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

FORM 10-Q

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from _____to ______

Commission file number 001-15149

LENNOX INTERNATIONAL INC.

Incorporated pursuant to the laws of the State of Delaware

Internal Revenue Service Employer Identification No. 42-0991521

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

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

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

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

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

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

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

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

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

As of October 16, 2023, the number of shares outstanding of the registrant’s common stock, par value $0.01 per share, was 35,539,725.

LENNOX INTERNATIONAL INC.
FORM 10-Q
For the three and nine months ended September 30, 2023

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
Consolidated Balance Sheets

(Amounts in millions, except shares and par values)	As of September 30, 2023 (Unaudited)	As of December 31, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 132.0	$ 52.6
Short-term investments	9.6	8.5
Accounts and notes receivable, net of allowances of $15.3 and $15.5 in 2023 and 2022, respectively	694.8	608.5
Inventories, net	747.9	753.0
Assets held for sale	92.8	—
Other assets	65.3	73.9
Total current assets	1,742.4	1,496.5
Property, plant and equipment, net of accumulated depreciation of $897.5 and $920.8 in 2023 and 2022, respectively	602.1	548.9
Right-of-use assets from operating leases	214.1	219.9
Goodwill	181.7	186.3
Deferred income taxes	50.1	27.5
Other assets, net	99.7	88.5
Total assets	**$ 2,890.1**	**$ 2,567.6**
LIABILITIES AND STOCKHOLDERS’ EQUITY (DEFICIT)		
Current Liabilities:		
Current maturities of long-term debt	$ 361.6	$ 710.6
Current operating lease liabilities	60.2	63.3
Accounts payable	345.8	427.3
Accrued expenses	408.7	376.9
Liabilities held for sale	69.7	—
Income taxes payable	9.0	17.6
Total current liabilities	1,255.0	1,595.7
Long-term debt	1,121.6	814.2
Long-term operating lease liabilities	162.5	161.8
Pensions	33.9	40.1
Other liabilities	157.6	158.9
Total liabilities	**2,730.6**	**2,770.7**
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, $0.01 par value, 25,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized, 87,170,197 shares issued	0.9	0.9
Additional paid-in capital	1,178.9	1,155.2
Retained earnings	3,400.3	3,070.6
Accumulated other comprehensive loss	(77.0)	(90.6)
Treasury stock, at cost, 51,633,264 shares and 51,700,260 shares for 2023 and 2022, respectively	(4,343.6)	(4,339.2)
Total stockholders' equity (deficit)	**159.5**	**(203.1)**
Total liabilities and stockholders' equity (deficit)	**$ 2,890.1**	**$ 2,567.6**

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

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

(Amounts in millions, except per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Net sales	**$ 1,366.3**	**$ 1,244.9**	**$ 3,827.1**	**$ 3,624.6**
Cost of goods sold	937.8	910.7	2,634.1	2,625.1
Gross profit	428.5	334.2	1,193.0	999.5
Operating Expenses:				
Selling, general and administrative expenses	178.9	147.3	527.6	472.2
Losses (gains) and other expenses, net	3.5	3.3	5.2	5.4
Restructuring charges	0.3	0.2	0.2	1.2
Impairment on assets held for sale	63.2	—	63.2	—
Income from equity method investments	(4.2)	(2.4)	(8.0)	(3.9)
Operating income	**186.8**	**185.8**	**604.8**	**524.6**
Pension settlements	0.3	—	0.4	0.3
Interest expense, net	11.2	10.5	40.4	26.1
Other expense (income), net	0.1	0.7	(0.1)	1.9
Net income before income taxes	175.2	174.6	564.1	496.3
Provision for income taxes	44.8	32.7	118.5	93.6
Net income	**$ 130.4**	**$ 141.9**	**$ 445.6**	**$ 402.7**
Earnings per share – Basic:	$ 3.67	$ 4.00	$ 12.55	$ 11.25
Earnings per share – Diluted:	$ 3.65	$ 3.99	$ 12.51	$ 11.22
Weighted Average Number of Shares Outstanding - Basic	**35.5**	**35.4**	**35.5**	**35.8**
Weighted Average Number of Shares Outstanding - Diluted	**35.7**	**35.5**	**35.6**	**35.9**

