.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS:

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

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

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

10. INCOME TAXES:

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

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

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

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

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

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

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

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

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

11. CURRENT ACCRUED EXPENSES:

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

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

12. EMPLOYEE BENEFIT PLANS:

PROFIT SHARING PLANS

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

401(k) PLAN

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

LONG-TERM INCENTIVE PLAN

The Company provided a long-term incentive plan, the Lennox International Inc. Performance Share Plan (the "Performance Plan") to certain employees. During 1998, the Company terminated the Performance Plan. Under the Performance Plan, participants earned shares of the Company's common stock in accordance with a discretionary formula established by the Board of Directors based on the Company's performance over a three-year period. The value of the shares earned was determined using an independent appraisal. Under the Performance Plan 66,297 shares, 239,019 shares, and 174,669 shares earned in fiscal 1995, 1996, and 1997, respectively, were issued in 1996, 1997, and 1998, respectively. During 1998, 358,974 shares were earned and issued in the same year. Compensation expense recognized under the Performance Plan was $1,900,000, $2,259,616, and $6,876,335 for the years ended December 31, 1996, 1997, and 1998, respectively, based on the fair value of the shares earned.

EMPLOYEE BENEFITS TRUST

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

PENSION AND POSTRETIREMENT BENEFIT PLANS

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

	PENSION BENEFITS		OTHER BENEFITS	
	1997	1998	1997	1998
Change in benefit obligation --				
Benefit obligation at beginning of year	$113,942	$119,835	$ 15,679	$ 16,055
Service cost	3,439	3,875	457	494
Interest cost	8,411	9,128	1,166	1,128
Plan participants' contributions	304	189	1,274	1,452
Amendments	93	2,132	--	--
Actuarial (gain)/loss	993	7,471	40	(449)
Exchange rate changes	--	83	--	--
Benefits paid	(7,347)	(7,892)	(2,561)	(2,382)
Benefit obligation at end of year	$119,835	$134,821	$ 16,055	$ 16,298

	PENSION BENEFITS		OTHER BENEFITS	
	1997	1998	1997	1998
Changes in plan assets --				
Fair value of plan assets at beginning of year	$112,588	$131,376	$ --	$ --
Actual return on plan assets	21,510	17,466	--	--
Employer contribution	4,610	3,792	1,287	930
Plan participants' contributions	304	189	1,274	1,452
Expenses	(664)	(549)	(79)	(34)
Benefits paid	(6,972)	(7,405)	(2,482)	(2,348)
Fair value of plan assets at end of year	131,376	144,869	--	--
Funded status	11,541	10,048	(16,055)	(16,298)
Unrecognized actuarial (gain)/loss	(16,151)	(14,420)	(2,158)	(1,311)
Unrecognized prior service cost	747	641	--	--
Unrecognized net obligation/(asset)	6,248	7,420	(520)	(347)
Net amount recognized	$ 2,385	$ 3,689	$(18,733)	$(17,956)
Amounts recognized in the consolidated balance sheets consist of --				
Prepaid benefit cost	$ 13,588	$ 13,303	$ --	$ --
Accrued benefit liability	(12,742)	(12,540)	(18,733)	(17,956)
Intangible assets	1,539	2,926	--	--
Net amount recognized	$ 2,385	$ 3,689	$(18,733)	$(17,956)
Weighted-average assumptions as of December 31 --				
Discount rate	7.50%	7.25%	7.50%	7.25%
Expected return on plan assets	9.50	9.50	--	--
Rate of compensation increase	4.00	4.00	--	--

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

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

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

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

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

13. COMMITMENTS AND CONTINGENCIES:

OPERATING LEASES

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

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

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

LITIGATION

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

14. STOCK-BASED COMPENSATION PLAN:

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

		YEARS ENDED DECEMBER 31,		
		1996	1997	1998
Net income (loss):	As reported	$54,726	$(33,550)	$52,525
	Pro forma	52,557	(35,595)	52,525
Basic earnings (loss) per share:	As reported	$ 1.62	$ (0.99)	$ 1.50
	Pro forma	1.56	(1.05)	1.50
Diluted earnings (loss) per share:	As reported	$ 1.59	$ (0.99)	$ 1.47
	Pro forma	1.53	(1.05)	1.47

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

Under the 1998 Incentive Plan, the Company is authorized to issue options for 8,216,571 shares of common stock. As of December 31, 1998, options for 5,462,457 shares of common stock have been granted and options for 821,436 shares have been cancelled or repurchased. Consequently, as of December 31, 1998, there are options for 3,575,550 shares available for grant. Under the 1998 Incentive Plan, the option exercise price equals the stock's fair value on the date of grant. 1998 Incentive Plan options granted prior to 1998 vest on the date of grant. 1998 Incentive Plan options granted in 1998 vest over three years. All 1998 Incentive Plan options expire after ten years.

The Plan's status is as follows (in thousands, except per share data):

	YEARS ENDED DECEMBER 31,					
	1996		1997		1998	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	2,218	$ 7.19	3,039	$ 9.02	3,822	$10.13
Granted	946	13.05	877	13.88	1,071	18.87
Exercised	(122)	7.13	(71)	7.67	(1,048)	9.04
Forfeited	(3)	7.68	(23)	13.31	(47)	8.64
Outstanding at end of year	3,039	$ 9.02	3,822	$10.13	3,798	$12.92
Exercisable at end of year	3,039	$ 9.02	3,822	$10.13	2,737	$12.92
Fair value of options granted		$ 3.86		$ 3.76		$ 5.83

The following table summarizes information about stock options outstanding at December 31, 1998 (in thousands, except per share data):

	OPTIONS OUTSTANDING		
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DECEMBER 31, 1998	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE(YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE
$ 7.28-$ 7.53	1,338	6	$ 7.45
$13.21-$13.90	1,399	7	13.60
$15.59-$19.03	1,061	9.5	18.92
	3,798	8	$12.92

As of December 31, 1998, options to purchase 1,337,622 shares of common stock with exercise prices ranging from $7.28 to $7.53 and options to purchase 1,399,497 shares of common stock with exercise prices ranging from $13.21 to $13.90 were exercisable. The fair value of each option is estimated on the date of grant based on a risk-free interest rate of 6%, expected life of ten years, and an expected dividend yield of 2% in 1996, 1997 and 1998.

15. EARNINGS PER SHARE:

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

	1996	1997	1998
Net income (loss)	$54,726	$(33,550)	$52,525
Weighted average shares outstanding	33,693	33,924	34,914
Effect of assumed exercise of options	693	--	825
Weighted average shares outstanding, as adjusted	34,386	33,924	35,739
Diluted earnings (loss) per share	$ 1.59	$ (0.99)	$ 1.47

Options to purchase 904,200 shares of common stock at $13.31 per share, 3,822,324 shares of common stock at prices ranging from $5.14 per share to $13.90 per share and 1,037,850 shares of common stock at $19.03 per share were outstanding for the years ended December 31, 1996, 1997, and 1998, respectively, but were not included in the diluted earnings per share calculation because the assumed exercise of such options would have been antidilutive.

16. RECENT ACCOUNTING PRONOUNCEMENTS

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

17. RELATED PARTY TRANSACTIONS

John W. Norris, Jr., the Company's Chairman and Chief Executive Officer, and David H. Anderson, Richard W. Booth, David V. Brown, Loraine B. Millman, Robert W. Norris and Lynn B. Storey, directors of the Company, as well as certain stockholders, are members of AOC Land Investment, LLC. AOC Land Investment, LLC owns 70% of AOC Development II, LLC. AOC Development II, LLC is building a new office building and the Company has agreed to lease part of it for use in conjunction with the Company's corporate headquarters. The lease will have a term of 25 years and the annual lease payments are expected to be approximately $2.1 million per year for the first five years. The Company believes that the terms of the lease with AOC Development II, LLC are at least as favorable as could be obtained from unaffiliated third parties.

18. SUBSEQUENT EVENTS (UNAUDITED):

The Company is filing a registration statement for an initial public offering of its common stock, the proceeds of which will be used to repay a portion of the borrowings under the Company's revolving credit facility and term credit agreement.

[LENNOX INTERNATIONAL INC. LOGO]

STRENGTH THROUGH
BRANDS AND PEOPLE

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

[LENNOX LOGO]

[LENNOX INTERNATIONAL INC. LOGO]

HISTORY AND INNOVATIONS

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

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

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

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

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

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

1952
Lennox establishes operations in Canada.

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

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

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

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

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

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

1982
Lennox develops and manufactures the industry's first high-efficiency gas furnace.

1984
Lennox International Inc. is established as the parent company for Lennox Industries Inc. and future acquisitions.

[GRAPHIC]
[HEATCRAFT LOGO]
1986
Lennox International expands into the commercial refrigeration and heat transfer markets with the establishment of Heatcraft Inc.

1988
Lennox International expands into two-step distribution of residential heating and cooling equipment with the acquisition of Armstrong Air Conditioning Inc.
[ARMSTRONG AIR CONDITIONING, INC. LOGO]
Heatcraft implements a 48-hour coil replacement program for commercial air conditioning systems.

[GRAPHIC]
1994
Lennox is the first to manufacture and market a complete combination high-efficiency residential space/water heating system.

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

[LGL LOGO]
1995
Lennox Global Ltd. (LGL) is established to expand the company's presence in worldwide commercial air conditioning, commercial refrigeration and heat transfer product markets.

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

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

[GRAPHIC]

1996

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

1997

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

[GRAPHIC]

1998

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

[LENNOX LOGO]

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

PROSPECTUS (Subject to Completion)

Issued July 27, 1999

8,500,000 Shares

[LENNOX INTERNATIONAL INC. LOGO]

COMMON STOCK

LENNOX INTERNATIONAL INC. IS OFFERING 8,088,490 SHARES OF COMMON STOCK AND THE SELLING STOCKHOLDERS ARE OFFERING 411,510 SHARES OF COMMON STOCK. THIS IS OUR INITIAL PUBLIC OFFERING AND NO PUBLIC MARKET CURRENTLY EXISTS FOR THE COMMON STOCK. WE ANTICIPATE THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN $17 AND $20 PER SHARE.

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

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

PRICE $ A SHARE

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

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

Lennox International Inc. has granted the U.S. underwriters the right to purchase up to an additional 1,275,000 shares of common stock to cover over-allotments. Morgan Stanley & Co. Incorporated expects to deliver the shares of common stock to purchasers on , 1999.

MORGAN STANLEY DEAN WITTER

CREDIT SUISSE FIRST BOSTON

WARBURG DILLON READ

, 1999

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

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

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

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

	AMOUNT
Securities Act registration fee	$ 54,349
NASD filing fee	20,050
Printing and engraving fees and expenses	200,000
Legal fees and expenses	400,000
Accounting fees and expenses	225,000
Transfer agent and registrar fees and expenses	35,000
New York Stock Exchange listing fee	80,000
Miscellaneous	85,601
Total	$1,100,000

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

ITEM 14. INDEMNIFICATION OF OFFICERS AND DIRECTORS.

DELAWARE GENERAL CORPORATION LAW

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

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

Section 145(c) of the DGCL provides that to the extent that a present or former director or officer of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 145(a) and (b), or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 145(d) of the DGCL provides that any indemnification under Section 145(a) and (b) (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 145(a) and (b). Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (1) by a majority vote of the directors who were not parties to such action, suit or proceeding, even though less than a quorum, or (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the stockholders.

Section 145(e) of the DGCL provides that expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the corporation as authorized in Section 145. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the corporation deems appropriate.

Section 145(f) of the DGCL provides that the indemnification and advancement of expenses provided by, or granted pursuant to, Section 145 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

Section 145(g) of the DGCL provides that a corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under Section 145.

Section 102(b)(7) of the DGCL provides that the liability of a director may not be limited or eliminated for the breach of such director's duty of loyalty to the corporation or its stockholders, for such director's intentional acts or omissions not in good faith, for such director's concurrence in or vote for an unlawful payment of a dividend or unlawful stock purchase or redemption or for any improper personal benefit derived by the director from any transaction.

RESTATED CERTIFICATE OF INCORPORATION

Article Eighth of Lennox's restated certificate of incorporation provides that a director of Lennox shall not be liable to Lennox or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL as the same exists or may hereafter be amended. Any repeal or modification of Article Eighth shall not adversely affect any right or protection of a director of Lennox existing thereunder with respect to any act or omission occurring prior to such repeal or modification.

BYLAWS

Article VI of Lennox's bylaws provides that each person who at any time shall serve or shall have served as a director or officer of Lennox, or any person who, while a director or officer of Lennox, is or was serving at the request of Lennox as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall be entitled to (a) indemnification and (b) the advancement of expenses incurred by such person from Lennox as, and to the fullest extent, permitted by Section 145 of the DGCL or any successor statutory provision, as from time to time amended. Lennox may indemnify any other person, to the same extent and subject to the same limitations specified in the immediately preceding sentence, by reason of the fact that such other person is or was an employee or agent of Lennox or another corporation, partnership, joint venture, trust or other enterprise.

The indemnification and advancement of expenses provided by, or granted pursuant to, Article VI shall not be deemed exclusive of any other rights to which any person seeking indemnification or advancement of expenses may be entitled under any bylaw of Lennox, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. All rights to indemnification under Article VI shall be deemed to be provided by a contract between Lennox and the director, officer, employee or agent who served in such capacity at any time while the bylaws of Lennox and other relevant provisions of the DGCL and other applicable law, if any, are in effect. Any repeal or modification thereof shall not affect any rights or obligations then existing. Without limiting the provisions of Article VI, Lennox is authorized from time to time, without further action by the stockholders of Lennox, to enter into agreements with any director or officer of Lennox providing such rights of indemnification as Lennox may deem appropriate, up to the maximum extent permitted by law. Any agreement entered into by Lennox with a director may be authorized by the other directors, and such authorization shall not be invalid on the basis that similar agreements may have been or may thereafter be entered into with other directors.

Lennox may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of Lennox, or is or was serving at the request of Lennox as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not Lennox would have the power to indemnify such person against such liability under the applicable provisions of Article VI or the DGCL.

UNDERWRITING AGREEMENT

The Underwriting Agreement, the form of which is filed as Exhibit 1.1 to this Registration Statement, provides for the indemnification of the directors and officers of Lennox against certain liabilities, including liabilities arising under the Securities Act of 1933, as amended (the "Securities Act").

The above discussion of the restated certificate, bylaws and Underwriting Agreement, and Section 145 of the DGCL is not intended to be exhaustive and is respectively qualified in its entirety by the restated certificate, bylaws, Underwriting Agreement and such statute.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Pursuant to the several Note Purchase Agreements, dated as of April 3, 1998, by and among Lennox International Inc. and The Prudential Insurance Company of America, Teachers Insurance and Annuity Association of America, Connecticut General Life Insurance Company, Connecticut General Life Insurance Company on Behalf of One or More Separate Accounts, CIGNA Property and Casualty Insurance Company and U.S. Private Placement Fund, United of Omaha Life Insurance Company and Companion Life Insurance Company (collectively, the "Note Purchasers"), Lennox sold an aggregate of $25,000,000 of its 6.56% Senior Notes due April 3, 2005, and an aggregate of $50,000,000 of its 6.75% Senior Notes due April 3, 2008 to the Note Purchasers at the purchase price of 100% of the principal amount thereof in reliance upon the exemption from the registration requirements of the Securities Act set forth in Section 4(2) thereof.

Between July 1, 1996 and July 1, 1999, Lennox sold the following securities pursuant to its various benefit programs: (a) 1,297,329 shares of common stock issued upon the exercise of options granted to directors and employees of Lennox pursuant to Lennox's benefit programs and (b) 16,335 shares of common stock to directors of Lennox. The exercise prices of the options referred to in clause (a) ranged from $3.96 to

$14.23 per share. The sale prices of shares referred to in clause (b) ranged from $8.08 to $21.43 per share. Lennox issued the securities referred to in clauses (a) and (b) above in reliance upon the exemption from the registration requirements of the Securities Act set forth in Section 4(2) and Regulation 701 thereof. During the same three-year period, Lennox sold 100,485 shares of common stock to certain existing stockholders of Lennox at sales prices ranging from $9.06 per share to $21.43 per share in reliance upon the exemption from the registration requirements of the Securities Act set forth in Section 4(2) thereof.

In November 1997, Lennox issued 82,500 shares of common stock to Ray Strong, an individual, in connection with the purchase of a 50% interest in Strong LGL International, L.L.C. The value allocated to such shares of common stock was approximately $1.2 million. In addition, in September 1997, Lennox issued 631,389 shares of common stock to Jean Jacques Brancher, an individual, or his designated assigns, in connection with Lennox's acquisition of an additional 20% interest in the Ets. Brancher joint venture. The value allocated to such shares of common stock was approximately $8.3 million. In May 1999, Lennox issued 304,953 shares of common stock to nine individuals and five trusts in connection with the acquisition of Livernois Engineering Holding Company. The value allocated to such shares of common stock was approximately $7.4 million. The shares issued in all of the foregoing transactions were issued in reliance upon the exemption from the registration requirements of the Securities Act set forth in Section 4(2) thereof.

In June 1999, Lennox issued 650,430 shares of common stock to James N. Kirby Holdings Pty. Ltd., an Australian company, in connection with the acquisition of James N. Kirby Pty. Ltd. The value allocated to such shares of common stock was approximately $14.2 million. The 650,430 shares issued in the foregoing transaction was issued in reliance upon the exemption from the registration requirements of the Securities Act set forth in Regulation S thereof.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

EXHIBIT NUMBER	DESCRIPTION
1.1	-- Form of Underwriting Agreement.
3.1**	-- Restated Certificate of Incorporation of Lennox.
3.2**	-- Amended and Restated Bylaws of Lennox.
4.1**	-- Specimen Stock Certificate for the Common Stock, par value $.01 per share, of Lennox.
5.1	-- Opinion of Baker & Botts, L.L.P. regarding legality of securities being registered.
10.1**	-- Agreement of Assumption and Restatement, dated as of December 1, 1991 between Lennox and identified Noteholders relating to Lennox's 9.53% Series F Promissory Notes due 2001 and 9.69% Promissory Notes due 2003.
10.2**	-- Note Purchase Agreement, dated as of December 1, 1993, between Lennox and identified Noteholders relating to Lennox's 6.73% Senior Promissory Notes due 2008.
10.3**	-- Note Purchase Agreement, dated as of July 6, 1995, between Lennox and Teachers Insurance and Annuity Association of America relating to Lennox's 7.06% Senior Promissory Notes due 2005.
10.4**	-- Note Purchase Agreement, dated as of April 3, 1998, between Lennox and identified Noteholders relating to Lennox's 6.56% Senior Notes due 2005 and 6.75% Senior Notes due 2008.
10.5**	-- Note Amendment Agreement, dated as of April 3, 1998, between Lennox and identified Noteholders relating to Lennox's 9.53% Senior Promissory Notes due 2001, 9.69% Senior Promissory Notes due 2003, 7.06% Senior Promissory Notes due 2005 and 6.73% Senior Promissory Notes due 2008.

EXHIBIT NUMBER	DESCRIPTION
10.6**	-- Revolving Credit Facility Agreement, dated as of July 13, 1998, among Lennox, identified Lenders, Chase Bank of Texas, N.A., as Administrative Agent, and Wachovia Bank, N.A., as Documentation Agent.
10.7**	-- Advance Term Credit Agreement, dated as of March 16, 1999, among Lennox, Chase Bank of Texas, National Association, as Administrative Agent, and Wachovia Bank, N.A., as Documentation Agent.
10.8**	-- 1998 Incentive Plan of Lennox International Inc.
10.9**	-- Lennox International Inc. Profit Sharing Restoration Plan.
10.10**	-- Lennox International Inc. Supplemental Executive Retirement Plan.
10.11**	-- Letter of Intent, dated as of June 23, 1998, between Jean-Jacques Brancher and Lennox Global Ltd.
10.12**	-- First Amendment to the Amended and Restated Venture Agreement, dated as of December 27, 1997, between Ets. Brancher S.A. and Lennox Global Ltd.
10.13**	-- Amended and Restated Venture Agreement, dated as of November 10, 1997, by and among Lennox Global Ltd., Lennox International Inc., Ets. Brancher S.A. and Fibel S.A.
10.14**	-- Shareholder Restructure Agreement, dated as of September 30, 1997, by and among Jean Jacques Brancher, Ets. Brancher S.A., AFIBRAL S.A., Parifri S.A. and Lennox International Inc.
10.15**	-- Form of Indemnification Agreement entered into between Lennox and certain executive officers and directors (includes a schedule identifying the various parties to such agreement and the applicable dates of execution).
10.16**	-- Form of Employment Agreement entered into between Lennox and certain executive officers (includes a schedule identifying the various parties to such agreement and the applicable dates of execution).
10.17**	-- Form of Change of Control Employment Agreement entered into between Lennox and certain executive officers (includes a schedule identifying the various parties to such agreement and the applicable dates of execution).
10.18**	-- Stock Disposition Agreement, dated as of June 2, 1997, among Lennox, A.O.C. Corporation and Compass Bank.
10.19**	-- Stock Disposition Agreement, dated as of January 22, 1998, among Lennox, A.O.C. Corporation and Compass Bank.
10.20**	-- Stock Disposition Agreement, dated as of May 7, 1998, among Lennox and Northern Trust Bank of Florida, N.A.
10.21**	-- Master Stock Disposition Agreement, dated as of August 10, 1998, among Lennox, Chase Bank of Texas, N.A., and various executive officers and directors.
10.22**	-- Stock Disposition Agreement, dated as of November 19, 1998, among Lennox, John E. Major and Harris Trust & Savings Bank.
10.23**	-- Stock Disposition Agreement, dated as of November 19, 1998, among Lennox, John E. Major and Susan M. Major and Harris Trust & Savings Bank.
10.24**	-- Stock Disposition Agreement, dated as of February 10, 1999, among Lennox, David H. Anderson and Northern Trust Bank of Texas, N.A.
10.25	-- Revolving Credit Facility Agreement, dated as of July 29, 1999, among Lennox, Chase Bank of Texas, National Association, as administrative agent, Wachovia Bank, N.A., as syndication agent, The Bank of Nova Scotia, as documentation agent, and the other lenders named therein.

EXHIBIT NUMBER	DESCRIPTION
21.1	-- Subsidiaries of Lennox.
23.1	-- Consent of Arthur Andersen LLP
23.2	-- Consent of Baker & Botts, L.L.P. (included in the opinion filed as Exhibit 5.1 to this Registration Statement).
24.1**	-- Powers of Attorney.
27.1**	-- Financial Data Schedule.

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** Previously filed.

(b) Financial Statement Schedule

Schedule II Valuation and Qualifying Accounts and Reserves and report of Arthur Andersen LLP thereon.

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant also undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of the registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 4 to this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Richardson, State of Texas, on July 27, 1999.

LENNOX INTERNATIONAL INC.

By: /s/ JOHN W. NORRIS, JR.
John W. Norris, Jr.
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 4 to this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ JOHN W. NORRIS, JR. John W. Norris, Jr.	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	July 27, 1999
/s/ CLYDE W. WYANT Clyde W. Wyant	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	July 27, 1999
/s/ JOHN J. HUBBUCH John J. Hubbuch	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	July 27, 1999
* Linda G. Alvarado	Director	July 27, 1999
* David H. Anderson	Director	July 27, 1999
* Richard W. Booth	Director	July 27, 1999
Thomas W. Booth	Director	
* David V. Brown	Director	July 27, 1999
* James J. Byrne	Director	July 27, 1999
Janet K. Cooper	Director	

SIGNATURE	TITLE	DATE
* John E. Major	Director	July 27, 1999
* Donald E. Miller	Director	July 27, 1999
* Terry D. Stinson	Director	July 27, 1999
* Richard L. Thompson	Director	July 27, 1999

*By: /s/ JOHN W. NORRIS, JR.

John W. Norris, Jr.
Attorney-in-Fact for such persons
pursuant to the powers of attorney
dated April 6, 1999 filed as an
exhibit to the Registration Statement

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited in accordance with generally accepted auditing standards the consolidated financial statements of Lennox International Inc. and subsidiaries included in this registration statement on Form S-1 and have issued our report thereon dated February 18, 1999. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedule II, Valuation and Qualifying Accounts and Reserves, is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Dallas, Texas
February 18, 1999

LENNOX INTERNATIONAL INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COST AND EXPENSES	DEDUCTIONS(1)	BALANCE AT END OF YEAR
	(IN THOUSANDS)			
1996:				
Allowance for doubtful accounts................	$ 9,611	$7,041	$(4,537)	$12,115
1997:				
Allowance for doubtful accounts................	$12,115	$8,997	$(4,164)	$16,948
1998:				
Allowance for doubtful accounts................	$16,948	$6,224	$(4,647)	$18,525

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

EXHIBIT INDEX

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** Previously filed.