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

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

(Amounts in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	**$ 130.4**	**$ 141.9**	**$ 445.6**	**$ 402.7**
Other comprehensive income (loss):				
Foreign currency translation adjustments	(5.7)	(11.6)	8.7	(20.7)
Net change in pension and post-retirement liabilities	—	(0.8)	(0.8)	(3.5)
Reclassification of pension and post-retirement benefit losses into earnings	—	1.5	0.6	4.4
Pension settlements	0.3	—	0.4	0.3
Share of equity method investments other comprehensive income	1.1	—	1.1	0.7
Net change in fair value of cash flow hedges	3.1	(8.4)	3.6	(19.7)
Reclassification of cash flow hedge losses (gains) into earnings	0.8	3.7	1.2	(12.5)
Other comprehensive (loss) income before taxes	(0.4)	(15.6)	14.8	(51.0)
Tax (expense) benefit	(0.8)	1.0	(1.2)	6.6
Other comprehensive (loss) income, net of tax	**(1.2)**	**(14.6)**	**13.6**	**(44.4)**
Comprehensive income	**$ 129.2**	**$ 127.3**	**$ 459.2**	**$ 358.3**

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
For the three and nine months ended September 30, 2023 and 2022 (Unaudited)
(In millions, except per share data)

(For the three months ended September 30, 2023)	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost		Total Stockholders' Equity (Deficit)
					Shares	Amount	
Balance as of June 30, 2023	**$ 0.9**	**$ 1,169.3**	**$ 3,309.0**	**$ (75.8)**	**51.7**	**$ (4,340.8)**	**$ 62.6**
Net income	—	—	130.4	—	—	—	130.4
Dividends, $1.10 per share	—	—	(39.1)	—	—	—	(39.1)
Foreign currency translation adjustments	—	—	—	(5.7)	—	—	(5.7)
Pension and post-retirement liability changes, net of tax expense of $0.0	—	—	—	0.3	—	—	0.3
Share of equity method investments other comprehensive income	—	—	—	1.1	—	—	1.1
Stock-based compensation expense	—	9.7	—	—	—	—	9.7
Change in cash flow hedges, net of tax expense of $0.8	—	—	—	3.1	—	—	3.1
Treasury shares reissued for common stock	—	(0.1)	—	—	(0.1)	1.2	1.1
Treasury stock purchases	—	—	—	—	—	(4.0)	(4.0)
Balance as of September 30, 2023	**$ 0.9**	**$ 1,178.9**	**$ 3,400.3**	**$ (77.0)**	**51.6**	**$ (4,343.6)**	**$ 159.5**

(For the three months ended September 30, 2022)	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost		Total Stockholders' Deficit
					Shares	Amount	
Balance as of June 30, 2022	**$ 0.9**	**$ 1,144.0**	**$ 2,909.5**	**$ (117.9)**	**51.7**	**$ (4,337.8)**	**$ (401.3)**
Net income	—	—	141.9	—	—	—	141.9
Dividends, $1.06 per share	—	—	(37.5)	—	—	—	(37.5)
Foreign currency translation adjustments	—	—	—	(11.6)	—	—	(11.6)
Pension and post-retirement liability changes, net of tax expense of $0.2	—	—	—	0.5	—	—	0.5
Stock-based compensation expense	—	5.8	—	—	—	—	5.8
Change in cash flow hedges, net of tax benefit of $1.2	—	—	—	(3.5)	—	—	(3.5)
Treasury shares reissued for common stock	—	0.6	—	—	—	0.3	0.9
Treasury stock purchases	—	—	—	—	—	(0.4)	(0.4)
Balance as of September 30, 2022	**$ 0.9**	**$ 1,150.4**	**$ 3,013.9**	**$ (132.5)**	**51.7**	**$ (4,337.9)**	**$ (305.2)**

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
For the three and nine months ended September 30, 2023 and 2022 (Unaudited)
(In millions, except per share data)

(For the nine months ended September 30, 2023)	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost: Shares	Treasury Stock at Cost: Amount	Total Stockholders' Equity (Deficit)
Balance as of December 31, 2022	**$ 0.9**	**$ 1,155.2**	**$ 3,070.6**	**$ (90.6)**	**51.7**	**$ (4,339.2)**	**$ (203.1)**
Net income	—	—	445.6	—	—	—	445.6
Dividends, $3.26 per share	—	—	(115.9)	—	—	—	(115.9)
Foreign currency translation adjustments	—	—	—	8.7	—	—	8.7
Pension and post-retirement liability changes, net of tax expense of $0.0	—	—	—	0.2	—	—	0.2
Share of equity method investments other comprehensive income	—	—	—	1.1	—	—	1.1
Stock-based compensation expense	—	23.5	—	—	—	—	23.5
Change in cash flow hedges, net of tax expense of $1.2	—	—	—	3.6	—	—	3.6
Treasury shares reissued for common stock	—	0.2	—	—	(0.1)	2.7	2.9
Treasury stock purchases	—	—	—	—	—	(7.1)	(7.1)
Balance as of September 30, 2023	**$ 0.9**	**$ 1,178.9**	**$ 3,400.3**	**$ (77.0)**	**51.6**	**$ (4,343.6)**	**$ 159.5**

(For the nine months ended September 30, 2022)	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost: Shares	Treasury Stock at Cost: Amount	Total Stockholders' Deficit
Balance as of December 31, 2021	**$ 0.9**	**$ 1,133.7**	**$ 2,719.3**	**$ (88.1)**	**50.5**	**$ (4,034.8)**	**$ (269.0)**
Net income	—	—	402.7	—	—	—	402.7
Dividends, $3.04 per share	—	—	(108.1)	—	—	—	(108.1)
Foreign currency translation adjustments	—	—	—	(20.7)	—	—	(20.7)
Pension and post-retirement liability changes, net of tax expense of $0.7	—	—	—	0.5	—	—	0.5
Share of equity method investments other comprehensive income	—	—	—	0.7	—	—	0.7
Stock-based compensation expense	—	16.4	—	—	—	—	16.4
Change in cash flow hedges, net of tax benefit of $7.3	—	—	—	(24.9)	—	—	(24.9)
Treasury shares reissued for common stock	—	0.3	—	—	(0.1)	2.4	2.7
Treasury stock purchases	—	—	—	—	1.3	(305.5)	(305.5)
Balance as of September 30, 2022	**$ 0.9**	**$ 1,150.4**	**$ 3,013.9**	**$ (132.5)**	**51.7**	**$ (4,337.9)**	**$ (305.2)**