DRAFT OF JULY 26, 1999

8,500,000 Shares

LENNOX INTERNATIONAL INC.

COMMON STOCK, PAR VALUE $.01 PER SHARE

UNDERWRITING AGREEMENT

July _____, 1999

July _____, 1999

Morgan Stanley & Co. Incorporated
Credit Suisse First Boston Corporation
Warburg Dillon Read LLC, a subsidiary of UBS AG
c/o Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Morgan Stanley & Co. International Limited
Credit Suisse First Boston (Europe) Limited
UBS AG, acting through its division Warburg Dillon Read
c/o Morgan Stanley & Co. International Limited
25 Cabot Square
Canary Wharf
London E14 4QA
England

Dear Ladies and Gentlemen:

Lennox International Inc., a Delaware corporation (the "COMPANY"), proposes to issue and sell to the several Underwriters (as defined below) hereto, and certain stockholders of the Company (the "SELLING STOCKHOLDERS") named in Schedule I hereto severally propose to sell to the several Underwriters, an aggregate of 8,500,000 shares of the Common Stock, par value $.01 per share, of the Company (the "FIRM SHARES"), of which 8,088,490 shares are to be issued and sold by the Company and 411,510 shares are to be sold by the Selling Stockholders, each Selling Stockholder selling the amount set forth opposite such Selling Stockholder's name in Schedule I hereto.

It is understood that, subject to the conditions hereinafter stated, 6,800,000 Firm Shares (the "U.S. FIRM SHARES") will be sold to the several U.S. Underwriters named in Schedule II hereto (the "U.S. UNDERWRITERS") in connection with the offering and sale of such U.S. Firm Shares in the United States (as defined below) and Canada to United States or Canadian Persons (as defined below), and 1,700,000 Firm Shares (the "INTERNATIONAL SHARES") will be sold to the several International Underwriters named in Schedule III hereto (the "INTERNATIONAL UNDERWRITERS") in connection with the offering and sale of such International Shares outside the

United States and Canada to persons other than United States or Canadian Persons. Morgan Stanley & Co. Incorporated, Credit Suisse First Boston Corporation and Warburg Dillon Read LLC, a subsidiary of UBS AG, shall act as representatives (the "U.S. REPRESENTATIVES") of the several U.S. Underwriters, and Morgan Stanley & Co. International Limited, Credit Suisse First Boston (Europe) Limited and UBS AG, acting through its division Warburg Dillon Read, shall act as representatives (the "INTERNATIONAL REPRESENTATIVES") of the several International Underwriters. The U.S. Underwriters and the International Underwriters are hereinafter collectively referred to as the "UNDERWRITERS".

"UNITED STATES OR CANADIAN PERSON" shall mean any national or resident of the United States or Canada, or any corporation, pension, profit-sharing or other trust or other entity organized under the laws of the United States or Canada or of any political subdivision thereof (other than a branch located outside the United States and Canada of any United States or Canadian Person), and shall include any United States or Canadian branch of a person who is otherwise not a United States or Canadian Person. "UNITED STATES" shall mean the United States of America, its territories, its possessions and all areas subject to its jurisdiction.

The Company also proposes to issue and sell to the several U.S. Underwriters not more than an additional 1,275,000 shares of its Common Stock, par value $.01 per share (the "ADDITIONAL SHARES") if and to the extent that the U.S. Representatives shall have determined to exercise, on behalf of the U.S. Underwriters, the right to purchase such shares of common stock granted to the U.S. Underwriters in Section 3 hereof. The Firm Shares and the Additional Shares are hereinafter collectively referred to as the "SHARES". The shares of Common Stock, par value $.01 per share, of the Company to be outstanding after giving effect to the sales contemplated hereby are hereinafter referred to as the "COMMON STOCK". The Company and the Selling Stockholders are hereinafter sometimes collectively referred to as the "SELLERS".

The Company has filed with the Securities and Exchange Commission (the "COMMISSION") a registration statement relating to the Shares. The registration statement contains two prospectuses to be used in connection with the offering and sale of the Shares: the U.S. prospectus, to be used in connection with the offering and sale of Shares in the United States and Canada to United States or Canadian Persons, and the international prospectus, to be used in connection with the offering and sale of Shares outside the United States and Canada to persons other than United States or Canadian Persons. The international prospectus is identical to the U.S. prospectus except for the outside front cover page. The registration statement as amended at the time it becomes effective, including the information (if any) deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 430A under the Securities Act of 1933, as amended (the "SECURITIES ACT"), is hereinafter referred to as the "REGISTRATION STATEMENT"; the U.S. prospectus and the international prospectus in the respective forms first used to confirm sales of Shares are hereinafter referred to as the "PROSPECTUS". If the Company has filed an abbreviated registration statement to register additional shares of Common Stock pursuant to Rule 462(b) under the Securities Act (the "RULE 462 REGISTRATION STATEMENT"), then any reference herein to the term "REGISTRATION STATEMENT" shall be deemed to include such Rule 462 Registration Statement.

As part of the offering contemplated by this Agreement, Morgan Stanley & Co. Incorporated ("MORGAN STANLEY") and certain other Underwriters have agreed to reserve out of the Shares set forth opposite their names on Schedule II to this Agreement up to 425,000 shares for sale to the Company's employees, officers and directors and other parties associated with the Company (collectively, "PARTICIPANTS"), as set forth in the Prospectus under the heading "Underwriting" (the "DIRECTED SHARE PROGRAM"). The Shares to be sold by such Underwriters pursuant to the Directed Share Program (the "DIRECTED SHARES") will be sold by such Underwriters pursuant to this Agreement at the public offering price. Any Directed Shares not orally confirmed for purchase by any Participants by the end of the first business day after the date on which this Agreement is executed will be offered to the public by such Underwriters as set forth in the Prospectus.

1. Representations and Warranties of the Company. The Company represents and warrants to and agrees with each of the Underwriters that:

(a) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, (1) the Company and its subsidiaries have not incurred any material liability or obligation, direct or contingent, nor entered into any material transaction not in the ordinary course of business; (2) the Company has not purchased any of its outstanding capital stock in any material amount nor declared, paid or otherwise made any dividend or distribution of any kind on its capital stock other than ordinary and customary dividends; and (3) there has not been any material change in the capital stock, short-term debt or long-term debt of the Company and its subsidiaries, except in each case as described in the Registration Statement or the Prospectus.

(b) The Company and its subsidiaries have good and valid title in fee simple to all real property and good and valid title to all personal property owned by them which is material to the business of the Company and its subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; and any real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries, in each case except as described in the Prospectus.

(c) The Company and its subsidiaries own or possess adequate rights in, or can acquire adequate rights in, on reasonable terms, all material patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks and trade names currently employed by them in connection with the business now operated by them, and neither the Company nor any of its subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any of the foregoing which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse affect on the Company and its subsidiaries, taken as a whole.

(d) Except as described in the Prospectus, no material labor dispute with the employees of the Company or any of its subsidiaries exists, or, to the knowledge of the Company, is imminent;

(e) The Company and its subsidiaries are insured by the insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged; neither the Company nor any of its subsidiaries (while a subsidiary of the Company) has been refused any insurance coverage sought or applied for; and neither the Company nor any of its subsidiaries has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a material adverse effect on the Company and its subsidiaries, taken as a whole, except as described in the Prospectus.

(f) The Company and its subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective business except where the failure to possess such certificates, authorizations and permits would not have a material adverse effect on the Company and its subsidiaries taken as a whole, and neither the Company nor any of its subsidiaries has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the Company and its subsidiaries, taken as a whole, except as described the Prospectus.

(g) The Company and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (1) transactions are executed in accordance with management's general or specific authorizations; (2) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (3) access to assets is permitted only in accordance with management's general or specific authorization; and (4) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(h) The Registration Statement has become effective. No stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for such purpose are pending before or, to the knowledge of the Company, threatened by the Commission.

(i) (i) The Registration Statement, when it became effective, did not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Registration Statement and the Prospectus comply and, as amended or supplemented, if applicable, will comply in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder and (iii) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph do not apply to statements or omissions in the Registration Statement or the Prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein.

(j) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(k) Each "significant subsidiary" of the Company within the meaning of Regulation S-X under the Securities Act has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole; all of the issued shares of capital stock of each such significant subsidiary of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims.

(l) This Agreement has been duly authorized, executed and delivered by the Company.

(m) The authorized capital stock of the Company conforms in all material respects as to legal matters to the description thereof contained in the Prospectus.

(n) The shares of Common Stock (including the Shares to be sold by the Selling Stockholders) outstanding prior to the issuance of the Shares to be sold by the Company have been duly authorized and are validly issued, fully paid and non-assessable.

(o) The Shares to be sold by the Company have been duly authorized and, when issued and delivered against payment therefor in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive or similar rights.

(p) The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not violate any provision of applicable law or the certificate of incorporation or by-laws of the Company or any agreement or other instrument binding upon the Company or any of its subsidiaries that is material to the Company and its subsidiaries, taken as a whole, or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company or any subsidiary, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the Company of its obligations under this Agreement, except (i) such as may be required by the securities or blue sky laws of the various states in connection with the offer and sale of the Shares and, (ii) except as provided in Section 1(y), such consents, approvals, authorizations, registrations or qualifications as may be required by the securities laws of any jurisdiction outside the United States in which the Shares are offered and sold.

(q) There has not occurred any material adverse change, or any development involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement).

(r) There are no legal or governmental proceedings pending or, to the knowledge of the Company, threatened to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement or the Prospectus and are not so described or any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required.

(s) Each preliminary prospectus filed as part of the registration statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the Securities Act, complied when so filed in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder.

(t) The Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Prospectus, will not be an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(u) The Company and its subsidiaries (i) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("ENVIRONMENTAL LAWS"), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, license or approval, except as described in the Prospectus or where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(v) There are no costs or liabilities associated with Environmental Laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties) which would, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(w) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company or to require the Company to include such securities with the Shares registered pursuant to the Registration Statement which has not been waived.

(x) The Company has reviewed its operations and that of its subsidiaries to evaluate the extent to which the business or operations of the Company or any of its subsidiaries will be affected by the Year 2000 problem (that is, any significant risk that computer hardware or software applications used by the Company and its subsidiaries will not, in the case of dates or time periods occurring after December 31, 1999, function at least as effectively as in the case of dates or time periods occurring prior to January 1, 2000) (the "YEAR 2000 PROBLEM"); and as a result of such review, (i) the Company has no reason to believe, and does not believe, that (A) there are any issues related to the

Company's preparedness to address the Year 2000 Problem that are of a character required to be described or referred to in the Registration Statement or Prospectus which have not been accurately described in the Registration Statement or Prospectus and (B) the Year 2000 Problem will have a material adverse effect on the condition, financial or otherwise, or on the earnings, business or operations of the Company and its subsidiaries, taken as a whole, or result in any material loss or interference with the business or operations of the Company and its subsidiaries, taken as a whole; and (ii) the Company reasonably believes, after due inquiry, that the suppliers, vendors, customers or other material third parties used or served by the Company and such subsidiaries are addressing or will address the Year 2000 Problem in a timely manner, except to the extent that a failure to address the Year 2000 Problem by any supplier, vendor, customer or material third party would not have a material adverse effect on the condition, financial or otherwise, or on the earnings, business or operations of the Company and its subsidiaries, taken as a whole.

(y) Furthermore, the Company represents and warrants to Morgan Stanley and the Underwriters that are selling Shares pursuant to the Directed Share Program that (i) the Registration Statement, the Prospectus and any preliminary prospectus comply, and any further amendments or supplements thereto will comply, with any applicable laws or regulations of foreign jurisdictions in which the Prospectus or any preliminary prospectus, as amended or supplemented, if applicable, are distributed at the request of the Company in connection with the Directed Share Program, and (ii) no authorization, approval, consent, license, order, registration or qualification of or with any government, governmental instrumentality or court, other than such as have been obtained, is necessary under the securities laws and regulations of foreign jurisdictions in which the Directed Shares are offered outside the United States at the request of the Company.

(z) The Company has not offered, or caused the Underwriters to offer, Shares to any person pursuant to the Directed Share Program with the specific intent to unlawfully influence (i) a customer or supplier of the Company to alter the customer's or supplier's level or type of business with the Company, or (ii) a trade journalist or publication to write or publish favorable information about the Company or its products.

2. Representations and Warranties of the Selling Stockholders. Each of the Selling Stockholders severally represents and warrants to and agrees with each of the Underwriters that:

(a) This Agreement has been duly authorized, executed and delivered by or on behalf of such Selling Stockholder.

(b) The execution and delivery by such Selling Stockholder of, and the performance by such Selling Stockholder of its obligations under, this Agreement, the Custody Agreement dated the date hereof signed by such Selling Stockholder and the Company, as Custodian, relating to the deposit of the Shares to be sold by such Selling

Stockholder (the "CUSTODY AGREEMENT"), and the Power of Attorney dated the date hereof appointing certain individuals as such Selling Stockholder's attorneys-in-fact to the extent set forth therein, relating to the transactions contemplated hereby and by the Registration Statement (the "POWER OF ATTORNEY"), will not violate any provision of applicable law, or the trust agreement, testamentary document or similar document that governs the affairs of such Selling Stockholder (if such Selling Stockholder is a trust or similar entity), or any agreement or other instrument binding upon such Selling Stockholder or any judgment, order or decree of any governmental body, agency or court having jurisdiction over such Selling Stockholder, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by such Selling Stockholder of its obligations under this Agreement or the Custody Agreement or Power of Attorney of such Selling Stockholder, except (i) for such as may be required by the securities or blue sky laws of the various states in connection with the offer and sale of the Shares, (ii) for such consents, approvals, authorizations, registrations or qualifications as may be required by the securities laws of any jurisdiction outside the United States in which the Shares are offered and sold and (iii) for such consents, approvals, authorizations or qualifications which if not made or obtained, or violations which if existing, would not adversely affect the performance of the Selling Stockholder of its obligations hereunder.

(c) Such Selling Stockholder has, and on the Closing Date will have, valid title to the Shares to be sold by such Selling Stockholder and the legal right and power, and all authorization and approval required by law, to enter into this Agreement, the Custody Agreement and the Power of Attorney and to sell, transfer and deliver the Shares to be sold by such Selling Stockholder.

(d) The Custody Agreement and the Power of Attorney have been duly authorized, executed and delivered by such Selling Stockholder and are valid and binding agreements of such Selling Stockholder.

(e) Upon delivery of and payment for the Shares to be sold by such Selling Stockholder pursuant to this Agreement, title to such Shares will pass to the Underwriters free and clear of any security interests, claims, liens, equities and other encumbrances.

(f) To the extent that any statements or omissions made in the Registration Statement, any preliminary prospectus, the Prospectus or any amendment or supplement thereto are made in reliance upon and in conformity with written information furnished to the Company by such Selling Stockholder expressly for use therein, (i) the Registration Statement, when it became effective, did not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Registration Statement and the Prospectus comply and, as amended or supplemented, if applicable, will comply in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder and (iii) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

3. Agreements to Sell and Purchase. Each Seller, severally and not jointly, hereby agrees to sell to the several Underwriters, and each Underwriter, upon the basis of the representations and warranties herein contained, but subject to the conditions hereinafter stated, agrees, severally and not jointly, to purchase from such Seller a U.S. $ ___ a share (the "PURCHASE PRICE") the number of Firm Shares (subject to such adjustments to eliminate fractional shares as the U.S. Representatives may determine) that bears the same proportion to the number of Firm Shares to be sold by such Seller as the number of Firm Shares set forth in Schedule II and Schedule III hereto opposite the name of such Underwriter bears to the total number of Firm Shares.

On the basis of the representations and warranties contained in this Agreement, and subject to its terms and conditions, the Company agrees to sell to the U.S. Underwriters the Additional Shares, and the U.S. Underwriters shall have a one-time right to purchase, severally and not jointly, up to 1,275,000 Additional Shares at the Purchase Price. If the U.S. Underwriters, on behalf of the Underwriters, elect to exercise such option, the U.S. Underwriters shall so notify the Company in writing not later than 30 days after the date of this Agreement, which notice shall specify the number of Additional Shares to be purchased by the U.S. Underwriters and the date on which such shares are to be purchased. Such date may be the same as the Closing Date (as defined below) but not earlier than the Closing Date nor later than ten business days after the date of such notice. Additional Shares may be purchased as provided in Section 5 hereof solely for the purpose of covering over-allotments made in connection with the offering of the Firm Shares. If any Additional Shares are to be purchased, each U.S. Underwriter agrees, severally and not jointly, to purchase the number of Additional Shares (subject to such adjustments to eliminate fractional shares as the U.S. Underwriters may determine) that bears the same proportion to the total number of Additional Shares to be purchased as the number of U.S. Firm Shares set forth in Schedule II hereto opposite the name of such U.S. Underwriter bears to the total number of U.S. Firm Shares.

Each Seller hereby agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the Underwriters, it will not, during the period ending 180 days after the date of the Prospectus, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) bona fide gifts of shares of Common Stock by a Selling Stockholder if such Selling Stockholder delivers to Morgan Stanley & Co. Incorporated a "lockup letter", in substantially the form of Exhibit A hereto, executed by the donee, (B) the Shares to be sold hereunder, (C) the issuance by the Company of shares of Common Stock upon the exercise of an option or warrant or the conversion of a security or the vesting of a performance share award outstanding on the date hereof that are disclosed in the Prospectus or of which the Underwriters have been advised in writing, (D) the granting by the Company of stock options and/or performance share awards pursuant to the Company's existing employee benefit plans provided that such options do not become exercisable during such 180-day period, (E) the issuance by the Company of up to 5,400,000 shares of Common Stock in connection with acquisitions or (F) transactions by any person other than the Company relating to shares of Common Stock or other securities acquired in open market transactions after the completion of the offering of the Shares. In addition, each Selling Stockholder, agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the Underwriters, it will not, during the period ending 180 days after the date of the Prospectus, make any demand for, or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock.

4. Terms of Public Offering. The Sellers are advised by you that the Underwriters propose to make a public offering of their respective portions of the Shares as soon after the Registration Statement and this Agreement have become effective as in your judgment is advisable. The Sellers are further advised by you that the Shares are to be offered to the public initially at $_____________ a share (the "PUBLIC OFFERING PRICE") and to certain dealers selected by you at a price that represents a concession not in excess of $______ a share under the Public Offering Price, and that any Underwriter may allow, and such dealers may reallow, a concession not in excess of $_____ a share to any Underwriter or to certain other dealers.

5. Payment and Delivery. Payment for the Firm Shares to be sold by each Seller shall be made to such Seller in Federal or other funds immediately available in New York City against delivery of such Firm Shares for the respective accounts of the several Underwriters at 10:00 a.m., New York City time, on ____________, 1999,(1) or at such other time on the same or such other date, not later than _________, 1999,(2) as shall be designated in writing by you. The time and date of such payment are hereinafter referred to as the "CLOSING DATE".

Payment for any Additional Shares shall be made to the Company in Federal or other funds immediately available in New York City against delivery of such Additional Shares for the

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(1) Insert date 3 business days or, in the event the offering is priced after 4:30 p.m. Eastern Time, 4 business days after date of Underwriting Agreement.

(2) Insert date 5 business days after the date inserted in accordance with note 1 above.

respective accounts of the several Underwriters at 10:00 a.m., New York City time, on the date specified in the notice described in Section 3 or at such other time on the same or on such other date, in any event not later than _______, 1999,(3) as shall be designated in writing by you. The time and date of such payment are hereinafter referred to as the "OPTION CLOSING DATE".

Certificates for the Firm Shares and Additional Shares shall be in definitive form and registered in such names and in such denominations as you shall request in writing not later than one full business day prior to the Closing Date or the Option Closing Date, as the case may be. The certificates evidencing the Firm Shares and Additional Shares shall be delivered to you on the Closing Date or the Option Closing Date, as the case may be, for the respective accounts of the several Underwriters, with any transfer taxes payable in connection with the transfer of the Shares to the Underwriters duly paid, against payment of the Purchase Price therefor.

6. Conditions to the Underwriters' Obligations. The obligations of the Sellers to sell the Shares to the Underwriters and the several obligations of the Underwriters to purchase and pay for the Shares on the Closing Date are subject to the condition that the Registration Statement shall have become effective not later than 5:30 p.m. (New York City time) on the date hereof.

The several obligations of the Underwriters are subject to the following further conditions:

(a) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date:

(i) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded any of the Company's securities by any "nationally recognized statistical rating organization," as such term is defined for purposes of Rule 436(g)(2) under the Securities Act; and

(ii) there shall not have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement) that, in your judgment, is material and adverse and that makes it, in your judgment, impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus.

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(3) Insert date 10 business days after the expiration of the greenshoe option.

(b) The Underwriters shall have received on the Closing Date a certificate, dated the Closing Date and signed by an executive officer of the Company, to the effect set forth in Section 6(a)(i) above; to the effect that Lennox Industries Inc., Armstrong Air Conditioning Inc., Heatcraft Inc., Lennox Global Ltd., Lennox Industries (Canada) Ltd. and LGL Europe Holding Co. (collectively, the "LENNOX SIGNIFICANT SUBSIDIARIES") are the only "significant subsidiaries" of the Company within the meaning of Regulation S-X under the Securities Act; to the effect that the Company and the Lennox Significant Subsidiaries are duly qualified to transact business and in good standing in the jurisdictions indicated on the certificate; to the effect that the representations and warranties of the Company contained in this Agreement are true and correct as of the Closing Date; and that the Company has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or before the Closing Date.

The officer signing and delivering such certificate may rely upon the best of his or her knowledge as to proceedings threatened.

(c) The Underwriters shall have received on the Closing Date an opinion of Baker & Botts, L.L.P., outside counsel for the Company, dated the Closing Date, to the effect that:

(i) the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, and has the corporate power and authority to own its property and to conduct its business as described in the Prospectus;

(ii) each of Lennox Global Ltd. and LGL Europe Holding Co. (the "DELAWARE SUBSIDIARIES") has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, and has the corporate power and authority to own its property and to conduct its business as described in the Prospectus;

(iii) the authorized capital stock of the Company conforms in all material respects as to legal matters to the description thereof contained in the Prospectus under the caption "Description of Capital Stock";

(iv) the shares of Common Stock (including the Shares to be sold by the Selling Stockholders) outstanding prior to the issuance of the Shares to be sold by the Company have been duly authorized and are validly issued, fully paid and non-assessable;

(v) all of the issued shares of capital stock of the Delaware Subsidiaries have been duly and validly authorized and issued, are fully paid and non-assessable and are owned of record directly or indirectly by the Company;

(vi) the Shares to be sold by the Company have been duly authorized and, when issued and delivered against payment therefor in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive or similar rights arising under the certificate of incorporation or by-laws of the Company or the General Corporation Law of the State of Delaware;

(vii) this Agreement has been duly authorized, executed and delivered by the Company;

(viii) the execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not violate any provision of (1) Applicable Law (as defined below) (provided, however, that such counsel need express no opinion with respect to compliance with any federal or state securities or antifraud law except as otherwise specifically stated in the opinion of such counsel), (2) the certificate of incorporation or by-laws of the Company, (3) any agreement or other instrument binding upon the Company or any of its subsidiaries that is filed as an exhibit to the Registration Statement or (4) any judgment, order or decree of any governmental body, agency or court which has been identified in a certificate provided by the General Counsel of the Company as being material to the Company and its subsidiaries, taken as a whole, except for such violations referred to in clause (1), (2), (3) or (4) above which, individually or in the aggregate, would not prevent or adversely affect in any material respect the performance by the Company of its obligations under this Agreement or have a material adverse effect on the Company and its subsidiaries, taken as a whole; no consent, approval, authorization or order of, or qualification with, any Applicable Governmental Authority (as defined below) is required for the performance by the Company of its obligations under this Agreement, except (x) such as have been obtained or made or (y) such as may be required by the securities or blue sky laws of the various states in connection with the offer and sale of the Shares by the U.S. Underwriters;

(ix) the statements (A) in the Prospectus under the captions "Business-Regulation," "Description of Capital Stock" and "Shares Eligible for Future Sale" and (B) in the Registration Statement in Item 14, in each case insofar as such statements constitute summaries of the legal matters or documents referred to therein, fairly present, in all material respects, the information called for with respect to such legal matters and documents;

(x) to such counsel's knowledge, relying as to factual matters only on certificates of officers of the Company, (A) there are no legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement or the Prospectus and are not so described, and (B) there are no statutes or regulations of the United States of America or the State of Texas or (solely with respect to the General Corporation Law of the State of Delaware) the State of Delaware, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required;

(xi) the Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Prospectus, will not be an "investment company" as such term is defined in the Investment Company Act of 1940, as amended; and

(xii) the Registration Statement and Prospectus (except for financial statements (including the notes thereto and auditors' report thereon) and schedules and other financial and statistical data included therein as to which such counsel need not express any opinion) appear on their face to comply as to form in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder.