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

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

(Amounts in millions)	For the Nine Months Ended September 30, 2023	2022
Cash flows from operating activities:		
Net income	$ 445.6	$ 402.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from equity method investments	(8.0)	(3.9)
Impairment on assets held for sale	63.2	—
Dividends from affiliates	—	1.2
Restructuring charges, net of cash paid	—	0.7
Provision for credit losses	4.7	4.3
Unrealized losses, net on derivative contracts	5.6	0.8
Stock-based compensation expense	23.5	16.4
Depreciation and amortization	62.0	56.2
Deferred income taxes	(24.9)	(16.6)
Pension expense	2.4	5.1
Pension contributions	(2.8)	(0.7)
Other items, net	(1.4)	(1.4)
Changes in assets and liabilities:		
Accounts and notes receivable	(142.5)	(214.9)
Inventories	(44.9)	(245.7)
Other current assets	(0.5)	(5.1)
Accounts payable	(10.9)	78.7
Accrued expenses	69.4	36.0
Income taxes payable and receivable, net	(6.7)	35.5
Leases, net	3.4	0.8
Other, net	(7.3)	20.0
Net cash provided by operating activities	**429.9**	**170.1**
Cash flows from investing activities:		
Proceeds from the disposal of property, plant and equipment	1.6	1.2
Purchases of property, plant and equipment	(125.0)	(67.0)
Purchases of short-term investments	(1.1)	(2.4)
Net cash used in investing activities	**(124.5)**	**(68.2)**
Cash flows from financing activities:		
Asset securitization borrowings	190.0	382.0
Asset securitization payments	(540.0)	(232.0)
Long-term debt payments	(10.6)	(9.8)
Issuance of senior unsecured notes	500.0	—
Borrowings from credit facility	1,547.5	1,967.5
Payments on credit facility	(1,739.5)	(1,752.0)
Payments of deferred financing costs	(5.4)	—
Proceeds from employee stock purchases	2.9	2.7
Repurchases of common stock	—	(300.0)
Repurchases of common stock to satisfy employee withholding tax obligations	(7.1)	(5.5)
Cash dividends paid	(153.4)	(142.0)
Net cash used in financing activities	**(215.6)**	**(89.1)**
Increase in cash and cash equivalents	89.8	12.8
Cash balances classified as assets held for sale	(7.6)	—
Effect of exchange rates on cash and cash equivalents	(2.8)	(3.1)
Cash and cash equivalents, beginning of period	52.6	31.0
Cash and cash equivalents, end of period	**$ 132.0**	**$ 40.7**
Supplemental disclosures of cash flow information:		
Interest paid	$ 42.0	$ 23.2
Income taxes paid (net of refunds)	$ 151.3	$ 75.4

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

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

1. General:

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

Basis of Presentation

The accompanying unaudited Consolidated Balance Sheet as of September 30, 2023, the accompanying unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2023 and 2022, the accompanying unaudited Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2023 and 2022, the accompanying unaudited Consolidated Statements of Stockholders' Equity (Deficit) for the three and nine months ended September 30, 2023 and 2022, and the accompanying unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 and 2022 should be read in conjunction with our audited consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2022.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The accompanying consolidated financial statements contain all material adjustments, consisting principally of normal recurring adjustments, necessary for a fair presentation of our financial position, results of operations and cash flows. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to applicable rules and regulations, although we believe that the disclosures herein are adequate to make the information presented not misleading. The operating results for the interim periods are not necessarily indicative of the results that may be expected for a full year.

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

Use of Estimates

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

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

2. Reportable Business Segments:

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

Segment	Product or Services	Markets Served	Geographic Areas
Residential	Furnaces, air conditioners, heat pumps, packaged heating and cooling systems, indoor air quality equipment, comfort control products, replacement parts and supplies	Residential Replacement; Residential New Construction	United States Canada
Commercial	Unitary heating and air conditioning equipment, applied systems, controls, installation and service of commercial heating and cooling equipment, variable refrigerant flow commercial products, condensing units, unit coolers, fluid coolers, air cooled condensers, air handlers, controls, and compressorized racks	Light Commercial; Food Preservation; Non-Food/Industrial	United States Canada

Prior to January 1, 2023, we operated in three reportable business segments. In November 2022, we announced the decision to explore strategic alternatives for our European commercial HVAC and refrigeration businesses. We will continue to invest in our Heatcraft Worldwide Refrigeration business which became part of the Commercial segment effective on January 1, 2023 while the European portfolio will be presented with Corporate and Other until disposition. The consolidation of our Heatcraft business within the Commercial segment provides the opportunity to leverage synergies and create long-term growth opportunities by integrating entities with similar products, end consumers and financial performance metrics under the same management. The change in segment reporting better aligns with how the businesses are managed and evaluated given the change in portfolio. Recast Segment Results were presented in our March 31, 2023 Form 10-Q for both the previously presented segment results as well as the recast financial information to reflect the change in our segment presentation.

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

Our corporate costs include those costs related to our European operations, as well as our corporate functions such as legal, internal audit, treasury, human resources, tax compliance and senior executive staff. Any intercompany sales and associated profit (and any other intercompany items) are eliminated from segment results. There were no significant intercompany eliminations for the periods presented.