Such counsel shall also include statements to the following effect: Such counsel has participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants and your representatives at which the contents of the Registration Statement and Prospectus and related matters were discussed. Although such counsel did not independently verify such information and is not passing on, and does not assume any responsibility for, the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectus (except to the extent stated in subparagraphs (iii) and (ix) of this paragraph (c)), such counsel advises you that, on the basis of the foregoing (relying as to materiality as to matters of fact in part upon officers and other representatives of the Company), no facts have come to the attention of such counsel which lead such counsel to believe that the Registration Statement (except for (A) the financial statements (including the notes thereto and the auditors' reports thereon) and schedules included therein, (B) the other financial and statistical information included therein and (C) the exhibits thereto, as to which such counsel has not been asked to comment), as of the time it became effective, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus (except for (x) the financial statements (including the notes thereto and the auditors' reports thereon) included therein and (y) the other financial and statistical information included therein, as to which such counsel has not been asked to comment), as of the issue date thereof or as of the Closing Date, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

"Applicable Laws" means the General Corporation Law of the State of Delaware, the laws of the State of Texas and the laws of the United States of America that, in the experience of such counsel, are normally applicable to transactions of the type contemplated by this Agreement. "Applicable Governmental Authority" means any governmental body, agency or court of the United States of America or the State of Texas or (solely with respect to the General Corporation Law of the State of Delaware) the State of Delaware.

(d) The Underwriters shall have received on the Closing Date an opinion of Carl E. Edwards, general counsel to the Company, dated the Closing Date, to the effect that:

(i) each of Lennox Industries Inc., Armstrong Air Conditioning Inc. and Heatcraft Inc. has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, and has the corporate power and authority to own its property and to conduct its business as described in the Prospectus;

(ii) all the issued shares of capital stock of the Significant Subsidiaries have been duly and validly authorized and issued, are fully paid and non-assessable and are owned (A) of record directly or indirectly by the Company and, (B) to such counsel's knowledge, free and clear of all liens, encumbrances, equities or claims that are (x) evidenced or created by any agreement or other instrument binding on the Company or a Significant Subsidiary or (y) material tax liens other than for taxes not yet due and payable; and

(iii) the statements in the Registration Statement in Item 15, insofar as such statements constitute summaries of the legal matters or documents referred to therein, fairly present, in all material respects, the information called for with respect to such legal matters and documents.

(e) The Underwriters shall have received on the Closing Date an opinion of _______________________, Canadian counsel to the Company, dated the Closing Date, to the effect that:

(i) Lennox Industries (Canada) Ltd. has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, and has the corporate power and authority to own its property and to conduct its business as described in the Prospectus; and

(ii) All of the issued shares of capital stock of Lennox Industries (Canada) Ltd. have been duly and validly authorized and issued, are fully paid and non-assessable and owned of record directly or indirectly by the Company.

(f) The Underwriters shall have received on the Closing Date, with respect to each Selling Stockholder who is a natural person (the "INDIVIDUAL SELLING STOCKHOLDERS"), and, for the opinions set forth in Sections (e)(iii) and (e)(vi), with respect to each Selling Stockholder, an opinion of Baker & Botts, L.L.P., dated the Closing Date, to the effect that:

(i) this Agreement has been duly executed and delivered by each Individual Selling Stockholder;

(ii) the execution and delivery by each Individual Selling Stockholder of, and the performance by such Individual Selling Stockholder of its obligations under, this Agreement and the Custody Agreement and Power of Attorney of such Individual Selling Stockholder will not violate any provision (A) of Applicable Law, (B) any agreement or other instrument binding upon such Individual Selling Stockholder that has been identified in a certificate provided by such Individual Selling Stockholder as material to the transactions contemplated by this Agreement or (C) any judgment, order or decree of any governmental body, agency or court having jurisdiction over such Individual Selling Stockholder that has been identified in a certificate provided by such Individual Selling Stockholder as being material to such Individual Selling Stockholder; no consent, approval, authorization or order of, or qualification with, any Applicable Governmental Authority is required for the performance by each Individual Selling Stockholder of its obligations under this Agreement or the Custody Agreement or Power of Attorney of such Individual Selling Stockholder, except (x) such as have been obtained or made or (y) such as may be required by the securities or blue sky laws of the various states in connection with the offer and sale of the Shares;

(iii) each Selling Stockholder is the sole registered holder of the Shares to be sold by such Selling Stockholder;

(iv) each Individual Selling Stockholder has the legal right and power, and all authorization and approval required by law, to enter into this Agreement and the Custody Agreement and Power of Attorney of such Individual Selling Stockholder and to sell, transfer and deliver the Shares to be sold by such Individual Selling Stockholder pursuant to this Agreement;

(v) the Custody Agreement and the Power of Attorney of each Individual Selling Stockholder have been duly executed and delivered by such Individual Selling Stockholder and are valid and binding agreements of such Individual Selling Stockholder, except as limited by applicable bankruptcy, moratorium, insolvency, other similar laws affecting generally the rights of creditors, by principles of equity (regardless of whether such enforcement is considered in a proceeding at law or in equity) or by public policy; and

(vi) upon delivery of the Shares to be sold by each Selling Stockholder under this Agreement and payment of the purchase price therefor in accordance with this Agreement, assuming that (A) the Underwriters have purchased such Shares without notice of any "adverse claim" (within the meaning of the Uniform Commercial Code) and (B) certificates evidencing such Shares have been registered in the name of the Underwriters or certificates evidencing the same which are registered in the name of such Selling Stockholder have been delivered to the Underwriters duly endorsed for transfer (or accompanied by duly executed stock powers or other forms of assignment in proper form for transfer), the Underwriters will acquire such shares free of any "adverse claim" (within the meaning of the Uniform Commercial Code).

(g) The Underwriters shall have received on the Closing Date, with respect to the following Selling Stockholders: the Robert W. Norris Revocable Trust, the Christina Marie Damman 1991 Revocable Trust and the Nicholas W. Norris 1991 Revocable Trust, an opinion of Peabody & Arnold, dated the Closing Date, to the effect that:

(i) this Agreement has been duly authorized, executed and delivered by or on behalf of each such Selling Stockholder;

(ii) the execution and delivery by each such Selling Stockholder of, and the performance by such Selling Stockholder of its obligations under, this Agreement and the Custody Agreement and Power of Attorney of such Selling Stockholder will not violate any provision (A) of the laws of the State of Massachusetts and the laws of the United States of America that, in the experience of such counsel, are normally applicable to transactions of the type contemplated by this Agreement, (B) the trust agreement, testamentary document or similar document that governs the affairs of such Selling Stockholder, (C) any agreement or other instrument binding upon such Selling Stockholder that has been identified in a certificate provided by such Selling Stockholder as material to the transactions contemplated by this Agreement or (D) any judgment, order or decree of any governmental body, agency or court having jurisdiction over such Selling Stockholder that has been identified in a certificate provided by such Selling Stockholder as being material to such Selling Stockholder; no consent, approval, authorization or order of, or qualification with, any governmental body, agency or court of the United States of America or the State of Massachusetts is required for the performance by each such Selling Stockholder of its obligations under this Agreement or the Custody Agreement or Power of Attorney of such Selling Stockholder, except (x) such as have been obtained or made or (y) such as may be required by the securities or blue sky laws of the various states in connection with the offer and sale of the Shares;

(iii) each such Selling Stockholder has the legal right and power, and all authorization and approval required by law, to enter into this Agreement and the Custody Agreement and Power of Attorney of such Selling Stockholder and to sell, transfer and deliver the Shares to be sold by such Selling Stockholder pursuant to this Agreement;

(iv) the Custody Agreement and the Power of Attorney of each such Selling Stockholder have been duly executed and delivered by such Selling Stockholder and are valid and binding agreements of such Selling Stockholder, except as limited by applicable bankruptcy, moratorium, insolvency, other similar laws affecting generally the rights of creditors, by principles of equity (regardless of whether such enforcement is considered in a proceeding at law or in equity) or by public policy;

(h) The Underwriters shall have received on the Closing Date, with respect to the following Selling Stockholder: the David Anderson Trust, an opinion of Hahn & Hahn, dated the Closing Date, to the effect that:

(i) this Agreement has been duly authorized, executed and delivered by or on behalf of such Selling Stockholder;

(ii) the execution and delivery by such Selling Stockholder of, and the performance by such Selling Stockholder of its obligations under, this Agreement and the Custody Agreement and Power of Attorney of such Selling Stockholder will not violate any provision (A) of the laws of the State of California and the laws of the United States of America that, in the experience of such counsel, are normally applicable to transactions of the type contemplated by this Agreement, (B) the trust agreement, testamentary document or similar document that governs the affairs of such Selling Stockholder, (C) any agreement or other instrument binding upon such Selling Stockholder that has been identified in a certificate provided by such Selling Stockholder as material to the transactions contemplated by this Agreement or (D) any judgment, order or decree of any governmental body, agency or court having jurisdiction over such Selling Stockholder that has been identified in a certificate provided by such Selling Stockholder as being material to such Selling Stockholder; no consent, approval, authorization or order of, or qualification with, any governmental body, agency or court of the United States of America or the State of California is required for the performance by each such Selling Stockholder of its obligations under this Agreement or the Custody Agreement or Power of Attorney of such Selling Stockholder, except (x) such as have been obtained or made or (y) such as may be required by the securities or blue sky laws of the various states in connection with the offer and sale of the Shares;

(iii) such Selling Stockholder has the legal right and power, and all authorization and approval required by law, to enter into this Agreement and the Custody Agreement and Power of Attorney of such Selling Stockholder and to sell, transfer and deliver the Shares to be sold by such Selling Stockholder pursuant to this Agreement; and

(iv) the Custody Agreement and the Power of Attorney of each such Selling Stockholder have been duly executed and delivered by such Selling Stockholder and are valid and binding agreements of such Selling Stockholder, except as limited by applicable bankruptcy, moratorium, insolvency, other similar laws affecting generally the rights of creditors, by principles of equity (regardless of whether such enforcement is considered in a proceeding at law or in equity) or by public policy.

(i) The Underwriters shall have received on the Closing Date an opinion of Fulbright & Jaworski L.L.P., counsel for the Underwriters, dated the Closing Date, covering the matters referred to in Sections 6(c)(vi), 6(c)(vii), 6(c)(ix) (but only as to the statements in the Prospectus under "Description of Capital Stock" and "Underwriters") and 6(c)(xii) above and the penultimate paragraph of Section 6(c) above.

With respect to Section 6(c) above, Baker & Botts, L.L.P. may rely upon an opinion or opinions of counsel for any Selling Stockholders and, with respect to factual matters and to the extent such counsel deems appropriate, upon the representations of each Selling Stockholder contained herein and in the Custody Agreement and Power of Attorney of such Selling Stockholder and in other documents and instruments; provided that (A) each such counsel for the Selling Stockholders is satisfactory to the U.S. Underwriters' counsel, (B) a copy of each opinion so relied upon is delivered to the U.S. Underwriters and is in form and substance satisfactory to the U.S. Underwriters' counsel, and (C) copies of such Custody Agreements and Powers of Attorney and of any such other documents and instruments shall be delivered to the U.S. Underwriters and shall be in form and substance satisfactory to the U.S. Underwriters' counsel.

The opinions of Baker & Botts, L.L.P. described in Sections 6(c) and 6(f) above, the opinion of Carl E. Edwards described in Section 6(d) above, the opinion of [Canadian counsel] described in Section 6(e) above, the opinion of Hahn & Hahn described in

Section 6(g) above, the opinion of Peabody & Arnold described in Section 6(h) above and any opinions of counsel for any Selling Stockholder referred to in the immediately preceding paragraph shall be rendered to the Underwriters at the request of the Company or one or more of the Selling Stockholders, as the case may be, and shall so state therein.

(j) The Underwriters shall have received, on each of the date hereof and the Closing Date, a letter dated the date hereof or the Closing Date, as the case may be, in form and substance satisfactory to the Underwriters, from Arthur Andersen LLP, independent public accountants, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus; provided that the letter delivered on the Closing Date shall use a "cut-off date" not earlier than the date hereof.

(k) The "lock-up" agreements, each substantially in the form of Exhibit A hereto, between you and certain stockholders, officers and directors of the Company relating to sales and certain other dispositions of shares of Common Stock or certain other securities, delivered to you on or before the date hereof, shall be in full force and effect on the Closing Date.

The several obligations of the U.S. Underwriters to purchase Additional Shares hereunder are subject to the delivery to the U.S. Representatives on the Option Closing Date of such documents as the U.S. Representatives may reasonably request with respect to the good standing of the Company, the due authorization and issuance of the Additional Shares and other matters related to the issuance of the Additional Shares.

7. Covenants of the Company. In further consideration of the agreements of the Underwriters herein contained, the Company covenants with each Underwriter as follows:

(a) To furnish to you, without charge, such number of signed copies of the Registration Statement (including exhibits thereto) as you may reasonably request and for delivery to each other Underwriter a conformed copy of the Registration Statement (without exhibits thereto) and to furnish to you in New York City, without charge, prior to 5:00 p.m. New York City time on the business day next succeeding the date of this Agreement and during the period mentioned in Section 7(c) below, as many copies of the Prospectus and any supplements and amendments thereto or to the Registration Statement as you may reasonably request.

(b) Before amending or supplementing the Registration Statement or the Prospectus, to furnish to you a copy of each such proposed amendment or supplement and not to file any such proposed amendment or supplement to which you reasonably object, and to file with the Commission within the applicable period specified in Rule 424(b) under the Securities Act any prospectus required to be filed pursuant to such Rule.

(c) If, during such period after the first date of the public offering of the Shares as in the opinion of counsel for the Underwriters the Prospectus is required by law to be delivered in connection with sales by an Underwriter or dealer, any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances when the Prospectus

is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Underwriters, it is necessary to amend or supplement the Prospectus to comply with applicable law, forthwith to prepare, file with the Commission and furnish, at its own expense, to the Underwriters and to the dealers (whose names and addresses you will furnish to the Company) to which Shares may have been sold by you on behalf of the Underwriters and to any other dealers upon request, either amendments or supplements to the Prospectus so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances when the Prospectus is delivered to a purchaser, be misleading or so that the Prospectus, as amended or supplemented, will comply with law.

(d) To endeavor to qualify the Shares for offer and sale under the securities or blue sky laws of such jurisdictions as you shall reasonably request; provided, however, that the Company shall not be obligated (i) to qualify as a foreign corporation in any jurisdiction in which it is not so qualified, (ii) to take any action that would subject it to taxation in any jurisdiction or (iii) to execute a consent to service of process under the laws of any jurisdiction (except service of process with respect to the offering and sale of Shares).

(e) To make generally available to the Company's security holders and to you as soon as practicable an earning statement covering the twelve-month period ending [SEPTEMBER 30,] 2000 that satisfies the provisions of Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder.

(f) That in connection with the Directed Share Program, the Company will ensure that the Directed Shares will be restricted to the extent required by the National Association of Securities Dealers, Inc. (the "NASD") or the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of the effectiveness of the Registration Statement. Morgan Stanley will notify the Company as to which Participants will need to be so restricted. The Company will direct the transfer agent of the Common Stock to place stop transfer restrictions upon such securities for such period of time.

(g) To pay all fees and disbursements of Belgian, Canadian and Australian counsel incurred by the Underwriters in connection with the Directed Share Program and stamp duties, similar taxes or duties or other taxes, if any, incurred by the Underwriters in connection with the Directed Share Program.

(h) Furthermore, the Company covenants with Morgan Stanley that the Company will comply with all applicable securities and other applicable laws, rules and regulations in each foreign jurisdiction in which the Directed Shares are offered in connection with the Directed Share Program.

8. Expenses. Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, the Sellers agree to pay or cause to be paid all expenses incident to the performance of their obligations under this Agreement, including: (i) the fees, disbursements and expenses of the Company's counsel, the Company's accountants and counsel for the Selling Stockholders in connection with the registration and delivery of the Shares under the Securities Act and all other fees or expenses in connection with the preparation and filing of the Registration Statement, any preliminary prospectus, the Prospectus and amendments and supplements to any of the foregoing, including all printing costs associated therewith, and the mailing and delivering of copies thereof to the Underwriters and dealers, in the quantities hereinabove specified, (ii) all costs and expenses related to the transfer and delivery of the Shares to the Underwriters, including any transfer or other taxes payable thereon, (iii) the cost of printing or producing any blue sky or legal investment memorandum in connection with the offer and sale of the Shares under state securities laws and all expenses in connection with the qualification of the Shares for offer and sale under state securities laws as provided in Section 7(d) hereof, including filing fees and the reasonable fees (not in excess of $2,000) and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the blue sky or legal investment memorandum, (iv) all filing fees and the fees (not in excess of $7,500) and reasonable disbursements of counsel to the Underwriters (including counsel fees incurred on behalf of or disbursements by Morgan Stanley in its capacity as a "qualified independent underwriter") incurred in connection with the review and qualification of the offering of the Shares by the NASD, (v) all fees and expenses incurred in connection with the preparation and filing of the registration statement on Form 8-A relating to the Common Stock and all costs and expenses incident to listing the Shares on the New York Stock Exchange and other national securities exchanges and foreign stock exchanges, (vi) the cost of printing certificates representing the Shares, (vii) the costs and charges of any transfer agent, registrar or depositary of the Shares, (viii) the costs and expenses of the Company relating to investor presentations on any "road show" undertaken in connection with the marketing of the offering of the Shares, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Company, travel and lodging expenses of the representatives and officers of the Company and any such consultants, and the cost of any aircraft chartered in connection with the road show, (ix) all fees and disbursements of Belgian, Canadian and Australian counsel incurred by the Underwriters in connection with the Directed Share Program and stamp duties, similar taxes or duties or other taxes, if any, incurred by the Underwriters in connection with the Directed Share Program, and (x) all other costs and expenses incident to the performance of the obligations of the Company hereunder for which provision is not otherwise made in this Section. It is understood, however, that, except as

provided in this Section, Section 9, and the last paragraph of Section 11 below, the Underwriters will pay all of their costs and expenses, including fees and disbursements of their counsel, stock transfer taxes payable on resale of any of the Shares by them and any advertising expenses connected with any offers they may make.

The provisions of this Section shall not supersede or otherwise affect any agreement that the Sellers may otherwise have for the allocation of such expenses among themselves.

9. Indemnity and Contribution.

(a) The Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein; provided, however, that the foregoing indemnity agreement with respect to any preliminary prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages or liabilities purchased Shares, or any person controlling such Underwriter, if a copy of the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto) was not sent or given by or on behalf of such Underwriter to such person, if required by law so to have been delivered, at or prior to the written confirmation of the sale of the Shares to such person, and if the Prospectus (as so amended or supplemented) would have cured the defect giving rise to such losses, claims, damages or liabilities, unless such failure is the result of noncompliance by the Company with Section 7(a) hereof.

The Company also agrees to indemnify and hold harmless Morgan Stanley & Co. Incorporated ("MORGAN STANLEY") and each person, if any, who controls Morgan Stanley within the meaning of either Section 15 of the Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages, liabilities and judgments incurred as a result of Morgan Stanley's participation as a "qualified independent underwriter" within the meaning of Rule 2720 of the National Association of Securities Dealers'

Conduct Rules in connection with the offering of the Shares, except for any losses, claims, damages, liabilities and judgments resulting from Morgan Stanley's, or such controlling person's, willful misconduct.

(b) The Company agrees to indemnify and hold harmless Morgan Stanley, each other Underwriter that sells Shares pursuant to the Directed Share Program and each of their affiliates (including each person, if any, that controls Morgan Stanley or such Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act) (collectively, the "DIRECTED SHARE UNDERWRITERS") from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) (i) caused by any untrue statement or alleged untrue statement of a material fact contained in the prospectus wrapper material prepared by or with the consent of the Company for distribution in foreign jurisdictions in connection with the Directed Share Program attached to the Prospectus or any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statement therein, when considered in conjunction with the Prospectus or any applicable preliminary prospectus, not misleading; (ii) caused by the failure of any Participant to pay for and accept delivery of the shares which, immediately following the effectiveness of the Registration Statement, were subject to a properly confirmed agreement to purchase; or (iii) related to, arising out of, or in connection with the Directed Share Program, provided that the Company shall not be responsible under this subparagraph (iii) for any losses, claims, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted from the bad faith or gross negligence of Directed Share Underwriters; provided, however, that the foregoing indemnity agreement with respect to any preliminary prospectus shall not inure to the benefit of any Directed Share Underwriter from whom the person asserting any such losses, claims, damages or liabilities purchased Shares, or any affiliate of such Directed Share Underwriter, if a copy of the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto) was not sent or given by or on behalf of such Directed Share Underwriter to such person, if required by law so to have been delivered, at or prior to the written confirmation of the sale of the Shares to such person, and if the Prospectus (as so amended or supplemented) would have cured the defect giving rise to such losses, claims, damages or liabilities, unless such failure is the result of noncompliance by the Company with Section 7(a) hereof.

(c) Each Selling Stockholder agrees, severally and not jointly, to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with reference to information relating to such Selling Stockholder furnished to the Company in writing by or on behalf of such Selling Stockholder expressly for use in the Registration Statement, any preliminary prospectus, the Prospectus or any amendments or supplements thereto; provided, however, that the foregoing indemnity agreement with respect to any preliminary prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages or liabilities purchased Shares, or any person controlling such Underwriter, if a copy of the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto) was not sent or given by or on behalf of such Underwriter to such person, if required by law so to have been delivered, at or prior to the written confirmation of the sale of the Shares to such person, and if the Prospectus (as so amended or supplemented) would have cured the defect giving rise to such losses, claims, damages or liabilities, unless such failure is the result of noncompliance by the Company with Section 7(a) hereof; provided, further, however, that with respect to any amount due an indemnified person under this paragraph (c), each Selling Stockholder shall be liable only to the extent of the net proceeds received by such Selling Stockholder from such Selling Stockholder's Shares.

(d) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, the Selling Stockholders, the directors of the Company, the officers of the Company who sign the Registration Statement and each person, if any, who controls the Company or any Selling Stockholder within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with reference to information relating to such Underwriter furnished to the Company in writing by or on behalf of such Underwriter through you expressly for use in the Registration Statement, any preliminary prospectus, the Prospectus or any amendments or supplements thereto.

(e) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Section 9(a), 9(b), 9(c) or 9(d), such person (the "INDEMNIFIED PARTY") shall promptly notify the person against whom such indemnity may be sought (the "INDEMNIFYING PARTY") in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for (x) the fees and expenses of more than one separate firm (in addition to any local counsel) for all Underwriters and all persons, if any, who control any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, (y) the fees and expenses of more than one separate firm (in addition to any local counsel) for the Company, its directors, its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of either such Section and (z) the fees and expenses of more than one separate firm (in addition to any local counsel) for all Selling Stockholders and all persons, if any, who control any Selling Stockholder within the meaning of either such Section, and that all such fees and expenses shall be reimbursed as they are incurred. Notwithstanding anything contained herein to the contrary, if indemnity may be sought pursuant to the second paragraph of Section 9(a) hereof in respect of such action or proceeding, then in addition to such separate firm for the indemnified parties, the indemnifying party shall be liable for the reasonable fees and expenses of not more than one separate firm (in addition to any local counsel) for Morgan Stanley in its capacity as a "qualified independent underwriter" and all persons, if any, who control Morgan Stanley within the meaning of either Section 15 of the Act or Section 20 of the Exchange Act. In the case of any such separate firm for the Underwriters and such control persons of any Underwriters, such firm shall be designated in writing by Morgan Stanley. In the case of any such separate firm for the Company, and such directors, officers and control persons of the Company, such firm shall be designated in writing by the Company. In the case of any such separate firm for the Selling Stockholders and such control persons of any Selling Stockholders, such firm shall be designated in writing by the persons named as attorneys-in-fact for the Selling Stockholders under the Powers of Attorney. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(f) To the extent the indemnification provided for in Section 9(a), 9(b), 9(c) or 9(d) is unavailable to an indemnified party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party under such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party or parties on the other hand from the offering of the Shares or (ii) if the allocation provided by clause 9(f)(i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause 9(f)(i) above but also the relative fault of the indemnifying party or parties on the one hand and of the indemnified party or parties on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Sellers on the one hand and the Underwriters on the other hand in connection with the offering of the Shares shall be deemed to be in the same respective proportions as the net proceeds from the offering of the Shares (before deducting expenses) received by each Seller and the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover of the Prospectus, bear to the aggregate Public Offering Price of the Shares. The relative fault of the Sellers on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Sellers or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Underwriters' respective obligations to contribute pursuant to this Section 9 are several in proportion to the respective number of Shares they have purchased hereunder, and not joint.

(g) The Sellers and the Underwriters agree that it would not be just or equitable if contribution pursuant to this Section 9 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in Section 9(f). The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9,

(i) no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission and (ii) no Selling Stockholder shall be required to contribute any amount in excess of the amount by which the proceeds received by such Selling Stockholder in connection herewith exceed the aggregate amount such Selling Stockholder has otherwise been requested to pay pursuant hereto. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 9 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

(h) The indemnity and contribution provisions contained in this Section 9 and the representations, warranties and other statements of the Company and the Selling Stockholders contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Underwriter, any person controlling any Underwriter, any affiliate of any Underwriter that is selling Shares pursuant to the Directed Share Program, any Selling Stockholder or any person controlling any Selling Stockholder, or the Company, its officers or directors or any person controlling the Company and (iii) acceptance of and payment for any of the Shares.

10. Termination. This Agreement shall be subject to termination by notice given by you to the Company, if (a) after the execution and delivery of this Agreement and prior to the Closing Date (i) trading generally shall have been suspended or materially limited on or by, as the case may be, any of the New York Stock Exchange, the American Stock Exchange, the National Association of Securities Dealers, Inc., the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or the Chicago Board of Trade, (ii) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market, (iii) a general moratorium on commercial banking activities in New York shall have been declared by either Federal or New York State authorities or (iv) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis that, in your judgment, is material and adverse and (b) in the case of any of the events specified in clauses 10(a)(i) through 10(a)(iv), such event, singly or together with any other such event, makes it, in your judgment, impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus.

11. Effectiveness; Defaulting Underwriters. This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

If, on the Closing Date or the Option Closing Date, as the case may be, any one or more of the Underwriters shall fail or refuse to purchase Shares that it has or they have agreed to purchase hereunder on such date, and the aggregate number of Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate number of the Shares to be purchased on such date, the other Underwriters shall be obligated severally in the proportions that the number of Firm Shares set forth opposite their respective names in Schedule II and Schedule III bears to the aggregate number of Firm Shares set forth opposite the names of all such non-defaulting Underwriters, or in such other proportions as you may specify, to purchase the Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase on such date; provided that in no event shall the number of Shares that any Underwriter has agreed to purchase pursuant to this Agreement be increased pursuant to this Section 11 by an amount in excess of one-ninth of such number of Shares without the written consent of such Underwriter. If, on the Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Firm Shares and the aggregate number of Firm Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Firm Shares to be purchased, and arrangements satisfactory to you, the Company and the Selling Stockholders for the purchase of such Firm Shares are not made within 36 hours after such default, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter, the Company or the Selling Stockholders. In any such case either you or the relevant Sellers shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and in the Prospectus or in any other documents or arrangements may be effected. If, on the Option Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Additional Shares and the aggregate number of Additional Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Additional Shares to be purchased, the non-defaulting Underwriters shall have the option to (i) terminate their obligation hereunder to purchase Additional Shares or (ii) purchase not less than the number of Additional Shares that such non-defaulting Underwriters would have been obligated to purchase in the absence of such default. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

If this Agreement shall be terminated by the Underwriters, or any of them, because of any failure or refusal on the part of any Seller to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason any Seller shall be unable to perform its obligations under this Agreement, the Sellers will reimburse the Underwriters or such Underwriters as have so terminated this Agreement with respect to themselves, severally, for all out-of-pocket expenses (including the fees and disbursements of their counsel) reasonably incurred by such Underwriters in connection with this Agreement or the offering contemplated hereunder.

12. Counterparts. This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

13. Applicable Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York.

14. Headings. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

Very truly yours,

LENNOX INTERNATIONAL INC.

By:

Name:
Title:

The Selling Stockholders
named in Schedule I hereto,
acting severally

By:

Attorney-in-Fact

Accepted as of the date hereof

MORGAN STANLEY & CO. INCORPORATED
CREDIT SUISSE FIRST BOSTON CORPORATION
WARBURG DILLON READ LLC, a subsidiary of UBS AG

Acting severally on behalf of themselves
and the several U.S. Underwriters named
in Schedule II hereto.

By: Morgan Stanley & Co. Incorporated

By:

Name: John F. Spence
Title: Principal

MORGAN STANLEY & CO. INTERNATIONAL LIMITED
CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED
UBS AG, acting through its division Warburg Dillon Read

Acting severally on behalf of themselves and the
several International Underwriters named in
Schedule III hereto.

By: Morgan Stanley & Co. International Limited

By:

Name: John F. Spence
Title: Principal

SCHEDULE I

SELLING STOCKHOLDERS

SELLING STOCKHOLDER	NUMBER OF FIRM SHARES TO BE SOLD
David Anderson Trust	165,000
David W. Zink	81,675
Frank E. Zink	66,000
Eileen F. Murphy	33,000
Robert W. Norris Revocable Trust	33,000
Christina Marie Damman 1991 Revocable Trust	13,200
Nicholas W. Norris 1991 Revocable Trust	9,900
Zink Family Irrevocable Trust	3,399
Thomas R. Thompson	1,980
Steven P. Miller	1,683
David S. Miller	1,683
William N. Consler	990
Total Firm Shares	------- =======

SCHEDULE II

U.S. UNDERWRITERS

U. S. UNDERWRITER	NUMBER OF FIRM SHARES TO BE PURCHASED
Morgan Stanley & Co. Incorporated................................	
Credit Suisse First Boston Corporation	
Warburg Dillon Read LLC, a subsidiary of UBS AG..................	
[NAMES OF OTHER UNDERWRITERS]	

Total U.S. Firm Shares........	
	==============

SCHEDULE III

INTERNATIONAL UNDERWRITERS

INTERNATIONAL UNDERWRITER	NUMBER OF FIRM SHARES TO BE PURCHASED
Morgan Stanley & Co. International Limited..........................	
Credit Suisse First Boston (Europe) Limited.........................	
UBS AG, acting through its division Warburg Dillon Read.............	
[NAMES OF OTHER UNDERWRITERS]	

Total International Firm Shares	
	===============

EXHIBIT A

FORM OF LOCK-UP LETTER

________________, 1999

Morgan Stanley & Co. Incorporated
Credit Suisse First Boston Corporation
Warburg Dillon Read LLC
Morgan Stanley & Co. International Limited
Credit Suisse First Boston (Europe) Limited
UBS AG acting through its division
Warburg Dillon Read
c/o Morgan Stanley & Co. Incorporated
1585 Broadway
New York, NY 10036

Ladies and Gentlemen:

The undersigned understands that Morgan Stanley & Co. Incorporated and Morgan Stanley & Co. International Limited (collectively "MORGAN STANLEY") propose to enter into an Underwriting Agreement (the "UNDERWRITING AGREEMENT") with Lennox International Inc., a Delaware corporation (the "COMPANY"), providing for the public offering (the "PUBLIC OFFERING") by the several Underwriters, including Morgan Stanley (the "UNDERWRITERS"), of ______________ shares (the "SHARES") of the common stock, par value $.01 per share, of the Company (the "COMMON STOCK").

To induce the Underwriters that may participate in the Public Offering to continue their efforts in connection with the Public Offering, the undersigned hereby agrees that, without the prior written consent of Morgan Stanley on behalf of the Underwriters, it will not, during the period commencing on the date hereof and ending 180 days after the date of the final prospectus relating to the Public Offering (the "PROSPECTUS"), (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise; PROVIDED, HOWEVER, that the undersigned shall be permitted to make a bona fide gift of shares of Common Stock during such period if the undersigned delivers to Morgan Stanley a letter substantially similar to this letter executed by the donee. The foregoing sentence shall not apply to (a) the sale of any Shares to the Underwriters pursuant to the Underwriting Agreement or (b) transactions relating to shares of Common Stock or other securities acquired in open market transactions after the completion of the Public Offering. In addition, the undersigned agrees that, without the prior written consent of Morgan Stanley on behalf of the Underwriters, it will not, during the period commencing on the date hereof and ending 180 days after the date of the Prospectus, make any demand for or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock.

Whether or not the Public Offering actually occurs depends on a number of factors, including market conditions. Any Public Offering will only be made pursuant to an Underwriting Agreement, the terms of which are subject to negotiation between the Company and the Underwriters.

Very truly yours,

(Name)

(Address)

EXHIBIT 5.1

BAKER & BOTTS, L.L.P.
2001 ROSS AVENUE
DALLAS, TEXAS 75201

July 27, 1999

Lennox International Inc.
2100 Lake Park Boulevard
Richardson, Texas 75080

Ladies and Gentlemen:

As set forth in the Registration Statement on Form S-1 (Registration No. 333-75725), as amended (the "Registration Statement"), filed by Lennox International Inc., a Delaware corporation (the "Company"), with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), relating to the issuance and sale of up to an aggregate of 9,775,000 shares (the "Shares") of its Common Stock, par value $0.01 per share, the validity of the Shares is being passed upon for you by us. The Shares include (i) 8,088,490 Shares being issued and sold by the Company, (ii) 411,510 Shares being sold by the selling stockholders identified in the Registration Statement (the "Selling Stockholders") and (iii) 1,275,000 Shares that may be issued and sold by the Company pursuant to an over-allotment option (the "Over-Allotment Option") granted to the Underwriters named in the Registration Statement. The Shares identified in clauses (i) and (iii) above are hereinafter referred to as the "Company Shares" and the Shares identified in clause (ii) above are hereinafter referred to as the "Selling Stockholder Shares." At your request, this opinion is being furnished to you for filing as Exhibit 5.1 to the Registration Statement.

In our capacity as counsel to the Company in connection with the registration and proposed issuance and sale of the Shares, we have familiarized ourselves with (i) the Company's Restated Certificate of Incorporation (the "Restated Certificate of Incorporation"), as filed as an exhibit to the Registration Statement and (ii) the Company's Amended and Restated Bylaws, as filed as an exhibit to the Registration Statement, and have examined the originals, or copies certified or otherwise identified, of corporate records of the Company, including minutes of the Company, certificates of public officials and of representatives of the Company, statutes and other instruments and documents as a basis for the opinions hereinafter expressed. In giving such opinions, we have relied upon certificates of public officials and representatives of the Company with respect to the accuracy of the material factual matters contained in such certificates.

Based on our examination as aforesaid, and subject to the assumptions, limitations and qualifications hereinafter set forth, we are of the opinion that:

1. The Company is a corporation duly incorporated and validly existing in good standing under the laws of the State of Delaware.

2. When the Board of Directors of the Company or the duly authorized Pricing Committee of the Board of Directors of the Company shall have fixed the price at which the Shares are to be sold all requisite corporate action on the part of the Company with respect to the authorization of the Company Shares will have been taken. Upon the occurrence of the event specified in the immediately preceding sentence and upon the sale of the Company Shares for the price approved by the Board of Directors of the Company or the duly authorized Pricing Committee of the Board of Directors of the Company, the Company Shares will be validly issued, fully paid and nonassessable.

3. The Selling Stockholder Shares have been duly authorized and validly issued and are fully paid and nonassessable.

The opinions set forth above are limited to matters governed by the General Corporation Law of the State of Delaware as in effect on the date hereof.

We hereby consent to the filing of this opinion with the Securities and Exchange Commission as an exhibit to the Registration Statement and to the reference to us under the caption "Legal Matters" in the Prospectus forming a part of the Registration Statement. In giving such consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Act or the Rules and Regulations of the Commission thereunder.

Very truly yours,

/s/ Baker & Botts, L.L.P.

EXHIBIT 10.25

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LENNOX INTERNATIONAL INC.

REVOLVING CREDIT FACILITY AGREEMENT

Dated as of July 29, 1999

CHASE BANK OF TEXAS, NATIONAL ASSOCIATION,
as Administrative Agent,

WACHOVIA BANK, N.A.,
as Syndication Agent,
and

THE BANK OF NOVA SCOTIA,
as documentation agent

with
CHASE SECURITIES INC.,
as Lead Book Runner and an Arranger

and

WACHOVIA SECURITIES, INC.
as an Arranger

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EXHIBITS AND SCHEDULES

REVOLVING CREDIT FACILITY AGREEMENT

REVOLVING CREDIT FACILITY AGREEMENT (the "Agreement") dated as of July 29, 1999, and effective as of the Effective Date, among LENNOX INTERNATIONAL INC., a Delaware corporation ("Borrower"); the lenders listed in Schedule 2.01 (together with their successors and assigns, the "Lenders"), CHASE BANK OF TEXAS, NATIONAL ASSOCIATION, a national banking association, ("Chase"), as administrative agent for the Lenders (in such capacity, the "Administrative Agent"), WACHOVIA BANK, N.A., a national banking association ("Wachovia"), as syndication agent (in such capacity, the "Syndication Agent") and THE BANK OF NOVA SCOTIA, as documentation agent. (The Administrative Agent and the Syndication Agent are referred to herein together as the "Agents").

The Lenders have been requested to extend credit to the Borrower to enable it, upon the terms and subject to the conditions set forth herein, to borrow on a revolving credit basis on and after the Effective Date and at any time prior to the Maturity Date (as hereinafter defined) an aggregate principal amount not in excess of the amount set forth herein at any time outstanding. The proceeds of any such borrowings are to be used to refinance existing indebtedness, to make acquisitions, for capital expenditures and working capital and for other general corporate purposes. The Lenders are willing to extend such credit on the terms and subject to the conditions herein set forth.

Accordingly, the parties hereto agree as follows:

ARTICLE 1. DEFINITIONS

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

"ABR Borrowing" shall mean a Borrowing comprised of ABR Loans.

"ABR Loan" shall mean any Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article 2.

"Additional Covenant" shall have the meaning assigned in Section 5.06.

"Additional Default" shall have the meaning assigned in Section 5.06.

"Adjusted EBITDA" shall mean, for any period (the "Subject Period"), the sum of (a) EBITDA plus (b), to the extent not included in EBITDA, all Acquired EBITDA. The term "Acquired EBITDA" shall mean, with respect to any Person acquired, or substantially all of whose assets have been acquired, by the Borrower or any Restricted Subsidiary during the Subject Period (herein a "Target"), the total of the following for the portion of the Subject Period prior to the acquisition of such Person or its assets (the "Test Period") determined on a consolidated basis in accordance with GAAP consistently applied from financial statements audited by a certified public accountant satisfactory to the Administrative Agent and covering the Test Period (provided that audited financial statements are not required if the annual earnings before interest, taxes, depreciation and amortization of the Target for the completed twelve month period prior to its acquisition is less than $5,000,000, calculated in the same manner as set forth in the definition of Acquired EBITDA but for such twelve month period) and otherwise on a basis acceptable to the Administrative Agent:

(i) the consolidated net income (or net loss) of the Target from operations, excluding the following:

(a) the proceeds of any life insurance policy;

(b) any gain arising from (1) the sale or other disposition of any assets (other than current assets) to the extent that the aggregate amount of gains exceeds the aggregate amount of losses from the sale, abandonment or other disposition of assets (other than current assets), (2) any write-up of assets, or (3) the acquisition by the Target of its outstanding securities constituting Indebtedness;

(c) any amount representing the interest of the Target in the undistributed earnings of any other Person;

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

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

(ii) to the extent deducted in computing such consolidated net income (or loss), without duplication, the sum of (a) any deduction for (or less any gain from) income or franchise taxes included in determining such consolidated net income (or loss); plus (b) interest expense (including the interest portion of Capital Leases) deducted in determining such consolidated net income (or loss); plus (c) amortization and depreciation expense deducted in determining such consolidated net income (or loss); minus,

(iii) to the extent added in computing such consolidated net income (or loss) all income that has been included in the calculation of such net income for such period that will be eliminated in the future after the acquisition of such Target, as approved by the Administrative Agent.

"Adjustment Date" shall have the meaning assigned to it in Section 2.06(d).

"Administrative Fees" shall have the meaning assigned to such term in Section 2.04(b).

"Administrative Questionnaire" shall mean an administrative questionnaire in the form provided by the Administrative Agent.

"Affiliate" shall mean, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Borrower.

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greatest of (a) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%, and (b) the Prime Rate in effect on such day. For purposes hereof, "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by Chase as its prime rate in effect at its principal office in Houston, Texas; each change in the Prime Rate shall be effective on the date such change is publicly announced as effective; and "Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as released on the next succeeding Business Day by the Federal Reserve Bank of Dallas, or, if such rate is not so released for any day which is a Business Day, the arithmetic average (rounded upwards to the next 1/100th of 1%), as determined by Chase, of the quotations for the day of such transactions received by Chase from three Federal funds brokers of recognized standing selected by it. If for any reason Chase shall have determined (which determination shall be conclusive absent manifest error; provided that Chase, shall, upon request, provide to the Borrower a certificate setting forth in reasonable detail the basis for such determination) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability of Chase to obtain sufficient quotations in accordance with the terms hereof, the Alternate Base Rate shall be determined without regard to clause (a) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"Applicable Governmental Authority" means, a United States Governmental Authority or the government of any jurisdiction in which the Borrower or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Borrower or any Subsidiary and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive legislative, judicial, taxing, regulatory or administrative powers or functions of, or pertaining to, any such government.

"Applicable Margin" shall have the meaning assigned in Section 2.06(d).

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Lender and an assignee in substantially the form of Exhibit B.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States.

"Board of Directors" shall mean the Board of Directors of Borrower or any duly authorized committee thereof.

"Borrower" shall have the meaning given such term in the preamble hereto.

"Borrower Payments" shall have the meaning given such term in Section 2.16(a).

"Borrowing" shall mean a group of Loans of a single Type made by the Lenders on a single date and, with respect to Eurodollar Loans, as to which a single Interest Period is in effect.

"Borrowing Request" shall mean a request made pursuant to Section 2.03 in the form of Exhibit A.

"Business Day" shall mean any day (other than a day which is a Saturday, Sunday or legal holiday in the State of New York or the State of Texas) on which banks are open for business in New York City, New York and Houston, Texas; provided, however, that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Calculation Period" shall have the meaning assigned it in Section 2.06(d).

"Capital Lease Obligation" shall mean, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

"Capital Lease" shall mean, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Cash Flow" shall have the meaning assigned it in Section 5.15(a).

"Change of Control" shall have the meaning assigned it in Section 2.10(c).

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Commitment" shall mean, with respect to each Lender, the Commitment of such Lender set forth in Schedule 2.01 hereto, or in the most recent Assignment and Acceptance executed by such Lender, as such Commitment may be permanently terminated or reduced from time to time pursuant to Section 2.09. The Commitment of each Lender shall automatically and permanently terminate on the Maturity Date if not terminated earlier pursuant to the terms hereof.

"Commitment Fee" shall have the meaning assigned to such term in Section 2.04(a).

"Commitment Fee Percentage" shall have the meaning assigned to it in Section 2.06(d).

"Compliance Certificate" shall mean the certificate delivered pursuant to Section 5.20(g).

"Confidential Information" shall have the meaning assigned it in Section 8.14.

"Consolidated Assets" shall mean the total assets of the Borrower and its Restricted Subsidiaries which would be shown as assets on a consolidated balance sheet of the Borrower and its Restricted Subsidiaries prepared in accordance with GAAP, after eliminating all amounts properly attributable to minority interests, if any, in the stock and surplus of Restricted Subsidiaries.

"Consolidated Capitalization" shall mean, at any time, the sum of Consolidated Net Worth and Consolidated Indebtedness.

"Consolidated Indebtedness" shall mean, as of any date of determination, the total of all Indebtedness of the Borrower and its Restricted Subsidiaries outstanding on such date, after eliminating all offsetting debits and credits between the Borrower and its Restricted Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Borrower and its Restricted Subsidiaries in accordance with GAAP.

"Consolidated Net Income" shall mean, for any period, the net income (or net loss) of the Borrower and its Restricted Subsidiaries for such period, determined in accordance with GAAP, excluding

(a) the proceeds of any life insurance policy;

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

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

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

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

"Consolidated Net Worth" shall mean, at any time,

(a) the sum of (i) the par value (or value stated on the books of the Borrower) of the capital stock (but excluding treasury stock and capital stock subscribed and unissued) of the Borrower and its Restricted Subsidiaries at such time plus (ii) the amount of paid-in-capital and retained earnings of the Borrower and its Restricted Subsidiaries at such time, in each case as such amounts would be shown on a consolidated balance sheet of the Borrower and its Restricted Subsidiaries as of such time prepared in accordance with GAAP, minus

(b) to the extent included in clause (a), all amounts properly attributable to minority interests, if any, in the stock and surplus of Restricted Subsidiaries.

"Continue", "Continuation", and "Continued" shall refer to the continuation pursuant to Section 2.02(d) of a Eurodollar Borrowing as a Eurodollar Borrowing from one Interest Period to the next Interest Period.

"Convert", "Conversion", and "Converted" shall refer to a conversion pursuant to Section 2.02(d) or Section 2.12 of one Type of Borrowing into another Type of Borrowing.

"Debt to Adjusted EBITDA Ratio" shall mean, as of the end of any fiscal quarter, the ratio expressed as a percentage, equal to the ratio of Consolidated Indebtedness to Adjusted EBITDA calculated as of the end of such fiscal quarter in accordance with Section 5.15 (b).

"Default" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.

"Distribution" shall mean, in respect of any corporation, association or other business entity:

(a) dividends or other distributions or payments on capital stock or other equity interest of such corporation, association or other business entity (except distributions in such stock or other equity interests); and

(b) the redemption or acquisition of such stock or other equity interests or of warrants, rights or other options to purchase such stock or other equity interests (except when solely in exchange for such stock or other equity interests) unless made, contemporaneously, from the net proceeds of a sale of such stock or other equity interests.

"dollars" or "$" shall mean lawful money of the United States of America.

"EBITDA" means, for any period, the total of the following calculated for Borrower and the Restricted Subsidiaries without duplication on a consolidated basis in accordance with GAAP consistently applied for such period: (a) Consolidated Net Income from operations; plus (b) any deduction for (or less any gain from) income or franchise taxes included in determining Consolidated Net Income; plus (c) interest expense (including the interest portion of Capital Leases) deducted in determining Consolidated Net Income; plus (d) amortization and depreciation expense deducted in determining Consolidated Net Income.

"Effective Date" shall have the meaning assigned to such term in Section 4.02.

"Environmental Laws" shall mean any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) that is treated as a single employer together with the Borrower under section 414 of the Code.

"Eurodollar Borrowing" shall mean a Borrowing comprised of Eurodollar Loans.

"Eurodollar Loan" shall mean any Loan bearing interest at a rate determined by reference to the LIBO Rate in accordance with the provisions of Article 2.

"Event of Default" shall have the meaning assigned to such term in Article 6.

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

"Excluded Transfer" shall have the meaning assigned to it in Section 5.11.

"Existing Credit Agreements" shall have the meaning assigned to it in Section 3.12.

"Fair Market Value" shall mean, at any time and with respect to any property, the sale value of such property that would be realized in an arm's length sale at such time between an informed and willing buyer and an informed and willing seller (neither being under a compulsion to buy or sell).

"Federal Funds Effective Rate" shall have the meaning specified in the definition of Alternate Base Rate.

"Fee Letters" shall mean, collectively, each of the letters between the Borrower and Chase dated June 4, 1999 and the letter between the Borrower and Wachovia dated June 4, 1999.

"Fees" shall mean the Commitment Fee and the Administrative Fees.

"GAAP" shall mean generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" shall mean:

(a) the government of

(i) the United States of America, any other nation or any political subdivision thereof, whether state, provincial or local, or

(ii) any jurisdiction in which the Borrower or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Borrower or any Subsidiary, and

(b) any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of, or pertaining to, any such government.