Segment Net Sales and Profit (Loss)

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

	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022 [2]	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022 [2]
Net sales				
Residential	$ 896.3	$ 835.3	$ 2,513.6	$ 2,494.9
Commercial [2]	405.5	352.3	1,121.5	959.2
Corporate and other [2]	64.5	57.3	192.0	170.5
	$ 1,366.3	**$ 1,244.9**	**$ 3,827.1**	**$ 3,624.6**
Segment profit (loss) [1]				
Residential	$ 181.4	$ 153.8	$ 495.2	$ 477.7
Commercial [2]	97.3	52.4	250.3	117.4
Corporate and other [2]	(23.4)	(16.9)	(65.2)	(61.4)
Total segment profit	255.3	189.3	680.3	533.7
Reconciliation to Operating income:				
Impairment on assets held for sale	$ 63.2	—	$ 63.2	—
Items in Losses (gains) and other expenses, net that are excluded from segment profit (loss) [1]	5.0	3.3	12.1	7.9
Restructuring charges	0.3	0.2	0.2	1.2
Operating income	**$ 186.8**	**$ 185.8**	**$ 604.8**	**$ 524.6**

[1] We define segment profit (loss) as a segment's operating income included in the accompanying Consolidated Statements of Operations, excluding:

- The following items in Losses (gains) and other expenses, net:
  - Net change in unrealized (gains) losses on unsettled futures contracts,
  - Environmental liabilities and special litigation charges, and;
  - Other items, net
- Restructuring charges and;
- Impairment on assets held for sale

[2] 2022 results have been recast to reflect the realignment of our reportable segments.

3. Earnings Per Share:

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income by the sum of the weighted-average number of shares and the number of equivalent shares assumed outstanding, if dilutive, under our stock-based compensation plans.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	**$ 130.4**	**$ 141.9**	**$ 445.6**	**$ 402.7**
Weighted-average shares outstanding – basic	**35.5**	**35.4**	**35.5**	**35.8**
Add: Potential effect of dilutive securities attributable to stock-based payments	0.2	0.1	0.1	0.1
Weighted-average shares outstanding – diluted	**35.7**	**35.5**	**35.6**	**35.9**
Earnings per share – Basic:	$ 3.67	$ 4.00	$ 12.55	$ 11.25
Earnings per share – Diluted:	$ 3.65	$ 3.99	$ 12.51	$ 11.22

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Weighted-average number of shares	0.1	0.3	0.1	0.3

4. Commitments and Contingencies:

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in our Consolidated Balance Sheets as Right-of-use assets from operating leases, Current operating lease liabilities and Long-term operating lease liabilities. Finance leases are included in Property, plant and equipment, Current maturities of long-term debt and Long-term debt in our Consolidated Balance Sheets. We do not recognize a right-of-use asset and lease liability for leases with a term of 12 months or less. We do not separate non-lease components from lease components to which they relate and have accounted for the combined lease and non-lease components as a single lease component.

Many of our lease agreements contain renewal options; however, we do not recognize right-of-use assets or lease liabilities for renewal periods unless it is determined that we are reasonably certain of renewing the lease at inception or when a triggering event occurs. Some of our lease agreements contain rent escalation clauses (including index-based escalations), rent holidays, capital improvement funding or other lease concessions. We recognize our minimum rental expense on a straight-line basis based on the fixed components of a lease arrangement. We amortize this expense over the term of the lease beginning with the date of initial possession. Variable lease components represent amounts that are not fixed in nature and are not tied to an index or rate, and are recognized as incurred. Under certain of our third-party service agreements, we control a specific space or underlying asset used in providing the service by the third-party service provider. These arrangements meet the definition under ASC 842 and therefore are accounted for under ASC 842.

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

We lease certain real and personal property under non-cancelable operating leases. Approximately 81% of our right-of-use assets and lease liabilities relate to our leases of real estate with the remaining amounts primarily relating to our leases of IT equipment, fleet vehicles and manufacturing and distribution equipment.