"Guaranty" shall mean, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of any other Person to make payment of the Indebtedness or obligation; or

(d) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof. In any computation of the Indebtedness or other liabilities of the obligor under any Guaranty, the Indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"Hazardous Substance" shall mean any contaminant, pollutant or toxic or hazardous substance, and any substance that is defined or listed as a hazardous, toxic or dangerous substance under any Environmental Law or that is otherwise regulated or prohibited under any Environmental Law as a hazardous, toxic or dangerous substance.

"Indebtedness" with respect to any Person shall mean, at any time, without duplication:

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money, but excluding in any event obligations in respect of (1) trade or commercial letters of credit issued for the account of such Person in the ordinary course of its business and (2) stand-by letters of credit issued to support obligations of such Person that are not of a type described in any of clauses (a), (b), (c), (d), (f) or (g);

(f) Swaps of such Person; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) above to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Interest Expenses" shall have the meaning assigned to it in Section 5.15(a).

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

"Interest Period" shall mean, the period commencing on the date of a Eurodollar Borrowing and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months thereafter, or, in addition, in the case of any Eurodollar Borrowing made during the 30-day period ending on the Maturity Date, the period commencing on the date of such Borrowing and ending on the seventh or fourteenth day thereafter, as the Borrower may elect; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Intergroup Transfer" shall have the meaning assigned it in Section 5.11(b)(iii).

"LIBO Rate" shall mean, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the rate at which dollar deposits approximately equal in principal amount to the Administrative Agent's portion of such Eurodollar Borrowing and for a maturity comparable to such Interest Period are offered to the principal London offices of Chase or one of its Affiliates in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" shall mean, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"Loan" shall have the meaning assigned it in Section 2.01. Each Loan shall be a Eurodollar Loan or an ABR Loan.

"Material" shall mean material in relation to the business, operations, affairs, financial condition, assets, or properties of the Borrower and its Subsidiaries taken as a whole.

"Material Adverse Effect" shall mean a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Borrower and its Restricted Subsidiaries taken as a whole, or (b) the ability of the Borrower to perform its obligations under this Agreement, or (c) the validity or enforceability of this Agreement.

"Maturity Date" shall mean August 2, 2004.

"Multiemployer Plan" shall mean any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"New Lending Office" shall have the meaning assigned it in Section 2.16(g).

"New Owner" shall have the meaning assigned it in Section 2.10(c).

"Non-U.S. Agent" shall have the meaning assigned it in Section 2.16(g).

"Non-U.S. Lender" shall have the meaning assigned it in Section 2.16(g).

"Norris Family" shall have the meaning assigned it in Section 2.10(c).

"Ordinary Course Transfer" shall have the meaning assigned it in Section 5.11.

"Other Taxes" shall have the meaning assigned it in Section 2.16(b).

"Prepayment Date" shall have the meaning assigned it in Section 2.10(c).

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Person" shall mean an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"Plan" shall mean an "employee benefit plan" (as defined in section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Borrower or any ERISA Affiliate or with respect to which the Borrower or any ERISA Affiliate may have any liability.

"Preferred Stock" shall mean any class of capital stock of a corporation that is preferred over any other class of capital stock of such corporation as to the payment of dividends or the payment of any amount upon liquidation or dissolution of such corporation.

"property" or "properties" shall mean, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"Property Disposition Date" shall have the meaning assigned to it in Section 5.11.

"Register" shall have the meaning given such term in Section 8.04 (d)

"Required Lenders" shall mean, at any time, Lenders having Commitments representing at least 66 2/3% of the Total Commitment or, for purposes of acceleration pursuant to clause (ii) of Article 6, Lenders holding Loans representing at least 66 2/3% of the aggregate principal amount of the Loans outstanding.

"Responsible Officer" shall mean any Senior Financial Officer and any other officer of the Borrower with responsibility for the administration of the relevant portion of this Agreement.

"Restricted Indebtedness" shall mean Indebtedness of a Restricted Subsidiary owing to any Person other than the Borrower or a Wholly-Owned Subsidiary.

"Restricted Payment" shall mean any Distribution in respect of the Borrower or any Restricted Subsidiary (other than on account of capital stock or other equity interests of a Restricted Subsidiary owned legally and beneficially by the Borrower or another Restricted Subsidiary), including, without limitation, any Distribution resulting in the acquisition by the Borrower of Securities which would constitute treasury stock. For purposes of this Agreement, the amount of any Restricted Payment made in property shall be the greater of (x) the Fair Market Value of such property (as determined in good faith by the board of directors (or equivalent governing body) of the Person making such Restricted Payment) and (y) the net book value thereof on the books of such Person, in each case determined as of the date on which such Restricted Payment is made.

"Restricted Subsidiary" shall mean any Subsidiary of the Borrower which is (a) listed as a Restricted Subsidiary in Schedule 3.05 or (b) organized under the laws of, and conducts substantially all of its business and maintains substantially all of its property and assets within, the United States or any state thereof (including the District of Columbia).

"Securities Act" shall mean the Securities Act of 1933, as amended from time to time.

"Security" shall have the meaning set forth in Section 2(1) of the Securities Act.

"Senior Financial Officer" shall mean the chief financial officer, principal accounting officer, treasurer or controller of the Borrower; provided that any executive vice president, the treasurer or the corporate controller of Borrower is authorized by Borrower to execute and deliver any Borrowing Request.

"Senior Note Purchase Agreements" shall mean those certain Note Purchase Agreements dated April 3, 1998 pursuant to which Borrower issued its 6.56% Senior Notes due April 3, 2005 and its 6.75% Senior Notes due April 3, 2008.

"Subsidiary" shall mean, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Borrower.

"Swaps" shall mean, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"Taxes" shall have the meaning assigned it in Section 2.16(a).

"Total Commitment" shall mean, at any time, the aggregate amount of Commitments of all the Lenders, as in effect at such time.

"Transactions" shall have the meaning assigned it in Section 3.02.

"Transfer" shall mean, with respect to any Person, any transaction in which such Person sells, conveys, transfers or leases (as lessor) any of its property, including capital stock of, or a Security issued by, a Subsidiary.

"Transferee" shall have the meaning assigned to it in Section 2.16(a).

"Type", when used in respect of any Loan or Borrowing, shall refer to the Rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined. For purposes hereof, "Rate" shall include the LIBO Rate and the Alternate Base Rate.

"Unrestricted Subsidiary" shall mean any Subsidiary other than a Restricted Subsidiary.

"Voting Rights" shall have the meaning assigned it in Section 2.10.

"Wholly-Owned Restricted Subsidiary" or "Wholly-Owned Subsidiary" means, at any time, any Restricted Subsidiary or Subsidiary, respectively, one hundred percent (100%) of all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Borrower and the Borrower's other Wholly-Owned Restricted Subsidiaries or Wholly-Owned Subsidiaries, respectively, at such time.

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time.

ARTICLE 2. THE CREDITS

SECTION 2.01. Commitments.

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

SECTION 2.02. Loans.

(a) Each Loan shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with the percentage of their respective Commitments to the Total

Commitment; provided, however, that the failure of any Lender to make any Loan shall not in itself relieve any other Lender of its obligation to lend hereunder (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to make any Loan required to be made by such other Lender). The Loans comprising any Borrowing shall be in an aggregate principal amount which is an integral multiple of $1,000,000 and not less than $5,000,000 (or an aggregate principal amount equal to the remaining balance of the Commitments).

(b) Each Borrowing shall be comprised entirely of Eurodollar Loans or ABR Loans, as the Borrower may request pursuant to Section 2.03. Each Lender may at its option make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement. Borrowings of more than one Type may be outstanding at the same time.

(c) Subject to paragraph (d) below, each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds to the Administrative Agent in New York, New York, not later than 11:00 a.m., New York, New York time, and the Administrative Agent shall by 2:00 p.m., New York, New York time, credit the amounts so received to the account or accounts specified from time to time in one or more notices delivered by the Borrower to the Administrative Agent or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Lenders. Loans shall be made by the Lenders pro rata in accordance with Section 2.13. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's portion of such Borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the date of such Borrowing in accordance with this paragraph (c) and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have made such portion available to the Administrative Agent, such Lender and the Borrower (without waiving any claim against such Lender for such Lender's failure to make such portion available) severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) in the case of the Borrower, the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Effective Rate. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount shall constitute such Lender's Loan as part of such Borrowing for purposes of this Agreement.

(d) Borrower may Convert all or any part of any Borrowing to a Borrowing of a different Type and Borrower may Continue all or any part of any Eurodollar Borrowing as a Borrowing of the same Type, by giving the Administrative Agent written notice on the Business Day of the Conversion into an ABR Borrowing and on the Business Day at least three Business Days before

Conversion into or Continuation of a Eurodollar Borrowing specifying: (i) the Conversion or Continuation date, (ii) the amount of the Borrowing to be Converted or Continued, (iii) in the case of Conversions, the Type of Borrowing to be Converted into, and (iv) in the case of a Continuation of or Conversion into a Eurodollar Borrowing, the duration of the Interest Period applicable thereto; provided that (a) Eurodollar Borrowings may only be Converted on the last day of the Interest Period; (b) except for Conversions to ABR Borrowings, no Conversions shall be made while an Event of Default has occurred and is continuing; (c) only ten (10) Eurodollar Borrowings may be in existence at any one time; and (d) no Interest Period may end after the Maturity Date. All notices given under this Section shall be irrevocable and shall be given not later than 11:00 a.m. New York, New York time on the Business Day which is not less than the number of Business Days specified above for such notice. If the Borrower shall fail to give the Agent the notice as specified above for Continuation or Conversion of a Eurodollar Borrowing prior to the end of the Interest Period with respect thereto, such Eurodollar Borrowing shall automatically be continued as a Eurodollar Borrowing with an Interest Period of one month's duration unless any Event of Default exists in which case such Eurodollar Borrowing shall be automatically converted to an ABR Borrowing. The Agent shall promptly advise the Lenders of any notice given pursuant to this Section 2.02.

SECTION 2.03. Borrowing Procedure. In order to request a Borrowing, the Borrower shall hand deliver or telecopy to the Administrative Agent a duly completed Borrowing Request (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York, New York time, three Business Days before such Borrowing, and (b) in the case of an ABR Borrowing, not later than 11:00 a.m., New York, New York time, on the day of such Borrowing. Such notice shall be irrevocable and shall in each case specify (i) whether the Borrowing then being requested is to be a Eurodollar Borrowing or an ABR Borrowing; (ii) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (iii) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto, which shall not end after the Maturity Date. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Notwithstanding any other provision of this Agreement to the contrary, no Borrowing shall be requested if the Interest Period with respect thereto would end after the Maturity Date. The Administrative Agent shall promptly advise the Lenders of any notice given pursuant to this Section 2.03 and of each Lender's portion of the requested Borrowing.

SECTION 2.04. Fees.

(a) The Borrower agrees to pay to each Lender, through the Administrative Agent, on each March 31, June 30, September 30 and December 31 (with the first payment being due on September 30, 1999) and on each date on which the Commitment of such Lender shall be terminated as provided herein, a commitment fee (a "Commitment Fee"), at a rate per annum equal to the Commitment Fee Percentage from time to time in effect on the amount of the daily average of the unused Commitment of such Lender, during the preceding quarter (or other period commencing on the Effective Date or ending with the Maturity Date or any date on which the Commitment of such Lender shall be terminated). All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 365 or 366 days, as the case may be. The Commitment Fee due to each Lender shall commence to accrue on the Effective Date, and shall cease to accrue on the earlier of the Maturity Date or the termination of the Commitment of such Lender as provided herein.

(b) The Borrower agrees to pay the Agents the fees provided for in the Fee Letters on the dates required thereby (the "Administrative Fees").

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

SECTION 2.05. Repayment of Loans; Evidence of Indebtedness.

(a) The outstanding principal balance of each Loan shall be due and payable on the Maturity Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time under this Agreement.

(c) The Administrative Agent shall maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type of each Loan made and the Interest Period applicable thereto, if any, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder in respect of Loans and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraphs (b) and (c) of this Section 2.05 shall, to the extent permitted by applicable law, be prima facie evidence of the existence and amounts of the obligations therein recorded; provided, however, that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein or an inconsistency between such accounts of a Lender and the accounts of the Administrative Agent shall not in any manner affect the obligations of the Borrower to repay the Loans in accordance with their terms.

SECTION 2.06. Interest on Loans; Margin and Fees.

(a) Subject to the provisions of Section 2.07, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Margin from time to time in effect.

(b) Subject to the provisions of Section 2.07, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, for periods during which the Alternate Base Rate is determined by reference to the Prime Rate and 360 days for other periods and including for all calculations the first day of any period but excluding the last) at a rate per annum equal to the Alternate Base Rate.

(c) Interest on each Loan shall be payable on each Interest Payment Date applicable to such Loan except as otherwise provided in this Agreement. The applicable LIBO Rate or Alternate Base Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error; provided that the Administrative Agent shall, upon request, provide to the Borrower a certificate setting forth in reasonable detail the basis for such determination.

(d) The Applicable Margin identified in this Section 2.06 and the Commitment Fee Percentage identified in Section 2.04 shall be defined and determined as follows:

"Applicable Margin" shall mean (i) during the period commencing on the Effective Date and ending on but not including the first Adjustment Date (as defined below), 0.75% per annum and (ii) during each period from and including one Adjustment Date to but excluding the next Adjustment Date (herein a "Calculation Period"), the percent per annum set forth in the table below under the heading "Margin" opposite the Debt to Adjusted EBITDA Ratio which corresponds to the Debt to Adjusted EBITDA Ratio set forth in, and as calculated in accordance with, the applicable Compliance Certificate.

"Commitment Fee Percentage" shall mean (1) during the period commencing on the Effective Date and ending on but not including the first Adjustment Date, 0.20% per annum and (2) during each Calculation Period, the percent per annum set forth in the table below under the heading "Commitment Fee Percentage" opposite the Debt to Adjusted EBITDA Ratio which corresponds to the Debt to Adjusted EBITDA Ratio set forth in, and as calculated in accordance with, the applicable Compliance Certificate.

Debt to Adjusted EBITDA Ratio	Margin	Commitment Fee Percentage
Greater than 2.50 to 1.00	1.125%	0.300%
Greater than 2.0 to 1.0 but less than or equal to 2.5 to 1.0	0.875%	0.250%
Greater than 1.5 to 1.0 but less than or equal to 2.0 to 1.0	0.750%	0.200%
Greater than 1.0 to 1.0 but less than or equal to 1.5 to 1.0	0.625%	0.1875%
Less than or equal to 1.00 to 1.00	0.500%	0.150%

Upon delivery of the Compliance Certificate pursuant to Section 5.20(g) in connection with the financial statements of the Borrower and its Subsidiaries required to be delivered pursuant to Sections 5.20(a) and (b), commencing with such Compliance Certificate delivered with respect to the fiscal quarter ending on June 30, 1999, the Applicable Margin (for Interest Periods commencing after the applicable Adjustment Date) and the Commitment Fee Percentage shall automatically be adjusted in accordance with the Debt to Adjusted EBITDA Ratio set forth therein and the table set forth above, such automatic adjustment to take effect as of the first Business Day after the receipt by the Agent of the related Compliance Certificate pursuant to Section 5.20(g) (each such Business Day when such margin or fees change pursuant to this sentence or the next following sentence, herein an "Adjustment Date"). If the Borrower fails to deliver such Compliance Certificate which so sets forth the Debt to Adjusted EBITDA Ratio within the period of time required by Section 5.20(g): (i) the Applicable Margin (for Interest Periods commencing after the applicable Adjustment Date) shall automatically be adjusted to 1.125.% per annum; and (ii) the Commitment Fee Percentage shall automatically be adjusted to 0.300% per annum, such automatic adjustments to take effect as of the first Business Day after the last day on which the Borrower was required to deliver the applicable Compliance Certificate in accordance with Section 5.20(g) and to remain in effect until subsequently adjusted in accordance herewith upon the delivery of a Compliance Certificate.

SECTION 2.07. Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, whether by scheduled maturity, notice of prepayment, acceleration or otherwise, the Borrower shall on demand from time to time from the Administrative Agent pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum (computed as provided in Section 2.06(b)) equal to the Alternate Base Rate plus 2%.

SECTION 2.08. Alternate Rate of Interest. In the event, and on each occasion, that prior to the commencement of any Interest Period for a Eurodollar Borrowing the Administrative Agent shall have determined (i) that dollar deposits in the principal amounts of the Eurodollar Loans comprising such Borrowing are not generally available in the London interbank market or (ii) that reasonable means do not exist for ascertaining the LIBO Rate, the Administrative Agent shall, as soon as practicable thereafter, give telecopy notice of such determination to the Borrower and the Lenders. In the event of any such determination under clauses (i) or (ii) above, until the Administrative Agent shall have advised the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, any request by the Borrower for a Eurodollar Borrowing pursuant to Section 2.03 shall be deemed to be a request for an ABR Borrowing. In the event the

Required Lenders notify the Administrative Agent that the rates at which dollar deposits are being offered will not adequately and fairly reflect the cost to such Lenders of making or maintaining Eurodollar Loans during such Interest Period, the Administrative Agent shall notify the Borrower of such notice and until the Required Lenders shall have advised the Administrative Agent that the circumstances giving rise to such notice no longer exist, any request by the Borrower for a Eurodollar Borrowing shall be deemed a request for an ABR Borrowing. Each determination by the Administrative Agent hereunder shall be made in good faith and shall be conclusive absent manifest error; provided that the Administrative Agent, shall, upon request, provide to the Borrower a certificate setting forth in reasonable detail the basis for such determination.

SECTION 2.09. Termination and Reduction of Commitments.

(a) The Commitments shall be automatically terminated on the Maturity Date. A Commitment of a Lender may also terminate as provided in Section 2.10(c).

(b) Upon at least three Business Days' prior irrevocable written notice to the Administrative Agent, the Borrower may, at any time, in whole permanently terminate, or, from time to time, in part permanently reduce, the Total Commitment; provided, however, that (i) each partial reduction of the Total Commitment shall be in an integral multiple of $5,000,000 and in a minimum principal amount of $5,000,000 and (ii) no such termination or reduction shall be made which would reduce the Total Commitment to an amount less than $50,000,000, unless the result of such termination or reduction is to reduce the Total Commitment to $0. The Administrative Agent shall advise the Lenders of any notice given pursuant to this Section 2.09(b) and of each Lender's portion of any such termination or reduction of the Total Commitment.

(c) Each reduction in the Total Commitment hereunder shall be made ratably among the Lenders in accordance with their respective Commitments. The Borrower shall pay to the Administrative Agent for the account of the Lenders, on the date of each termination or reduction of the Total Commitment, the Commitment Fees on the amount of the Commitments so terminated or reduced accrued through the date of such termination or reduction.

SECTION 2.10. Prepayment Including Prepayment as a Result of a Change of Control.

(a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon giving telecopy notice (or telephone notice promptly confirmed by telecopy) to the Administrative Agent: (i) before 11:00 a.m., New York, New York time, three Business Days prior to prepayment, in the case of Eurodollar Loans which prepayment shall be accompanied by any amount owed under Section 8.05(b), and (ii) before 11:00 a.m., New York, New York time, one Business Day prior to prepayment, in the case of ABR Loans; provided, however, that each partial prepayment shall be in an amount which is an integral multiple of $1,000,000 and not less than $3,000,000.

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

(c) At least 15 Business Days (or, in the case of any transaction permitted by Section 5.10 resulting in a Change of Control, at least 45 days) and not more than 90 days prior to the occurrence of any Change of Control, the Borrower will give written notice thereof to each Lender. Such notice shall contain (i) an offer by the Borrower to prepay, on the date of such Change of Control or, if such notice shall be delivered less than 35 days prior to the date of such Change of Control, on the date 35 days after the date of such notice (the "Prepayment Date"), all Loans made by each Lender, together with interest accrued thereon to the Prepayment Date and all other obligations owed to such Lender under the terms hereof, (ii) the estimated amount of accrued interest, showing in reasonable detail the calculation thereof and (iii) the Borrower's estimate of the date on which such Change of Control shall occur. Said offer shall be deemed to lapse as to any such Lender which has not replied affirmatively thereto in writing within 35 days of the giving of such notice. As soon as practicable (and in any event at least 24 hours) prior to such Change of Control, the Borrower shall give written confirmation of the date thereof to each such Lender that has affirmatively replied to the notice given pursuant to the first sentence of this Section 2.10(c). Borrower shall, on the Prepayment Date, prepay to each Lender that has affirmatively replied to the notice given pursuant to the first sentence of this Section 2.10(c) all Loans then held by such Lender together with accrued interest thereon and all other obligations owed to such Lender under the terms hereof. Upon such payment, the Commitment of each Lender that shall have received such prepayment shall terminate and the Total Commitment shall be reduced accordingly.

For the purposes of this Section 2.10(c), a "Change of Control" shall be deemed to occur if any New Owner shall acquire beneficial ownership of shares in the Borrower having Voting Rights pertaining thereto which would allow such New Owner to elect more members of the Board of Directors than could be elected by the exercise of all Voting Rights pertaining to shares in the Borrower then owned beneficially by the Norris Family. As used in this Section 2.10(c):

(i) "Voting Rights" pertaining to shares of a corporation means the rights to cast votes for the election of directors of such corporation in ordinary circumstances (without consideration of voting rights which exist only in the event of contingencies).

(ii) "Norris Family" means all persons who are lineal descendants of D.W. Norris (by birth or adoption), all spouses of such descendants, all estates of such descendants or spouses which are in the course of administration, all trusts for the benefit of such descendants or spouses, and all corporations or other entities in which, directly or indirectly, such descendants or spouses (either alone or in conjunction with other such descendants or spouses) have the right, whether by ownership of stock or other equity interests or otherwise, to direct the management and policies of such corporations or other entities (each such person, spouse, estate, trust, corporation or entity being referred to herein as a "member" of the Norris Family). In addition, so long as any employee stock ownership plan exercises its Voting Rights in the same manner as members of the Norris Family (exclusive of employee stock ownership plans) who have a majority of the Voting Rights exercised by all such members of the Norris Family, such employee stock ownership plan shall be deemed a member of the Norris Family.

(iii) "New Owner" means any Person (other than a member of the Norris Family), or any syndicate or group of Persons (exclusive of all members of the Norris Family) which would be deemed a "person" for the purposes of Section 13(d) of the Exchange Act, who directly or indirectly acquires shares in the Borrower.

(d) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing (or portion thereof) by the amount stated therein on the date stated therein. All prepayments under this Section 2.10 shall be subject to Section 8.05 but otherwise without premium or penalty. All prepayments under this Section 2.10 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

SECTION 2.11. Reserve Requirements; Change in Circumstances.

(a) Notwithstanding any other provision herein, if after the date of this Agreement any change in applicable law or regulation or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof (whether or not having the force of law) shall change the basis of taxation of payments to any Lender hereunder (except for changes in respect of taxes on the overall net income of such Lender or its lending office imposed by the jurisdiction in which such Lender's principal executive office or lending office is located), or shall result in the imposition, modification or applicability of any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by any Lender, or shall result in the imposition on any Lender or the London interbank market of any other condition affecting this Agreement, such Lender's Commitment or any Eurodollar Loan made by such Lender, and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or otherwise) by an amount deemed by such Lender to be material, then the Borrower shall, upon receipt of the notice and certificate provided for in Section 2.11(c), promptly pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

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

(c) A certificate of each affected Lender setting forth such amount or amounts as shall be necessary to compensate such Lender or its holding company as specified in paragraph (a) or (b) above, as the case may be, and containing an explanation in reasonable detail of the manner in which such amount or amounts shall have been determined, shall be delivered to the Borrower, and shall be conclusive absent manifest error. The Borrower shall pay each Lender the amount shown as due on any such certificate delivered by it within 10 days after its receipt of the same. Each Lender shall give prompt notice to the Borrower of any event of which it has knowledge, occurring after the date hereof, that it has determined will require compensation by the Borrower pursuant to this Section; provided, however, that failure by such Lender to give such notice shall not constitute a waiver of such Lender's right to demand compensation hereunder.

(d) Failure on the part of any Lender to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital of the type described in paragraph (a) or (b) of this Section 2.11 with respect to any period shall not constitute a waiver of such Lender's right to demand compensation with respect to such period or any other period; provided, however, that no Lender shall be entitled to compensation under this Section 2.11 for any costs incurred or reductions suffered with respect to any date unless it shall have notified the Borrower that it will demand compensation for such costs or reductions under paragraph (c) above not more than 90 days after the later of (i) such date and (ii) the date on which it shall have become aware of such costs or reductions. The protection of this Section shall be available to each Lender regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition which shall have occurred or been imposed.

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

SECTION 2.12. Change in Legality.