Product Warranties and Product Related Contingencies

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

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

	September 30, 2023	December 31, 2022
Accrued expenses	$ 44.0	$ 41.3
Other liabilities	100.6	101.4
Total warranty liability	**$ 144.6**	**$ 142.7**

The changes in product warranty liabilities related to continuing operations for the nine months ended September 30, 2023 were as follows (in millions):

Total warranty liability as of December 31, 2022	**$ 142.7**
Warranty claims paid	(33.2)
Changes resulting from issuance of new warranties	44.7
Changes in estimates associated with pre-existing liabilities	(5.2)
Changes in foreign currency translation rates and other	(0.1)
Warranty liability reclassified as liabilities held for sale	(4.3)
Total warranty liability as of September 30, 2023	**$ 144.6**

Litigation

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

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

5. Stock Repurchases:

Our Board of Directors has authorized a total of $4.0 billion to repurchase shares of our common stock (collectively referred to as the "Share Repurchase Plans"), including a $1.0 billion share repurchase authorization in July 2021. The Share Repurchase Plans allow us to repurchase shares from time to time in open market transactions and in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The Share Repurchase Plans do not require the repurchase of a specific number of shares and may be terminated at any time. As of September 30, 2023, $546 million was available for repurchase under the Share Repurchase Plans.

6. Assets Held for Sale:

During the third quarter of 2023, we obtained Board approval and reached agreements to sell our European commercial HVAC and refrigeration businesses as well as our European Process Cooling business, both of which are expected to close in the fourth quarter of 2023. All of these businesses are included in the Corporate and Other segment. We have reclassified the assets and liabilities associated with these businesses to assets and liabilities held for sale. The following table presents the assets and liabilities classified as held for sale as of September 30, 2023 (in millions).

Assets held for sale		
Cash and cash equivalents	$	7.6
Accounts and notes receivable, net of allowances		51.8
Inventories, net		49.8
Other assets		16.4
Property, plant, and equipment, net of accumulated depreciation		3.2
Goodwill		2.3
Valuation allowance		(38.3)
Total assets held for sale as of September 30, 2023	**$**	**92.8**
Liabilities held for sale		
Current liabilities	$	61.0
Non-current liabilities		8.7
Total liabilities held for sale as of September 30, 2023	**$**	**69.7**

Based on the expected fair value of the consideration to be received for these businesses, net of our costs to sell, we recorded an impairment on assets held for sale of $63.2 million related to the sale of our European commercial HVAC and refrigeration businesses. The consideration will be a combination of cash, a note receivable, and contingent consideration. The impairment consists of a $38.3 million valuation allowance for the difference between the consideration, net of our cost to sell and the carrying value of the net assets, including related amounts in Accumulated Other Comprehensive Loss, $22.6 million impairment of Property, plant, and equipment, and a $2.3 million impairment of goodwill. The operating profits and losses generated from these businesses are not material for any period presented.

7. Revenue Recognition:

The following table disaggregates our revenue by business segment by geography which provides information as to the major source of revenue. See Note 2 for additional information on our reportable business segments and the products and services sold in each segment. All amount presented reflect the revised segment presentation.

	For the Three Months Ended September 30, 2023			
Primary Geographic Markets	**Residential**	**Commercial**	**Corporate and Other**	**Consolidated**
United States	$ 842.1	$ 376.8	$ —	$ 1,218.9
Canada	54.2	28.7	—	82.9
Other international	—	—	64.5	64.5
Total	**$ 896.3**	**$ 405.5**	**$ 64.5**	**$ 1,366.3**

	For the Three Months Ended September 30, 2022 (1)			
Primary Geographic Markets	**Residential**	**Commercial**	**Corporate and Other**	**Consolidated**
United States	$ 779.8	$ 331.9	$ —	$ 1,111.7
Canada	55.5	20.3	—	75.8
Other international	—	0.1	57.3	57.4
Total	**$ 835.3**	**$ 352.3**	**$ 57.3**	**$ 1,244.9**

	For the Nine Months Ended September 30, 2023			
Primary Geographic Markets	**Residential**	**Commercial**	**Corporate and Other**	**Consolidated**
United States	$ 2,350.0	$ 1,053.5	$ —	$ 3,403.5
Canada	163.6	68.0	—	231.6
Other international	—	—	192.0	192.0
Total	**$ 2,513.6**	**$ 1,121.5**	**$ 192.0**	**$ 3,827.1**