(a) Notwithstanding any other provision herein, if any change in any law or regulation or in the interpretation thereof by any Governmental Authority charged with the administration or interpretation thereof shall make it unlawful for any Lender to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrower and to the Administrative Agent, such Lender may:

(i) declare that Eurodollar Loans will not thereafter be made by such Lender hereunder, whereupon any request for a Eurodollar Borrowing shall, as to such Lender only, be deemed a request for an ABR Loan unless such declaration shall be subsequently withdrawn (any Lender delivering such a declaration hereby agreeing to withdraw such declaration promptly upon determining that such event of illegality no longer exists); and

(ii) require that all outstanding Eurodollar Loans made by it be converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below.

In the event any Lender shall exercise its rights under (i) or (ii) above, all payments and prepayments of principal which would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Lender or the Converted Eurodollar Loans of such Lender shall instead be applied to repay the ABR Loans made by such Lender in lieu of, or resulting from the Conversion of, such Eurodollar Loans.

(b) For purposes of this Section 2.12, a notice by any Lender shall be effective as to each Eurodollar Loan, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan; in all other cases such notice shall be effective on the date of receipt.

SECTION 2.13. Pro Rata Treatment. Except as required under Sections 2.12 and 2.17, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees, each Conversion or Continuation of any Loans, and each reduction of the Total Commitment, shall be allocated pro rata among the Lenders in accordance with their respective Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Loans).

SECTION 2.14. Sharing of Setoffs. Each Lender agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of any Loan or Loans as a result of which the unpaid principal portion of its Loans shall be proportionately less than the unpaid principal portion of the Loans of any other

Lender, it shall be deemed simultaneously to have purchased from such other Lender at face value, and shall promptly pay to such other Lender the purchase price for, a participation in the Loans of such other Lender, so that the aggregate unpaid principal amount of the Loans and participations in the Loans held by each Lender shall be in the same proportion to the aggregate unpaid principal amount of all Loans then outstanding as the principal amount of its Loans prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Loans outstanding prior to such exercise of banker's lien, setoff or counterclaim or other event; provided, however, that, if any such purchase or purchases or adjustments shall be made pursuant to this Section 2.14 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that any Lender holding a participation in a Loan deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Lender by reason thereof as fully as if such Lender had made a Loan in the amount of such participation.

SECTION 2.15. Payments.

(a) The Borrower shall make each payment (including principal of or interest on any Borrowing or any Fees or other amounts, hereunder from an account in the United States not later than 12:00 noon, New York, New York time, on the date when due in dollars to the Administrative Agent at its offices at 1 Chase Manhattan Plaza, 8th Floor, New York, New York 10081, in immediately available funds.

(b) Whenever any payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

SECTION 2.16. Taxes.

(a) Any and all payments of principal and interest on any Borrowings, or of any Fees or indemnity or expense reimbursements by the Borrower hereunder ("Borrower Payments") shall be made, in accordance with Section 2.15, free and clear of and without deduction for any and all current or future federal, state, local and other governmental taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect to the Borrower Payments, but only to the extent reasonably attributable to the Borrower Payments, excluding (i) income taxes imposed on the net income of either Agent or any Lender (or any transferee or assignee thereof, including a participation holder (any such entity a "Transferee")) and (ii) franchise taxes imposed on the net income of either Agent or any Lender (or Transferee), in each case by the jurisdiction under the laws of which such Agent or such Lender (or Transferee) is organized or doing business through offices or branches located therein, or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities, collectively or individually, "Taxes"). If the Borrower shall be required to deduct any Taxes from or in respect of any sum payable hereunder to any Lender (or any Transferee) or the respective Agent, (i) the sum payable shall be increased by the amount (an "additional amount") necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.16) such Lender (or Transferee) or Agent (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay to the relevant Governmental Authority in accordance with applicable law any current or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or the Fee Letters ("Other Taxes").

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

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

Transferee) or such Agent, agrees to repay the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender (or Transferee) or such Agent in the event such Lender (or Transferee) or such Agent is required to repay such refund to such Governmental Authority.

(e) As soon as practicable, but in any event within 30 days, after the date of any payment of Taxes or Other Taxes by the Borrower to the relevant Governmental Authority, the Borrower will deliver to the Administrative Agent, at its address referred to in Section 8.01, the original or a certified copy of a receipt issued by such Governmental Authority evidencing payment thereof.

(f) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.16 shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(g) Each Lender or Agent (or Transferee) that is organized under the laws of a jurisdiction other than the United States, any State thereof or the District of Columbia (a "Non-U.S. Lender" or "Non U.S. Agent", as applicable) shall deliver to the Borrower and the Administrative Agent two copies of either United States Internal Revenue Service Form 1001 or Form 4224, properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from, or reduced rate of, United States Federal withholding tax on payments by the Borrower under this Agreement. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement (or, in the case of a Transferee that is a participation holder, on or before the date such participation holder becomes a Transferee hereunder) and on or before the date, if any, such Non-U.S. Lender changes its applicable lending office by designating a different lending office (a "New Lending Office"). In addition, each Non-U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Lender. Notwithstanding any other provision of this Section 2.16(g), a Non-U.S. Lender shall not be required to deliver any form pursuant to this Section 2.16(g) that such Non-U.S. Lender is not legally able to deliver.

(h) The Borrower shall not be required to indemnify any Non-U.S. Lender or Non-U.S. Agent (including any Transferee), or to pay any additional amounts to any Non-U.S. Lender or Non-U.S. Agent (including any Transferee), in respect of federal, state, local or other governmental withholding tax pursuant to paragraph (a) or (c) above to the extent that (i) the obligation to withhold amounts with respect to federal, state, local or other governmental withholding tax existed on the date such Non-U.S. Lender became a party to this Agreement (or, in the case of a Transferee that is a participation holder, on the date such participation holder became a Transferee hereunder) or, with respect to payments to a New Lending Office, the date such Non-U.S. Lender designated such New Lending Office with respect to a Loan; provided, however, that this clause (i) shall not apply to any Transferee or New Lending Office that becomes a Transferee or New Lending Office as a result of an assignment, participation, transfer or designation made at the request of the Borrower; and provided further, however, that this clause (i) shall not apply to the extent the indemnity payment or additional amounts any Transferee, or Lender (or Transferee) through a New Lending Office, would be entitled to receive (without regard to this clause (h)) do not exceed the indemnity payment or additional amounts that the Person making the assignment, participation or transfer to such Transferee, or Lender (or Transferee) making the designation of such New Lending Office, would have been entitled to receive in the absence of such assignment, participation, transfer or designation or (ii) the obligation to pay such additional amounts or such indemnity payments would not have arisen but for a failure by such Non-U.S. Lender (including any Transferee) to comply with the provisions of paragraph (g) above and (i) below.

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

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

SECTION 2.17. Assignment of Commitments Under Certain Circumstances. In the event that any Lender shall have delivered a notice or certificate pursuant to Section 2.11 or 2.12, or the Borrower shall be required to make additional payments to any Lender under Section 2.16, the Borrower shall have the right, at its own expense, upon notice to such Lender and the Agents, to require such Lender to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 8.04) all such Lender's interests, rights and obligations contained hereunder to another financial institution approved by the Administrative Agent and the Borrower (which approval shall not be unreasonably withheld) which shall assume such obligations; provided that (i) no such assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the assignee or the Borrower, as the case may be, shall pay to the affected Lender in immediately available funds on the date of such assignment the principal of and interest accrued to the date of payment on the Loan made by it hereunder and all other amounts accrued for its account or owed to it hereunder.

SECTION 2.18. Payments by Administrative Agent to the Lenders. Any payment received by the Administrative Agent hereunder for the account of a Lender shall be paid to such Lender by 4:00 p.m. New York, New York time on (a) the Business Day the payment is received in immediately available funds, if such payment is received by 11:00 a.m. New York, New York time and (b) if such payment is received after 11:00 a.m. New York, New York time, on the next Business Day.

ARTICLE 3. REPRESENTATIONS AND WARRANTIES

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

SECTION 3.01. Organization; Powers. Borrower (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has all requisite power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted, (c) is qualified to do business in every jurisdiction where such qualification is required, except where the failure so to qualify would not result in a Material Adverse Effect, and (d) has the corporate power and authority to execute, deliver and perform its obligations under this Agreement and to borrow hereunder.

SECTION 3.02. Authorization. The execution, delivery and performance by the Borrower of this Agreement and the Borrowings hereunder (collectively, the "Transactions") (a) have been duly authorized by all requisite corporate action and (b) will not (i) violate (A) any provision of any law, statute, rule or regulation to which the Borrower is subject or of the certificate of incorporation or other constituent documents or by-laws of the Borrower or any of its Subsidiaries, (B) any order of any Applicable Governmental Authority or (C), after giving effect to the consents required by Section 4.02 (g), any provision of any Material indenture, agreement or other instrument to which the Borrower or any of its Subsidiaries is a party or by which it or any of its property is or may be bound (including the Senior Note Purchase Agreements and the Indebtedness limitations set forth in Sections 10.4 and 10.9 thereof), (ii) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under any such indenture, agreement or other instrument or (iii) result in the creation or imposition of any Lien upon any property or assets of the Borrower.

SECTION 3.03. Enforceability. This Agreement constitutes a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 3.04. Governmental Approvals. No action, consent or approval of, registration or filing with or other action by any Applicable Governmental Authority is or will be required in connection with the Transactions, to the extent they relate to the Borrower.

SECTION 3.05. Organization and Ownership of Shares of Subsidiaries.

(a) Schedule 3.05 is (except as noted therein) a complete and correct list of the Borrower's Subsidiaries as of June 30, 1999, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Borrower and each other Subsidiary, and specifying whether such Subsidiary is designated a Restricted Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 3.05 as being owned by the Borrower and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Borrower or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 3.05).

(c) Each Subsidiary identified in Schedule 3.05 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

SECTION 3.06. Financial Statements. The Borrower has delivered to some or all of the Lenders copies of the financial statements of the Borrower and its Subsidiaries listed on Schedule 3.06. All of the financial statements listed on Schedule 3.06 (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Borrower and its Subsidiaries, and of the Borrower and its Restricted Subsidiaries, as of the respective dates specified in such Schedule and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments). Except as disclosed in the financial statements listed in Schedule 3.06 or the most recently delivered financial statements delivered in accordance with Section 5.20, since March 31, 1999, there has been no change in the financial condition, operations, business, properties or prospects of the Borrower or any of its Subsidiaries except changes that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Borrower that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the financial statements listed in Schedule 3.06.

SECTION 3.07. Litigation; Observance of Statutes and Orders.

(a) There are no actions, suits or proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any property of the Borrower or any Subsidiary in any court or before any arbitrator of any kind or before or by any Applicable Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Neither the Borrower nor any Subsidiary is in default under any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Applicable Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws) of any

Applicable Governmental Authority, which default or violation, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

SECTION 3.08. Taxes. The Borrower and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Borrower or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Federal income tax liabilities of the Borrower and its Subsidiaries have been determined by the Internal Revenue Service and paid for all fiscal years up to and including the fiscal year ended December 31, 1995.

SECTION 3.09. Title to Property; Leases. The Borrower and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in Section 3.06 or purported to have been acquired by the Borrower or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

SECTION 3.10. Licenses, Permits, etc. The Borrower and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

SECTION 3.11. Compliance with ERISA.

(a) The Borrower and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Borrower or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Borrower or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate accrued plan benefit liabilities under each of the Plans that are subject to Title IV of ERISA (other than Multiemployer Plans), determined in accordance with Financial Accounting Standards Board Statement No. 87 as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than $3,000,000 in the case of any single Plan and by more than $3,000,000 in the aggregate for all Plans.

(c) The Borrower and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Borrower's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Borrower and its Subsidiaries was approximately $17,955,591 as of December 31, 1998.

SECTION 3.12. Use of Proceeds; Termination of Existing Credit Agreements; Margin Regulation. The Borrower will apply the proceeds of the Loans to refinance existing indebtedness, make acquisitions, for capital expenditures and for working capital and other general corporate purposes. Without limiting the generality of the forgoing, the Borrower agrees to use the proceeds of the first Loans made hereunder and the net proceeds of its initial public offering consummated in 1999 to repay in full all obligations outstanding in connection with the following agreements (the "Existing Credit Agreements"):

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

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

The Borrower agrees that on the date that the first Loans are made hereunder all the commitments of the lenders under the Existing Credit Agreements are terminated and of no further force or effect. No part of the proceeds from the Loans will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Borrower in a violation of Regulation X of the Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of the Board (12 CFR 220). Margin stock does not constitute more than 5% of the value of the consolidated assets of the

Borrower and its Restricted Subsidiaries and the Borrower does not have any present intention that margin stock will constitute more than 5% of the value of such assets. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

SECTION 3.13. Existing Indebtedness. Except as described therein, Schedule 3.13 sets forth a complete and correct list of all outstanding Indebtedness of the Borrower and its Restricted Subsidiaries (other than Indebtedness of Restricted Subsidiaries to the Borrower or to Wholly-Owned Restricted Subsidiaries) as of June 30, 1999, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness of the Borrower or its Restricted Subsidiaries. Neither the Borrower nor any Restricted Subsidiary is in default, and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness of the Borrower or such Restricted Subsidiary, and no event or condition exists with respect to any Indebtedness of the Borrower or any Restricted Subsidiary the outstanding principal amount of which exceeds $3,000,000 in the aggregate that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment. To the knowledge of the Responsible Officers of the Borrower, no event or condition exists with respect to any Indebtedness of the Borrower or any Restricted Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

SECTION 3.14. Foreign Assets Control Regulations, etc. The use of the proceeds of the Loans will not violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

SECTION 3.15. Status under Certain Statutes. Neither the Borrower nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 1935, as amended, the Interstate Commerce Act, as amended, or the Federal Power Act, as amended.

SECTION 3.16. No Material Misstatements. No report, financial statement or other information furnished by or on behalf of the Borrower to the Agents or any Lender pursuant to or in connection with this Agreement contains or will contain any material misstatement of fact or omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were or will be made, not misleading.

SECTION 3.17. Year 2000 Matters. Any programming required to permit the proper functioning, in and following the year 2000, of the Borrower's and its Subsidiaries' Material (i) computer systems and (ii) equipment containing imbedded microchips (including systems and equipment supplied by others or with which the Borrower's or its Subsidiaries' systems interface) and the testing of all such systems and equipment, as so reprogrammed, is expected to be completed by October 31, 1999. The cost to the Borrower and its Subsidiaries of such reprogramming and testing and of the reasonably foreseeable consequences of year 2000 to the Borrower and its Subsidiaries (including, without limitation, reprogramming errors and the failure of others' systems or equipment) will not result in a Default or a Material Adverse Effect. Except for such of the reprogramming referred to in the preceding sentence as may be necessary, the computer and management information systems of the Borrower and its Subsidiaries are, and with ordinary course upgrading and maintenance, will continue for the term of this Agreement to be, sufficient to permit the Borrower and its Subsidiaries to conduct its business without Material Adverse Effect.

ARTICLE 4. CONDITIONS OF LENDING

SECTION 4.01. All Borrowings. The obligations of the Lenders to make Loans hereunder are subject to the satisfaction of the following conditions on the date of each Borrowing:

(a) The Administrative Agent shall have received a notice of such Borrowing as required by Section 2.03.

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

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

Each Borrowing shall be deemed to constitute a representation and warranty by the Borrower on the date of such Borrowing as to the matters specified in paragraphs (b) and (c) of this Section 4.01.

SECTION 4.02. Effective Date. The effectiveness of the obligations of the Lenders to make Loans hereunder are subject to following conditions being satisfied on or before August 15, 1999, and such obligations shall not be effective until the date that each such condition is satisfied (the "Effective Date"):

(a) The Administrative Agent shall have received a favorable written opinion from Anne W. Teeling, Assistant General Counsel to the Borrower, dated the Effective Date and addressed to the Lenders and satisfactory to Jenkens & Gilchrist, a Professional Corporation, counsel for the Administrative Agent, to the effect set forth in Exhibit C hereto (and the Borrower hereby instructs its counsel to deliver such opinion to the Administrative Agent for the benefit of the Lenders).

(b) The Administrative Agent shall have received (i) a copy of the certificate of incorporation, including all amendments thereto, of the Borrower, certified as of a recent date by the Secretary of State of its state of incorporation, and a certificate as to the good standing of the Borrower as of a recent date from such Secretary of State; (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of the Borrower as in effect on the Effective Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions, duly adopted by the Board of Directors authorizing the execution, delivery and performance of this Agreement and the Transactions, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate of incorporation referred to in clause (i) above has not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to such clause (i) and (D) as to the incumbency and specimen signature of each officer executing this Agreement or any other document delivered in connection herewith on behalf of the Borrower; (iii) a certificate of another officer of the Borrower as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Lenders or the Administrative Agent, shall reasonably request.

(c) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by a Senior Financial Officer of the Borrower confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

(d) The Agents shall have received all Fees and other amounts due and payable on or prior to the Effective Date.

(e) The Borrower shall have issued and sold its equity securities in an initial public offering, shall have received not less than $140,000,000 in net proceeds therefrom and shall have provided the Administrative Agent a copy of the final Registration Statement for such offering.

(f) The Administrative Agent shall have received a Compliance Certificate, duly completed and executed, dated as of the Effective Date.

(g) The Administrative Agent shall have received evidence that all Persons who have the benefit of the provisions similar or substantially similar to the terms of Section 5.06 hereof (including without limitation, the holders of the notes under the Senior Note Purchase Agreements) shall have consented to the terms of this Agreement and waived any default arising as a result of the execution and delivery of this Agreement and such provisions.

ARTICLE 5. AFFIRMATIVE AND NEGATIVE COVENANTS

The Borrower agrees that, so long as any Lender has any Commitment hereunder or any amount payable hereunder remains unpaid:

SECTION 5.01. Compliance with Laws. The Borrower will and will cause each of its Subsidiaries to comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations would not reasonably be expected, individually or in the aggregate, to have a material adverse effect on the business, operations, affairs, financial condition, properties or assets of the Borrower and its Restricted Subsidiaries taken as a whole.

SECTION 5.02. Insurance. The Borrower will and will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

SECTION 5.03. Maintenance of Properties and Lines of Business. The Borrower will and will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Borrower or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Borrower has concluded that such discontinuance would not, individually or in the aggregate, have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Borrower and its Restricted Subsidiaries taken as a whole. The Borrower will not and will not permit any of its Restricted Subsidiaries to engage in any line of business other than such lines of business in which it is presently engaged and those businesses reasonably related thereto.

SECTION 5.04. Payment of Taxes. The Borrower will and will cause each of its Subsidiaries to file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, provided that neither the Borrower nor any Subsidiary need pay any such tax or assessment if (i) the amount, applicability or validity thereof is contested by the Borrower or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Borrower or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Borrower or such Subsidiary or (ii) the nonpayment of all such taxes and assessments in the aggregate would not reasonably be expected to have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Borrower and its Restricted Subsidiaries taken as a whole.

SECTION 5.05. Corporate Existence, etc. The Borrower will at all times preserve and keep in full force and effect its corporate existence. Subject to Sections 5.10 and 5.11, the Borrower will at all times preserve and keep in full force and effect the corporate existence of each of its Restricted Subsidiaries (unless merged into the Borrower or a Restricted Subsidiary) and all rights and franchises of the Borrower and its Restricted Subsidiaries unless, in the good faith judgment of the Borrower, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a Material Adverse Effect on the business, operations, affairs, financial condition, properties or assets of the Borrower and its Restricted Subsidiaries taken as a whole.

SECTION 5.06. Most Favored Lender Status. The Borrower will not and will not permit any Restricted Subsidiary to enter into, assume or otherwise be bound or obligated under any agreement creating or evidencing Indebtedness or any agreement executed and delivered in connection with any Indebtedness containing one or more Additional Covenants or Additional Defaults (as defined below), unless prior written consent to such agreement shall have been obtained from the Required Lenders; provided, however, in the event the Borrower or any Restricted Subsidiary shall enter into, assume or otherwise become bound by or obligated under any such agreement without the prior written consent of the Required Lenders, the terms of this Agreement shall, without any further action on the part of the Borrower or any of the Lenders, be deemed to be amended automatically to include each Additional Covenant and each Additional Default contained in such agreement. The Borrower further covenants to promptly execute and deliver at its expense an amendment to this Agreement in form and substance satisfactory to the Required Lenders evidencing the amendment of this Agreement to include such Additional Covenants and Additional Defaults, provided that the execution and delivery of such amendment shall not be a precondition to the effectiveness of such amendment as provided for in this Section 5.06, but shall merely be for the convenience of the parties hereto.

For purposes of this Agreement, (i) the term "Additional Covenant" shall mean any affirmative or negative covenant or similar restriction applicable to the Borrower or any Restricted Subsidiary (regardless of whether such provision is labeled or otherwise characterized as a covenant) the subject matter of which either (A) is similar to that of the covenants in Article 5 of this Agreement, but contains one or more percentages, amounts or formulas that is more restrictive than those set forth herein or more beneficial to the holder or holders of such other Indebtedness (and such covenant or similar restriction shall be deemed an "Additional Covenant" only to the extent that it is more restrictive or more beneficial) or (B) is different from the subject matter of the covenants in Article 5 of this Agreement; and (ii) the term "Additional Default" shall mean any provision which permits the holder of such Indebtedness to accelerate (with the passage of time or giving of notice or both) the maturity thereof or otherwise require the Borrower or any Restricted Subsidiary to purchase such Indebtedness prior to the stated maturity of such Indebtedness and which either (A) is similar to the Defaults and Events of Default contained in

Article 6 of this Agreement, but contains one or more percentages, amounts or formulas that is more restrictive or has a shorter grace period than those set forth herein or is more beneficial to the holder or holders of such other Indebtedness (and such provision shall be deemed an "Additional Default" only to the extent that it is more restrictive, has a shorter grace period or is more beneficial) or (B) is different from the subject matter of the Defaults and Events of Default contained in Article 6 of this Agreement.

SECTION 5.07. Covenant to Secure Loans Equally. If the Borrower shall create, assume or permit to exist any Lien upon any of its property or assets, or permit any Restricted Subsidiary to create, assume or permit to exist any Lien upon any of its property or assets, whether now owned or hereafter acquired, other than those Liens permitted by the provisions of Section 5.13 the Borrower shall make or cause to be made effective provision whereby the Loans will be secured equally and ratably with any and all other obligations thereby secured, with the documentation for such security to be reasonably satisfactory to the Required Lenders and, in any such case, the Loans shall have the benefit, to the fullest extent that, and with such priority as, the holders thereof may be entitled under applicable law, of an equitable Lien on such property. Any violation of Section 5.13 will constitute an Event of Default, whether or not provision is made for an equal and ratable Lien pursuant to this Section 5.07.

SECTION 5.08. Environmental Matters.

(a) The Borrower will and will cause each of its Subsidiaries to comply in all material respects with all applicable Environmental Laws if, individually or in the aggregate, failure to comply therewith could reasonably be expected to have a material adverse effect on the financial condition or results of operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole.

(b) The Borrower will not and will not permit any of its Subsidiaries to cause or allow any Hazardous Substance to be present at any time on, in, under or above any real property or any part thereof in which the Borrower or any Subsidiary has a direct interest (including without limitation ownership thereof or any arrangement for the lease, rental or other use thereof, or the retention of any mortgage or security interest therein or thereon), except in a manner and to an extent that is in compliance in all material respects with all applicable Environmental Laws or that will not have a material adverse effect on the financial condition or results of operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole.

SECTION 5.09. Transactions with Affiliates. The Borrower will not permit any Restricted Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Borrower or another Restricted Subsidiary), except pursuant to the reasonable requirements of the Borrower's or such Restricted Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Restricted Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate.

SECTION 5.10. Merger, Consolidation, etc. The Borrower will not consolidate with or merge with any other corporation or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease substantially all of the assets of the Borrower as an entirety, as the case may be, shall be a solvent corporation organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Borrower is not such corporation, such corporation shall have executed and delivered to each Lender its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement, together with a favorable opinion of counsel satisfactory to each such Lender covering such matters relating to such corporation and such assumption as such Lender may reasonably request; and

(b) immediately after giving effect to such transaction, no Default or Event of Default would exist; and

(c) immediately prior to and after giving effect to such transaction, the Borrower or such successor, as the case may be, would be permitted by the provisions of Sections 5.12 and 5.17 to incur at least $1.00 of additional Indebtedness and $1.00 of additional Restricted Indebtedness, respectively.

No such conveyance, transfer or lease of substantially all of the assets of the Borrower shall have the effect of releasing the Borrower or any successor corporation that shall theretofore have become such in the manner prescribed in this Section 5.10 from its liability under this Agreement.

SECTION 5.11. Sale of Assets, etc. The Borrower will not, and will not permit any of its Restricted Subsidiaries to, make any Transfer, provided that the foregoing restriction does not apply to a Transfer if:

(a) the property that is the subject of such Transfer constitutes either (i) inventory held for sale, or (ii) equipment, fixtures, supplies or materials no longer required in the operation of the business of the Borrower or such Restricted Subsidiary or that is obsolete, and, in the case of any Transfer described in clause (i) or (ii), such Transfer is in the ordinary course of business (each such Transfer, an "Ordinary Course Transfer"); or

(b) such Transfer is from

(i) a Restricted Subsidiary to the Borrower or another Restricted Subsidiary, or

(ii) the Borrower to a Restricted Subsidiary, or

(iii) the Borrower to a Subsidiary (other than a Restricted Subsidiary) or from a Restricted Subsidiary to another Subsidiary (other than a Restricted Subsidiary) and in either case is for Fair Market Value, so long as immediately before and immediately after the consummation of such transaction, and after giving effect thereto, no Default or Event of Default exists or would exist (each such Transfer, an "Intergroup Transfer"); or

(c) such Transfer is not an Ordinary Course Transfer or an Intergroup Transfer (such Transfers which are not Ordinary Course Transfers or Intergroup Transfers collectively referred to as "Excluded Transfers"), and all of the following conditions shall have been satisfied with respect thereto (the date of the consummation of such Transfer being referred to herein as the "Property Disposition Date"):

(i) the book value of the assets included in such Transfer, together with the book value of the assets included in all other Transfers (other than Excluded Transfers) during the fiscal year which includes the Property Disposition Date, shall not exceed fifteen percent (15%) of Consolidated Assets as of the end of the most recent fiscal year;

(ii) the book value of the assets included in such Transfer, together with the book value of the assets included in all other Transfers (other than Excluded Transfers) from the Effective Date through the Property Disposition Date, shall not exceed thirty percent (30%) of Consolidated Assets as of the end of the most recent fiscal year; and

(iii) immediately after giving effect to such Transfer, no Default or Event of Default would exist and the Borrower would be permitted by the provisions of Sections 5.12 and 5.17 to incur at least $1.00 of additional Indebtedness and $1.00 of additional Restricted Indebtedness, respectively.

If, within twelve (12) months after the Property Disposition Date, the Borrower or a Restricted Subsidiary acquires assets similar to the assets included in the Transfer, then, only for the purpose of determining compliance with Sections 5.11(c)(i) and (ii), the lesser of the book value of the assets acquired or the book value of the assets included in the Transfer shall not be taken into account.

SECTION 5.12. Incurrence of Indebtedness. The Borrower will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, assume, guarantee, or otherwise become directly or indirectly liable with respect to any Indebtedness, unless on the date the Borrower or such Restricted Subsidiary becomes liable with respect to any such Indebtedness and immediately after giving effect thereto and to the substantially concurrent retirement of any other Indebtedness,

(a) no Default or Event of Default would exist, and

(b) Consolidated Indebtedness would not exceed sixty percent (60%) of Consolidated Capitalization.

For purposes of this Section 5.12 any Person becoming a Restricted Subsidiary after the date of this Agreement shall be deemed to have incurred all of its then outstanding Indebtedness at the time it becomes a Restricted Subsidiary.

SECTION 5.13. Liens. The Borrower will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly create, incur, assume or permit to exist (upon the happening of a contingency or otherwise) any Lien on or with respect to any property or asset (including, without limitation, any document or instrument in respect of goods or accounts receivable) of the Borrower or any such Restricted Subsidiary, whether now owned or held or hereafter acquired, or any income or profits therefrom, or assign or otherwise convey any right to receive income or profits, except:

(a) Liens for taxes, assessments or other governmental charges the payment of which is not at the time required by Section 5.04;

(b) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other similar Liens, in each case, incurred in the ordinary course of business for sums not yet due;

(c) Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business (i) in connection with workers' compensation, unemployment insurance and other types of social security or retirement benefits, or (ii) to secure (or to obtain letters of credit that secure) the performance of tenders, statutory obligations, surety bonds, appeal bonds, bids, leases (other than Capital Leases), performance bonds, purchase, construction or sales contracts and other similar obligations, in each case not incurred or made in connection with the borrowing of money, the obtaining of advances or credit or the payment of the deferred purchase price of property;

(d) any attachment or judgment Lien, unless the judgment or other obligation it secures (i) shall not, within ninety (90) days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged within ninety (90) days after the expiration of any such stay or (ii) exceeds, together with the amounts of all other obligations secured by attachment or judgment Liens at the time existing in respect of property of the Borrower and its Restricted Subsidiaries, $5,000,000;

(e) leases or subleases granted to others, easements, rights-of-way, restrictions and other similar charges or encumbrances, in each case incidental to, and not interfering with, the ordinary conduct of the business of the Borrower or any of its Restricted Subsidiaries, provided that such Liens do not, in the aggregate, materially detract from the value of such property;

(f) Liens on property or assets of the Borrower or any of its Restricted Subsidiaries securing Indebtedness or other obligations owing to the Borrower or to a Wholly Owned Restricted Subsidiary;

(g) Liens existing on the date of this Agreement on the building referred to in item C of Schedule 3.13 and securing the Indebtedness referred to in item C of Schedule 3.13;

(h) any Lien renewing, extending or refunding any Lien permitted by Subsection (g) above, provided that (i) the principal amount of Indebtedness secured by such Lien immediately prior to such extension, renewal or refunding is not increased or the maturity thereof reduced, (ii) such Lien is not extended to any other property, and (iii) immediately after such extension, renewal or refunding no Default or Event of Default would exist and the Borrower would be permitted by the provisions of Sections 5.12 and 5.17 to incur at least $1.00 of additional Indebtedness and $1.00 of additional Restricted Indebtedness, respectively; and

(i) other Liens not otherwise permitted by Subsections (a) through (h) above, provided that (i) the fair market value of the assets subject to such other Liens shall not exceed 15% of Consolidated Net Worth and (ii) immediately after giving effect to the creation thereof, the Borrower would be permitted by the provisions of Sections 5.12 and 5.17 to incur at least $1.00 of additional Indebtedness and $1.00 of additional Restricted Indebtedness, respectively.

For purposes of this Section 5.13, any Person becoming a Restricted Subsidiary after the date of this Agreement shall be deemed to have incurred all of its then outstanding Liens at the time it becomes a Restricted Subsidiary, and any Person extending, renewing or refunding any Indebtedness secured by any Lien shall be deemed to have incurred such Lien at the time of such extension, renewal or refunding.

SECTION 5.14. Restricted Payments. The Borrower will not, and will not permit any of its Restricted Subsidiaries to, declare or make, or incur any liability to declare or make, any Restricted Payment, unless immediately after giving effect to such action:

(a) no Default or Event of Default would exist; and

(b) the Borrower would be permitted by the provisions of Sections 5.12 and 5.17 to incur at least $1.00 of additional Indebtedness and $1.00 of additional Restricted Indebtedness, respectively.

SECTION 5.15. Financial Covenants. The Borrower covenants and agrees that, as long as any obligation hereunder is outstanding or any Bank has any Commitment hereunder, the Borrower will perform and observe the following financial covenants:

(a) Coverage Ratio. As of the end of each fiscal quarter, the Borrower shall not permit the ratio of Cash Flow for the four (4) fiscal quarters then ending to Interest Expenses for such period to be less than 3.00 to 1.00. As used herein the following terms have the following meanings:

"Cash Flow" means, for any period, the total of the following for the Borrower and the Restricted Subsidiaries calculated on a consolidated basis without duplication for such period in accordance with GAAP: (A) EBITDA; minus (B) capital expenditures.

"Interest Expenses" means, for any period, the total interest expenses (including the interest portion of Capital Leases) for the Borrower and the Restricted Subsidiaries calculated on a consolidated basis without duplication in accordance with GAAP.

(b) Consolidated Indebtedness to Adjusted EBITDA. As of the last day of each fiscal quarter, the Borrower shall not permit the ratio of Consolidated Indebtedness outstanding as of such day to the Adjusted EBITDA for the four (4) fiscal quarters then ended to exceed 3.00 to 1.00.

(c) Consolidated Net Worth. The Borrower will not permit Consolidated Net Worth as at the last day of any fiscal quarter of the Borrower to be less than the sum of (a) $261,000,000, plus (b) 15% of its aggregate Consolidated Net Income (but only if a positive number) for the period beginning April 1, 1998 and ending at the end of each fiscal quarter thereafter.

SECTION 5.16. Limitation on Dividend Restrictions, etc. The Borrower will not permit any Restricted Subsidiary to enter into, adopt, create or otherwise be or become bound by or subject to any contract or charter or by-law provision limiting the amount of, or otherwise imposing restrictions on the declaration, payment or setting aside of funds for the making of, any Distributions in respect of the capital stock of such Restricted Subsidiary to the Borrower or another Restricted Subsidiary.

SECTION 5.17. Limitation on Restricted Indebtedness. The Borrower will not at any time permit the aggregate amount of Restricted Indebtedness to exceed 15% of Consolidated Net Worth.

SECTION 5.18. Preferred Stock of Restricted Subsidiaries. The Borrower will not permit any Restricted Subsidiary to issue or permit to remain outstanding any Preferred Stock unless such

Preferred Stock is issued to and at all times owned and held by the Borrower or a Wholly-Owned Restricted Subsidiary.

SECTION 5.19. No Redesignation of Restricted Subsidiaries. The Borrower will not designate any Restricted Subsidiary as, or take or permit to be taken any action that would cause any Restricted Subsidiary to become, an Unrestricted Subsidiary.

SECTION 5.20. Financial and Business Information. The Borrower will furnish to the Agents and each Lender:

(a) Quarterly Statements. Within 45 days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of

(i) consolidated and consolidating balance sheets of the Borrower and its Restricted Subsidiaries and of the Borrower and its Subsidiaries as at the end of such quarter, and

(ii) consolidated and consolidating statements of income, changes in shareholders' equity and cash flows of the Borrower and its Restricted Subsidiaries and of the Borrower and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

all in reasonable detail and setting forth, in the case of such consolidated statements, in comparative form the figures for the corresponding periods in the previous fiscal year, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, provided that delivery within the time period specified above of copies of the Borrower's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 5.20(a); provided further that if such Form 10-Q does not contain consolidating information for the Borrower and its Restricted Subsidiaries, the Borrower shall also deliver to each such holder the consolidating information described in this Section 5.20(a);

(b) Annual Statements. Within 90 days after the end of each fiscal year of the Borrower, duplicate copies of

(i) consolidated and consolidating balance sheets of the Borrower and its Restricted Subsidiaries and of the Borrower and its Subsidiaries, as at the end of such year, and

(ii) consolidated and consolidating statements of income, changes in shareholders' equity and cash flows of the Borrower and its Restricted Subsidiaries and of the Borrower and its Subsidiaries, for such year

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied, (1) in the case of the consolidated statements, by an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and (2) in the case of the consolidating statements, either certified by a Senior Financial Officer as fairly stating, or accompanied by a report thereon by such accountants containing a statement to the effect that such consolidating financial statements fairly state, the financial position and the results of operations and cash flows of the companies being reported upon in all material respects in relation to the consolidated financial statements for the periods indicated as a whole; provided that the delivery within the time period specified above of the Borrower's Annual Report on Form 10-K for such fiscal year (together with the Borrower's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of clauses (i) and (ii) of this Section 5.20 (b); provided further that if such Form 10-K does not contain consolidating information for the Borrower and its Restricted Subsidiaries, the Borrower shall also deliver to each such holder the consolidating information described in this Section 5.20(b); and

(iii) a certificate of such accountants stating that in making the examination for such report, they have obtained no knowledge of any Default or Event of Default, or, if they have obtained knowledge of any Default or Event of Default, specifying the nature and period of existence thereof and the action the Borrower has taken or proposes to take with respect thereto.

(c) SEC and Other Reports. If the Borrower or any Restricted Subsidiary shall be required to file reports with the Securities and Exchange Commission, promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Borrower or any Restricted Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Borrower or any Restricted Subsidiary with the Securities and Exchange Commission;

(d) Notice of Default or Event of Default. Promptly, and in any event within five days after a Responsible Officer becoming aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Borrower is taking or proposes to take with respect thereto;

(e) ERISA Matters. Promptly, and in any event within five days after a Responsible Officer becomes aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Borrower or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(b) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof and the potential cost to the Borrower or such ERISA Affiliate resulting therefrom exceeds $500,000; or

(ii) the taking by the PBGC of steps to institute, or the threatening in writing by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Borrower or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Borrower or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Borrower or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect.

(f) Requested Information. With reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Borrower or any of its Restricted Subsidiaries or relating to the ability of the Borrower to perform its obligations hereunder as from time to time may be reasonably requested by any Lender.

(g) Officer's Certificate. Each set of financial statements delivered pursuant to Section 5.20(a) or Section 5.20(b) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(i) Covenant Compliance. The information (including detailed calculations) required in order to establish the Debt to Adjusted EBITDA Ratio, the Applicable Margin, the Commitment Fee Percentage and whether the Borrower was in compliance with the requirements of Section 5.11 through Section 5.17 hereof, inclusive, and with all Additional Covenants, if any, that involve calculations during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section or Additional Covenant, as the case may be, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections or Additional Covenants, as the case may be, and the calculation of the amount, ratio or percentage then in existence);

(ii) Event of Default. A statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Borrower and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Borrower or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Borrower shall have taken or proposes to take with respect thereto;

(iii) Management's Discussion and Analysis. A written discussion and analysis by management of the financial condition and results of operations of the lines of business conducted by each material Restricted Subsidiary for such accounting period; provided that delivery within the time period specified above of copies of, in the case of Section 5.20(a), the Borrower's Quarterly Report on Form 10-Q, or, in the case of Section 5.20(b) the Borrower's Annual Report on Form 10-K, in each case prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy this clause (iii); and

(iv) Litigation. A written statement that, to the best of such Officer's knowledge after due inquiry, except as otherwise disclosed in writing to you, there is no litigation (including derivative actions), arbitration proceeding or governmental proceeding pending to which the Borrower or any Subsidiary is a party, or with respect to the Borrower or any Subsidiary or their respective properties, which has a significant possibility of materially and adversely affecting the business, operations, properties or condition of the Borrower or of the Borrower and its Subsidiaries taken as a whole.

SECTION 5.21. Inspection; Confidentiality. The Borrower shall permit the representatives of each Agent and each Lender:

(a) No Default. If no Default or Event of Default then exists, at the expense of such Agent or Lender and upon reasonable prior notice to the Borrower, to visit the principal executive office of the Borrower, to discuss the affairs, finances and accounts of the Borrower and its Restricted Subsidiaries with the Borrower's officers and (with the consent of the Borrower, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Borrower, which consent will not be unreasonably withheld) to visit the other offices and properties of the Borrower and each Restricted Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing;

(b) Default. If a Default or Event of Default then exists, at the expense of the Borrower to visit and inspect any of the offices or properties of the Borrower or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Borrower authorizes said accountants to discuss the affairs, finances and accounts of the Borrower and its Subsidiaries), all at such times and as often as may be requested; and

(c) Technical Data. Anything herein to the contrary notwithstanding, neither the Borrower nor any of its Subsidiaries shall have any obligations to disclose pursuant to this Agreement any engineering, scientific, or other technical data without significance to the analysis of the financial position of the Borrower and its Subsidiaries.

SECTION 5.22. Books and Records. The Borrower shall maintain its financial records in accordance with GAAP and all other business and operating records in accordance with reasonably prudent business practices.

ARTICLE 6. EVENTS OF DEFAULT

In case of the happening of any of the following events (each an "Event of Default"):

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

(b) the Borrower defaults in the payment of any interest on any Loan for more than five Business Days after the same becomes due and payable; or

(c) the Borrower defaults in the performance of or compliance with any term contained in Section 5.20(d) or Sections 5.10 through 5.19; or

(d) the Borrower defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Article 6) or any Additional Covenant and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Borrower receiving written notice of such default from either Agent or any Lender (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Article 6); or

(e) any representation or warranty made in writing by or on behalf of the Borrower or by any officer of the Borrower in this Agreement or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Borrower or any Restricted Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least $5,000,000 beyond any period of grace provided with respect thereto, or (ii) the Borrower or any Restricted Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least $5,000,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared due and payable before its stated maturity or before its regularly scheduled dates of payment; or

(g) the Borrower or any Restricted Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by the Borrower or any of its Restricted Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Borrower or any of its Restricted Subsidiaries, or any such petition shall be filed against the Borrower or any of its Restricted Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of $5,000,000 are rendered against one or more of the Borrower and its Restricted Subsidiaries and which judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; or

(j) if (i) any Plan subject to the minimum funding standards of ERISA or the Code shall fail to satisfy such standards for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Borrower or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate amount of unfunded accrued plan benefit liabilities under all Plans subject to Title IV of ERISA, determined in accordance with Financial Accounting Standards Board Statement No. 87 or 132, as the case may be, as of the end of such Plans' most recently ended plan year on the basis of actuarial assumptions specified for funding purposes in such Plans' most recent actuarial valuation report, shall exceed $5,000,000, (iv) the Borrower or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Borrower or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Borrower or any Restricted Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Borrower or any Restricted Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, would reasonably be expected to have a Materially Adverse Effect (as used in Article 6, the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA);

then, and in every such event, and at any time thereafter during the continuance of such event, the Administrative Agent, at the request of the Required Lenders, shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate forthwith the right of the Borrower to borrow pursuant to the Commitments and (ii) declare the Loans of the Borrower then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder, shall become forthwith due and payable, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding; provided that in the case of any event described in paragraph (g) or (h) above with respect to the Borrower, the Commitments of the Lenders with respect to the Borrower shall automatically terminate and the principal of the Loans then outstanding of the Borrower with respect to which such event has occurred, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder shall automatically become due and payable, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein to the contrary notwithstanding.

ARTICLE 7. THE ADMINISTRATIVE AGENT

In order to expedite the transactions contemplated by this Agreement, Chase Bank of Texas, National Association is hereby appointed to act as Administrative Agent, on behalf of the Lenders. Each of the Lenders hereby irrevocably authorizes the Administrative Agent to take such actions on behalf of such Lender and to exercise such powers as are specifically delegated to the

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

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

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

Subject to the appointment and acceptance of a successor Administrative Agent as provided below, the Administrative Agent may resign at any time by notifying the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent who must be acceptable to the Borrower and shall be selected from the Lenders unless no Lender agrees to accept such appointment. If no successor shall have been so appointed by the Required Lenders, no approval of the Borrower obtained and such successor shall not have accepted such appointment, all within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a bank having a combined capital and surplus of at least $500,000,000 or an Affiliate of any such bank. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor bank, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 8.05 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

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

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

PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES OR DISBURSEMENTS RESULTING FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE ADMINISTRATIVE AGENT OR ANY OF ITS DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS.

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

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

ARTICLE 8. MISCELLANEOUS

SECTION 8.01. Notices. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed or sent by telecopy, as follows:

(a) if to Borrower, at its principal executive offices at 2140 Lake Park Blvd., Richardson, Texas 75080, to the attention of Chief Financial Officer, telecopy number 972-497-6042 with a copy to the Corporate Controller, Telecopy 972- 497- 5015;

(b) if to the Administrative Agent, to Chase Bank of Texas, National Association, 2200 Ross Avenue, 3rd Floor, Dallas, TX 75201, Attention of Mae Reeves, (Telecopy No. 214-965-2044), with a copy to Chase Bank of Texas, National Association, c/o The Chase Manhattan Bank, 1 Chase Manhattan Plaza, 8th Floor, New York, New York 10081; Attention: Muniram Appanna, Telephone 212552 7943; Telecopy number 212-552-7490;

(c) if to the Syndication Agent, to Wachovia Bank, N.A., 191 Peachtree Street, N.E., Atlanta, Georgia 30303, Attention: Paige Mesaros, telecopy number (404) 332-6898; and

(d) if to a Lender, to it at its address (or telecopy number) set forth in the Administrative Questionnaire delivered to the Administrative Agent by such Lender in connection with the execution of this Agreement or in the Assignment and Acceptance pursuant to which such Lender became a party hereto.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy to such party as provided in this Section or in accordance with the latest unrevoked direction from such party given in accordance with this Section.

SECTION 8.02. Survival of Agreement. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the Lenders and shall survive the making by the Lenders of the Loans regardless of any investigation made by the Lenders or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this Agreement is outstanding and unpaid or the Commitments have not been terminated.

SECTION 8.03. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and each Agent and when the Administrative Agent shall have received copies hereof (telecopied or otherwise) which, when taken together, bear the signature of each Lender, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower shall not have the right to assign any rights hereunder or any interest herein without the prior consent of all the Lenders (except as a consequence of a transaction expressly permitted under Section 5.10).

SECTION 8.04. Successors and Assigns.

(a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of any party that are contained in this Agreement shall bind and inure to the benefit of its successors and assigns.

(b) Each Lender may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided, however, that (i) except in the case of an assignment to a Lender or an Affiliate of such Lender or an assignment to a Federal Reserve Bank, the Borrower and the Administrative Agent must give their prior written consent to such assignment (which consent shall not be unreasonably withheld); provided, however, that if an Event of Default shall have occurred and be continuing, the Borrower's consent will not be necessary, (ii) the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (other than an assignment pursuant to Section 8.04(i)) and the amount of the Commitment retained by the assigning Lender (each determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than $10,000,000 unless the assigning Lender is assigning its entire Commitment, (iii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Lender's rights and obligations under this Agreement, (iv) the parties to each such assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance and a processing and recordation fee of $3,000, and the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to Section 8.04(e), from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof unless otherwise agreed by the Administrative Agent (the Borrower to be given reasonable notice of any shorter period), (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement and (B) the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto (but shall continue to be entitled to the benefits of Sections 2.11, 2.16 and 8.05 afforded to such Lender prior to its assignment as well as to any Fees accrued for its account hereunder and not yet paid)).

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, (ii) except as set forth in (i) above, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto or the financial condition of the Borrower or the performance or observance by the Borrower of any obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.20 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; such assignee will independently and without reliance upon the Agents, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

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

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee together with an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower and the Administrative Agent to such assignment, the Administrative Agent shall (i) accept such Assignment and Acceptance and (ii) record the information contained therein in the Register.

(f) Each Lender may without the consent of the Borrower or the Agents sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided, however, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) each participating bank or other entity shall be entitled to the benefit of the cost protection provisions contained in Sections 2.11, 2.16 and 8.05 to the same extent as if it were the selling Lender (and limited to the amount that could have been claimed by the selling Lender had it continued to hold the interest of such participating bank or other entity), except that all claims made pursuant to such Sections shall be made through such selling Lender, and (iv) the Borrower, the Agents, and the other Lenders shall continue to deal solely and directly with such selling Lender in connection with such Lender's rights and obligations under this Agreement.

(g) Any Lender or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided that, prior to any such disclosure, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of any such information which constitutes Confidential Information in accordance with Section 8.14.

(h) The Borrower shall not assign or delegate any rights and duties hereunder without the prior written consent of all Lenders, and any attempted assignment or delegation (except as a consequence of a transaction expressly permitted under Section 5.10) by the Borrower without such consent shall be void.

(i) Any Lender may at any time assign or pledge all or any portion of its rights under this Agreement to a Federal Reserve Bank; provided that no such assignment or pledge shall release any Lender from its obligations hereunder or substitute any such Federal Reserve Bank for such Lender as a party hereto. In order to facilitate such an assignment to a Federal Reserve Bank, the Borrower shall, at the request of the assigning Lender, duly execute and deliver to the assigning Lender a promissory note or notes evidencing the Loans made to the Borrower by the assigning Lender hereunder.

SECTION 8.05. Expenses; Indemnity.

(a) The Borrower agrees to pay all reasonable out-of-pocket expenses incurred by either Agent, Chase Securities Inc. or Wachovia Securities, Inc. in connection with entering into this Agreement or in connection with any amendments, modifications or waivers of the provisions hereof (but only if such amendments, modifications or waivers are requested by the Borrower) (whether or not the transactions hereby contemplated are consummated), or incurred by either Agent or any Lender in connection with the enforcement of their rights in connection with this Agreement or in connection with the Loans made hereunder, including the reasonable fees and disbursements of counsel for either Agent or, in the case of enforcement following an Event of Default, the Lenders.