	For the Nine Months Ended September 30, 2022 (1)			
Primary Geographic Markets	**Residential**	**Commercial**	**Corporate and Other**	**Consolidated**
United States	$ 2,311.2	$ 915.4	$ —	$ 3,226.6
Canada	183.7	43.2	—	226.9
Other international	—	0.6	170.5	171.1
Total	**$ 2,494.9**	**$ 959.2**	**$ 170.5**	**$ 3,624.6**

(1) As discussed in Note 2, we adjusted our segment reporting to include the results of our Heatcraft businesses in Commercial and the results of our European portfolio in Corporate and Other. The amounts for the three and nine months ended September 30, 2022 have been recast to reflect the revised segment presentation.

Residential - We manufacture and market a broad range of furnaces, air conditioners, heat pumps, packaged heating and cooling systems, equipment and accessories to improve indoor air quality, comfort control products, replacement parts and supplies and related products for both the residential replacement and new construction markets in North America. These products are sold under various brand names and are sold either through direct sales to a network of independent installing dealers, including through our network of Lennox stores or to independent distributors. For the three months ended September 30, 2023 and 2022, direct sales represented 77% and 72% of revenues, and sales to independent distributors represented the remainder. For the nine months ended September 30, 2023 and 2022, direct sales represented 75% and 70% of revenues, and sales to independent distributors represented the remainder.

Commercial - In North America, we manufacture and sell unitary heating and cooling equipment used in light commercial applications, such as low-rise office buildings, restaurants, retail centers, churches and schools. These products are distributed primarily through commercial contractors and directly to national account customers in the planned replacement, emergency replacement and new construction markets. We manufacture and market equipment for the commercial refrigeration markets under the Heatcraft Worldwide Refrigeration name. Our products are used in the food retail, food service, cold storage as well as non-food refrigeration markets. We sell these products to distributors, installing contractors, engineering design firms, original equipment manufacturers and end-users. Lennox National Account Services provides installation, service and preventive maintenance for HVAC national account customers in the United States and Canada. For the three months ended September 30, 2023 and 2022, equipment sales represented 88% and 88% of revenues and the remainder of our revenue was generated from our service business. For the nine months ended September 30, 2023 and 2022, equipment sales represented 87% and 87% of revenues and the remainder of our revenue was generated from our service business.

Corporate and Other - In Europe, we manufacture and market equipment for the global commercial refrigeration markets. We also manufacture and sell unitary heating and cooling products and applied systems. A de minimis amount of segment revenue relates to services for start-up and commissioning activities.

Contract Liabilities - Our contract liabilities consist of advance payments and deferred revenue. Net contract liabilities consisted of the following (in millions) as of:

	September 30, 2023	December 31, 2022
Contract liabilities - current	$ (4.9)	$ (9.6)
Contract liabilities - noncurrent	(7.2)	(6.4)
Total	$ (12.1)	$ (16.0)

For the three months ended September 30, 2023 and 2022, we recognized revenue of $2.8 million and $3.6 million and for the nine months ended we recognized revenue of $7.0 million and $9.5 million related to our contract liabilities at January 1, 2023 and 2022, respectively. Impairment losses recognized in our receivables and contract assets were de minimis in 2023 and 2022.

8. Other Financial Statement Details:

Inventories:

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

	September 30, 2023	December 31, 2022
Finished goods	$ 544.7	$ 534.6
Work in process	8.6	8.9
Raw materials and parts	322.9	328.7
Subtotal	876.2	872.2
Excess of current cost over last-in, first-out cost	(128.3)	(119.2)
Total inventories, net	**$ 747.9**	**$ 753.0**

Goodwill:

The changes in the carrying amount of goodwill in 2023, in total and by segment, are summarized in the table below (in millions):

	Balance as of December 31, 2022	Goodwill Reallocation [1]	Reallocation to Assets Held for Sale [2]	Balance as of September 30, 2023
Residential	$ 26.1	$ —	$ —	$ 26.1
Commercial [1]	61.1	94.5	—	155.6
Refrigeration [1]	99.1	(99.1)	—	$ —
Corporate and Other [1]	—	4.6	(4.6)	—
Total Goodwill	**$ 186.3**	**$ —**	**$ (4.6)**	**181.7**

[1] As discussed in Note 2, we recast our segment presentation to present our Heatcraft Worldwide Refrigeration business as a component of our Commercial segment and our European portfolio as a component of Corporate & Other. Since there is no longer a Refrigeration segment, we allocated goodwill to each segment based upon the relative fair value of the business.