(b) THE BORROWER AGREES TO INDEMNIFY EACH LENDER AGAINST ANY LOSS, CALCULATED IN ACCORDANCE WITH THE NEXT SENTENCE, OR REASONABLE EXPENSE WHICH SUCH LENDER MAY SUSTAIN OR INCUR AS A CONSEQUENCE OF (A) ANY FAILURE BY THE BORROWER TO BORROW OR TO CONVERT OR CONTINUE ANY LOAN HEREUNDER (INCLUDING AS A RESULT OF THE BORROWER'S FAILURE TO FULFILL ANY OF THE APPLICABLE CONDITIONS SET FORTH IN ARTICLE 4) AFTER IRREVOCABLE NOTICE OF SUCH BORROWING, CONVERSION OR CONTINUATION HAS BEEN GIVEN PURSUANT TO SECTION 2.03, (B) ANY PAYMENT, PREPAYMENT OR CONVERSION, OR ASSIGNMENT OF A EURODOLLAR LOAN REQUIRED BY ANY OTHER PROVISION OF THIS AGREEMENT OR OTHERWISE MADE OR DEEMED MADE ON A DATE OTHER THAN THE LAST DAY OF THE INTEREST PERIOD, IF ANY, APPLICABLE THERETO, (C) ANY DEFAULT IN PAYMENT OR PREPAYMENT OF THE PRINCIPAL AMOUNT OF ANY LOAN OR ANY PART THEREOF OR INTEREST ACCRUED THEREON, AS AND WHEN DUE AND PAYABLE (AT THE DUE DATE THEREOF, WHETHER BY SCHEDULED MATURITY, ACCELERATION, IRREVOCABLE NOTICE OF PREPAYMENT OR OTHERWISE) OR (D) THE OCCURRENCE OF ANY EVENT OF DEFAULT, INCLUDING, IN EACH SUCH CASE, ANY LOSS OR REASONABLE EXPENSE SUSTAINED OR INCURRED OR TO BE SUSTAINED OR INCURRED BY SUCH LENDER IN LIQUIDATING OR EMPLOYING DEPOSITS FROM THIRD PARTIES, OR WITH RESPECT TO COMMITMENTS MADE OR

OBLIGATIONS UNDERTAKEN WITH THIRD PARTIES, TO EFFECT OR MAINTAIN ANY LOAN HEREUNDER OR ANY PART THEREOF AS A EURODOLLAR LOAN. SUCH LOSS SHALL INCLUDE AN AMOUNT EQUAL TO THE EXCESS, IF ANY, AS REASONABLY DETERMINED BY SUCH LENDER, OF (I) ITS COST OF OBTAINING THE FUNDS FOR THE LOAN BEING PAID, PREPAID, CONVERTED OR NOT BORROWED (ASSUMED TO BE THE LIBO RATE) FOR THE PERIOD FROM THE DATE OF SUCH PAYMENT, PREPAYMENT OR FAILURE TO BORROW TO THE LAST DAY OF THE INTEREST PERIOD FOR SUCH LOAN (OR, IN THE CASE OF A FAILURE TO BORROW THE INTEREST PERIOD FOR SUCH LOAN WHICH WOULD HAVE COMMENCED ON THE DATE OF SUCH FAILURE) OVER (II) THE AMOUNT OF INTEREST (AS REASONABLY DETERMINED BY SUCH LENDER) THAT WOULD BE REALIZED BY SUCH LENDER IN REEMPLOYING THE FUNDS SO PAID, PREPAID OR NOT BORROWED FOR SUCH PERIOD OR INTEREST PERIOD, AS THE CASE MAY BE.

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

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

SECTION 8.06. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 8.07. Applicable Law. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS.

SECTION 8.08. Waivers; Amendment.

(a) No failure or delay of Borrower, any Agent or any Lender in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Agents and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies which they would otherwise have. No waiver of any provision of this Agreement or consent to any departure therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower or any Subsidiary in any case shall entitle such party to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each Lender affected thereby, (ii) increase any Commitment or decrease the Commitment Fee Percentage or change the date on which the Commitment Fees are due and payable, or (iii) amend or modify the provisions of Section 2.13, Section 4.02(e) or Section 8.04(h), the provisions of this Section or the definition of the "Required Lenders", without the prior written consent of each Lender; provided further, however, that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent hereunder without the prior written consent of the Administrative Agent. Each Lender shall be bound by any waiver, amendment or modification authorized by this Section and any consent by any Lender pursuant to this Section shall bind any assignee of its rights and interests hereunder.

SECTION 8.09. Entire Agreement. THIS AGREEMENT (INCLUDING THE SCHEDULES AND EXHIBITS HERETO) AND THE FEE LETTERS CONSTITUTE A "LOAN

AGREEMENT" AS DEFINED IN SECTION 26.03(A) OF THE TEXAS BUSINESS AND COMMERCE CODE, AND REPRESENT THE ENTIRE CONTRACT AMONG THE PARTIES RELATIVE TO THE SUBJECT MATTER HEREOF AND THEREOF. ANY PREVIOUS AGREEMENT AMONG THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF IS SUPERSEDED BY THIS AGREEMENT AND THE FEE LETTERS. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. NOTHING IN THIS AGREEMENT, EXPRESSED OR IMPLIED, IS INTENDED TO CONFER UPON ANY PARTY OTHER THAN THE PARTIES HERETO ANY RIGHTS, REMEDIES, OBLIGATIONS OR LIABILITIES UNDER OR BY REASON OF THIS AGREEMENT.

SECTION 8.10. Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 8.11. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract, and shall become effective as provided in Section 8.03.

SECTION 8.12. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 8.13. Interest Rate Limitation.

(a) Notwithstanding anything herein to the contrary, if at any time the applicable interest rate, together with all fees and charges which are treated as interest under applicable law (collectively the "Charges"), as provided for herein or in any other document executed in connection herewith, or otherwise contracted for, charged, received, taken or reserved by any Lender, shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by such Lender in accordance with applicable law, the rate of interest payable on the Loans of such Lender, together with all Charges payable to such Lender, shall be limited to the Maximum Rate.

(b) If the amount of interest, together with all Charges, payable for the account of any Lender in respect of any interest computation period is reduced pursuant to paragraph (a) of this Section and the amount of interest, together with all Charges, payable for such Lender's account in respect of any subsequent interest computation period, computed pursuant to Section 2.06, would be less than the Maximum Rate, then the amount of interest, together with all Charges, payable for such Lender's account in respect of such subsequent interest computation period shall, to the extent permitted by applicable law, be automatically increased to such Maximum Rate;

provided that at no time shall the aggregate amount by which interest paid for the account of any Lender has been increased pursuant to this paragraph (b) exceed the aggregate amount by which interest, together with all Charges, paid for its account has theretofore been reduced pursuant to paragraph (a) of this Section.

(c) No provision of this Agreement shall require the payment or the collection of interest in excess of the maximum amount permitted by applicable law. If any excess of interest in such respect is hereby provided for, or shall be adjudicated to be so provided, in this Agreement or otherwise in connection with this loan transaction, the provisions of this Section shall govern and prevail and neither the Borrower nor the sureties, guarantors, successors, or assigns of the Borrower shall be obligated to pay the excess amount of such interest or any other excess sum paid for the use, forbearance, or detention of sums loaned pursuant hereto. In the event any Lender ever receives, collects, or applies as interest any such sum, such amount which would be in excess of the maximum amount permitted by applicable law shall be applied as a payment and reduction of the principal of the Loans; and, if the principal of the Loans has been paid in full, any remaining excess shall forthwith be paid to the Borrower. In determining whether or not the interest paid or payable exceeds the Maximum Rate, the Borrower and each Lender shall, to the extent permitted by applicable law, (a) characterize any non-principal payment as an expense, fee, or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the entire contemplated term of the Loans so that interest for the entire term does not exceed the Maximum Rate.

SECTION 8.14. Confidentiality. For the purposes of this Section 8.14, "Confidential Information" means information delivered to an Agent or a Lender by or on behalf of the Borrower or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by an Agent or a Lender as being confidential information of the Borrower or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to an Agent or a Lender prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by an Agent or a Lender or any Person acting on their behalf, (c) otherwise becomes known to an Agent or a Lender other than through disclosure by the Borrower or any Subsidiary or (d) constitutes financial statements delivered to you under Section 5.20 that are otherwise publicly available. Each Agent and each Lender agree that they will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by them in good faith to protect confidential information of third parties delivered to them, provided that an Agent or a Lender may deliver or disclose Confidential Information to (i) its directors, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of this Agreement), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 8.14, (iii) any other Agent or Lender, (iv) any Transferee (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section

8.14), (v) any Person from which it offers to purchase any Security of the Borrower or a Subsidiary (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 8.14), (vi) any federal or state regulatory authority having jurisdiction over it, (vii) any nationally recognized rating agency that requires access to information about its investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to it, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which it is a party or (z) if an Event of Default has occurred and is continuing, to the extent an Agent or a Lender may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under this Agreement.

SECTION 8.15. Non-Application of Chapter 346 of the Texas Finance Code. The provisions of Chapter 346 of the Texas Finance Code are specifically declared by the parties hereto not to be applicable to this Agreement or to the transactions contemplated hereby.

SECTION 8.16. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

LENNOX INTERNATIONAL INC.,
as Borrower

By: /s/ CLYDE WYANT

Clyde Wyant
Executive Vice President,
Chief Financial Officer and Treasurer

CHASE BANK OF TEXAS,
NATIONAL ASSOCIATION,
individually as a Lender and as Administrative Agent

By: /s/ MAE REEVES

Mae Reeves
Vice President

WACHOVIA BANK, N.A.,
individually as a Lender and as Syndication Agent

By: /s/ PAIGE MESAROS

Paige Mesaros
Vice President

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

By: /s/ R. D. SMITH

Name: R. D. Smith

Title: Agent Operations

THE NORTHERN TRUST COMPANY,
individually as a Lender and as a co-agent

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

BANK ONE, TEXAS, N.A.

By: /s/ GINA NORRIS
Name: Gina Norris
Title: Managing Director, Corporate Banking

BANK OF TEXAS, N.A.

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

THE BANK OF TOKYO - MITSUBISHI, LTD.

By: /s/ D. BARNELL
Name: D. Barnell
Title: Vice President

WELLS FARGO BANK (Texas), N.A.

By: /s/ JUAN SANCHEZ
Name: Juan Sanchez
Title: Assistant Vice President

ROYAL BANK OF CANADA

By: /s/ N. G. MILLAR

Name: N. G. Millar

Title: Senior Manager

ABN AMRO BANK N.V.

By: /s/ LAURIE G. TUZO

Name: Laurie G. Tuzo

Title: Senior Vice President

THE BANK OF NEW YORK

By: /s/ RONALD R. REEDY

Name: Ronald R. Reedy

Title: Vice President

COMPASS BANK

By: /s/ PAUL HOWELL

Name: Paul Howell

Title: Assistant Vice President

EXHIBITS AND SCHEDULES

Exhibit A	Form of Borrowing Request
Exhibit B	Form of Assignment and Acceptance
Exhibit C	Matters to be addressed by Opinion of Counsel
Schedule 2.01	Commitments
Schedule 3.05	Subsidiaries
Schedule 3.06	Financial Statements
Schedule 3.13	Indebtedness

EXHIBIT 21.1

LENNOX INTERNATIONAL INC. SUBSIDIARIES*
AS OF JULY 1, 1999
PAGE 1

NAME	OWNERSHIP	JURISDICTION OF INC.	NO. OF SHARES OUTSTANDING
Lennox Industries Inc.	100%	Iowa	994,394 Common
SEE ATTACHED CHART			
Heatcraft Inc.	100%	Mississippi	20 Common
Frigus-Bohn S.A. de C.V.	50%	Mexico	
LGL de Mexico, S.A. de C.V.	1%	Mexico	50,000 Common
Lennox Participacoes Ltda.	1%	Brazil	
Frigo-Bohn do Brasil Ltda.	99%	Brazil	
Armstrong Air Conditioning Inc.	100%	Ohio	1,030 Common
Jensen-Klich Supply Co.	100%	Nebraska	1,750 Common
Armstrong Distributors Inc.	100%	Delaware	1,000 Common
Lennox Global Ltd.	100%	Delaware	1,000 Common
SEE ATTACHED CHART			
Lennox Commercial Realty Inc.	100%	Iowa	10 Common
Heatcraft Technologies Inc.	100%	Delaware	1,000 Common
Lennox Industries	1%	United Kingdom	300,000 Cum. Preference 13,900 Ordinary
Strong LGL Colombia Ltda.	50%	Colombia	10,000
Alliance Compressors	24.5%	Delaware (LLC)	
LGL Peru S.A.C.	10%	Peru	
Livernois Engineering Co.	100%	Michigan	

NAME	LOCATION OF SUBSTANTIAL OPERATING ASSETS
Lennox Industries Inc.	United States
SEE ATTACHED CHART	
Heatcraft Inc.	United States
Frigus-Bohn S.A. de C.V.	Mexico
LGL de Mexico, S.A. de C.V.	Mexico
Lennox Participacoes Ltda.	
Frigo-Bohn do Brasil Ltda.	
Armstrong Air Conditioning Inc.	United States
Jensen-Klich Supply Co.	United States
Armstrong Distributors Inc.	United States
Lennox Global Ltd.	United States
SEE ATTACHED CHART	
Lennox Commercial Realty Inc.	United States
Heatcraft Technologies Inc.	United States
Lennox Industries	United Kingdom
Strong LGL Colombia Ltda.	Colombia
Alliance Compressors	Delaware
LGL Peru S.A.C.	Peru
Livernois Engineering Co.	Michigan

LENNOX INTERNATIONAL INC. SUBSIDIARIES
AS OF JULY 1, 1999
PAGE 2

NAME	OWNERSHIP	JURISDICTION OF INC.	NO. OF SHARES OUTSTANDING
Lennox Industries Inc.			
Lennox Industries (Canada) Ltd.	100%	Canada	5,250 Pref.
SEE ATTACHED CHART			35,031 Cl. A Common
			1,180 Cl. B Common
Lennox Industries SW Inc.	100%	Iowa	1,000 Common
Hearth Products Inc.	100%	Delaware	1,000 Common
Superior Fireplace Company	100%	Delaware	1,000 Common
Marco Mfg., Inc.	100%	California	
Marcomp			
Pyro Industries, Inc.	100%	Washington	
Securite Cheminees International Ltee	100%	Canada	
-Security Chimneys International USA Ltd.	100%		
-Cheminees Securite SARL	100%	France	
Products Acceptance Corporation	100%	Iowa	3,500 Common
Lennox Manufacturing Inc.	100%	Delaware	1,000 Common
Lennox Retail Inc.	100%	Delaware	1,000 Common
-Lennox Inc.		Canada	
-D.A. Bennett, Inc.	100%	New York	105 Common
			581 Preferred

NAME	LOCATION OF SUBSTANTIAL OPERATING ASSETS
Lennox Industries Inc.	
Lennox Industries (Canada) Ltd.	Canada
SEE ATTACHED CHART	
Lennox Industries SW Inc.	N/A
Hearth Products Inc.	United States
Superior Fireplace Company	United States
Marco Mfg., Inc.	United States
Marcomp	
Pyro Industries, Inc.	United States
Securite Cheminees International Ltee	Canada
-Security Chimneys International USA Ltd.	United States
-Cheminees Securite SARL	France
Products Acceptance Corporation	N/A
Lennox Manufacturing Inc.	United States
Lennox Retail Inc.	United States
-Lennox Inc.	Canada
-D.A. Bennett, Inc.	New York

LENNOX INTERNATIONAL INC. SUBSIDIARIES
AS OF JULY 1, 1999
PAGE 3

Lennox Industries (Canada) Ltd.

The following are all in Canada and are all owned 100% by Lennox Industries (Canada) unless otherwise noted:

- A+ Heating and Air Conditioning
- 1054413 Ontario Inc.
  - Cronin-Emery Mechanical Ltd.
  - C-E-V Heating-Cooling Service Ltd.
- Tri-Energy Heating Ltd.
- Tomahdia Associates Inc.
- Overland Plumbing & Heating
  - Accent Heating & Cooling Services, Inc.
  - Lexington Electric Ltd.
- 1069395 Ontario Ltd.
- 1068312 Ontario Ltd.
- K&M Combustion Services Limited
- Peel Gas Services Limited
- Peel Heating & Air Conditioning Ltd.
  - Peel Duct Cleaning Services Ltd. (Inactive)
- 1057664 Ontario Inc.
- Bering Inc.
- Bering Refrigeration Ltd.
- Kimian Mechanical Corp.
  - Mersey Gas Services Limited
- Goldberg Heating Ltd.
- MKG Precision Mechanical Inc.
- 1149530 Ontario Inc.
  - Debruyn Enterprises Ltd.
- The Home Environment Centre Ltd.
- Francis H.E.C. Protection Services Ltd.
- Home Environment Appliance Technologies Distribution Limited
- Fahrhall Mechanical Contractors Limited
- 510799 Ontario Ltd. (dba Campeau Heating)
- M&T Heating Company Limited
- Bryant Heating & Cooling Company - 90%
- 413899 Ontario Limited (Limcan Heating & Air Conditioning Sales)
- M. E. L. Development Limited
  - Foster Air Conditioning Company, Limited - 50%
- DAC Holdings Limited
  - Foster Air Conditioning Company, Limited - 50%
- Roy Inch & Sons Limited
- McRae Heating & Air Conditioning Limited
- Aries Mechanical Systems Ltd.
- HeatCraft Heating Ltd.
- A. R. Dyck Heating and Air Conditioning Ltd.
- United Air Systems Inc.
- Accent Heating Ltd.
- Wightman Mechanical Services Ltd.
- Airflo Heating & Air Conditioning Ltd.
- Gerry's Heating North Bay (1993) Ltd.
- RZH Holdings Limited (Merriman Sheet Metal)
- Kohdac Heating & Air Conditioning Limited (Central Gas)
- Winnipeg Supply & Services Ltd.
- Doole Holding Ltd.

LENNOX INTERNATIONAL INC. SUBSIDIARIES
AS OF JULY 1, 1999
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3502198 Canada Inc. (Dearie Contracting)
    471512 Ontario Ltd.
    Dearie Martino Contractors Ltd.
3502201 Canada Inc. (Dearie Contractors)
    R. W. Galbraith Holdings Inc.
    Dearie Galbraith Fireplaces Limited Partnership
Niagra Heating and Air Conditioning Inc.
AG Enertich Corporation
Elmwood Heating & Cooling Ltd.
Elmwood Plumbing & Heating Ltd.
Central Aire Heating & Air Conditioning Ltd.
331323 Alberta Ltd
Abbey Air Systems Inc.
Valley Refrigeration Limited
The Energy Miser Inc. (Hearth Manor)
Heating Engineering Installations (1981) Ltd.
1324616 Ontario Inc. (Tri-Heat TLC)
Alberton Heating Ltd.
J&A Heating Ltd.
1302070 Ontario Inc. (McCrea's Heating and Air Conditioning)
Lakeshore Heating, Air Conditiong & Home Improvement Inc.
Walker Heating, Plumbing, A/C Equipment & Natural Gas Service Inc.
Havencrest Holdings Inc.
    -Pinnacle Fireplace & Facings LP (50%)
Hearth Holdings Inc.
    -Pinnacle Fireplace & Facings LP (50%)
Commercial Equipment Service Co. Limited
Robert Energy Management Company Ltd.
1095558 Ontario Limited [20% of Montwest Air (Partnership)]
1225009 Ontario Limited [20% of Montwest Air (Partnership)]
1225007 Ontario Limited [20% of Montwest Air (Partnership)]
1225008 Ontario Limited [20% of Montwest Air (Partnership)]
Marchwood Heating & Air Conditioning Ltd. [20% of Montwest Air (Partnership)]
    -Tyell Holdings Inc.
    -Montwest Air Ltd.
Montwest Air (Partnership)

LENNOX INTERNATIONAL INC. SUBSIDIARIES
AS OF JULY 1, 1999

NAME	OWNERSHIP	JURISDICTION OF INC.	NO. OF SHARES OUTSTANDING	LOCATION OF SUBSTANTIAL OPERATING ASSETS
Lennox Global Ltd.				
Lennox Australia Pty. Ltd.	100%	Australia	1,575,000 Com/Cl.A 1,575,000 Com/Cl.B	Australia
LGL Asia-Pacific Pte. Ltd.	100%	Rep. of Singapore	2 Ordinary	Singapore
Fairco S.A.	50%	Argentina		Argentina
LGL Europe Holding Co. SEE ATTACHED CHART	100%	Delaware	1,000 Common	N/A
LGL (Australia) Pty. Ltd.	100%	Australia		Australia
UK Industries Inc.	100%	Delaware	1,000 Common	N/A
LGL de Mexico, S.A. de C.V.	99%	Mexico	50,000 Common	Mexico
Lennox Participacoes Ltda.	99%	Brazil		
Frigo-Bohn do Brasil Ltda.	1%	Brazil		Brazil
McQuay do Brasil	79%	Brazil		Brazil
SIWA S.A.	100%	Uruguay		Uruguay
Str. LGL Dominicana, S.A.	100%	Dominican Republic		
Strong LGL Colombia Ltda.	50%	Colombia		
LGL Belgium S.P.R.L.	.4%	Belgium	1 Common	Belgium
LGL Refrigeration Pty. Ltd.	100%	Australia		Australia
LGL (Thailand) Ltd.	100%	Thailand		Thailand
LGL Peru S.A.C.	90%	Peru		Peru
LGL Australia (US) Inc. SEE ATTACHED CHART	100%	Delaware	1,000 Common	Delaware

LENNOX INTERNATIONAL INC. SUBSIDIARIES
AS OF JULY 1, 1999

NAME	OWNERSHIP	JURISDICTION OF INC.	NO. OF SHARES OUTSTANDING	LOCATION OF SUBSTANTIAL OPERATING ASSETS
LGL Australia (US) Inc.				
LGL Co Pty Ltd	100%	Australia		Australia
LGL Australia Investment Pty Ltd	100%	Australia		Australia
LGL Australia Finance Pty Ltd	10%	Australia		Australia
LGL Australia Finance Pty Ltd	90%	Australia		Australia
LGL Australia Holdings Pty Ltd	100%	Australia		Australia
James N Kirby Pty Ltd	100%	Australia		Australia

LENNOX INTERNATIONAL INC. SUBSIDIARIES
AS OF JULY 1, 1999

NAME	OWNERSHIP	JURISDICTION OF INC.	NO. OF SHARES OUTSTANDING	LOCATION OF SUBSTANTIAL OPERATING ASSETS
LGL Europe Holding Co.				
- -LGL Holland B.V.	100%	Holland		Holland
-Ets. Brancher S.A.	70%	France		France
-Frinotec S.A.	99.68%	France		France
-LGL France	100%	France		France
-Herac Ltd.	100%	United Kingdom		N/A
-Friga-Coil S.R.O	50%	Czech Republic		Czech Republic
-LGL Germany GmbH	100%	Germany	500 Common	Germany
-Friga-Bohn Warmeaustauscher GmbH	100%	Germany		
-Hyfra Ind. GmbH	99.9%	Germany		Germany
-Ruhaak	100%	Germany		Germany
-Refac Nord GmbH	100%	Germany		Germany
-Refac West	100%	Germany		Germany
-Lennox Global Spain S.L.	100%	Spain		
-ERSA	90.1%	Spain		
-Aldo Marine	70%	Spain		
-Lennox Refac, S.A.	100%	Spain		
-Redi sur Andalucia	70%	Spain		Spain
-RefacPortugal Lda.	50%	Portugal		Portugal
-LGL Belgium S.P.R.L.	99.6%	Belgium	249 Common	Belgium
-Refac B.V.	100%	Netherlands		Netherlands
-Refac N.V	100%	Belgium		Belgium
-Refac Kalte-Klima Technik Vertriebs GmbH	50%			
-HCF Lennox Limited	100%	United Kingdom	100 Ordinary	United Kingdom
-Lennox Industries	99%	United Kingdom	300,000 Cum. Preference 13,900 Ordinary	United Kingdom
-Environheat Limited	100%	United Kingdom	32,765 Ordinary	N/A
-West S.R.L.	100%	Italy		Italy
Janka Radotin a.s.	100%	Czech Republic		Czech Republic
-Friga Coil S.R.O.	50%	Czech Republic		Czech Republic

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made a part of this registration statement.

ARTHUR ANDERSEN LLP

Dallas, Texas

July 22, 1999