[2] As discussed in Note 6, we are presenting the assets and liabilities of our European businesses as Assets Held for Sale. There was $4.6 million of goodwill related to our European portfolio. As part of the loss on assets held for sale, we recorded an impairment of $2.3 million for a portion of the goodwill transferred.

We monitor our reporting units for indicators of impairment throughout the year to determine if a change in facts or circumstances warrants a re-evaluation of our goodwill. We have not recorded any goodwill impairments for the nine months ended September 30, 2023 or in any periods presented for our continuing businesses.

Derivatives:

Objectives and Strategies for Using Derivative Instruments

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

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

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

Cash Flow Hedges

We have foreign exchange forward contracts and commodity futures contracts designated as cash flow hedges that are scheduled to mature through August 2024. Unrealized gains or losses from our cash flow hedges are included in Accumulated other comprehensive loss ("AOCL") and are expected to be reclassified into earnings within the next 12 months based on the prices of the commodities and foreign currencies at the settlement dates. We recorded the following amounts in AOCL related to our cash flow hedges (in millions) as of:

	September 30, 2023	December 31, 2022
Unrealized losses (gains), net on unsettled contracts	$ 1.5	$ 6.3
Income tax (benefit) expense	(0.2)	(1.4)
Unrealized losses (gains), net included in AOCL, net of tax [1]	$ 1.3	$ 4.9

[1] Assuming commodity prices and foreign currency exchange rates remain constant, we expect to reclassify $1.2 million of derivative losses as of September 30, 2023 into earnings within the next 12 months.

Stock-Based Compensation:

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock-based compensation expense	$ 9.7	$ 5.8	$ 23.5	$ 16.4

9. Pension Benefit Plans:

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Service cost	$ 0.5	$ 1.1	$ 1.6	$ 3.2
Interest cost	2.2	1.5	6.7	4.5
Expected return on plan assets	(2.4)	(2.3)	(7.1)	(7.0)
Recognized actuarial loss	—	1.5	0.6	4.4
Other	0.3	0.2	(0.1)	0.2
Settlements and curtailments	0.3	—	0.4	0.3
Net periodic benefit cost	**$ 0.9**	**$ 2.0**	**$ 2.1**	**$ 5.6**

10. Income Taxes:

As of September 30, 2023, we had approximately $4.0 million in total gross unrecognized tax benefits. All of this amount, if recognized, would be recorded through the Consolidated Statements of Operations. Our effective tax rate was 25.6% for the three months ended September 30, 2023 compared to 18.7% for the three months ended September 30, 2022, 21.0% for the nine months ended September 30, 2023 and 18.9% for the nine months ended September 30, 2022. The change in the rate is primarily due to the allocation of income to higher tax jurisdictions and a discrete adjustment related to the European divestiture.

We are currently under a U.S. federal income tax audit by the Internal Revenue Service for 2021. We are also subject to examination by numerous other taxing authorities in the U.S. and in foreign jurisdictions. We are generally no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by taxing authorities for years prior to 2016.

11. Lines of Credit and Financing Arrangements:

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

	September 30, 2023	December 31, 2022
Current maturities of long-term debt:		
Asset securitization program	$ —	$ 350.0
Finance lease obligations	11.6	11.2
Senior unsecured notes	350.0	350.0
Debt issuance costs	—	(0.6)
Total current maturities of long-term debt	$ 361.6	$ 710.6
Long-Term Debt:		
Finance lease obligations	31.9	28.3
Credit agreement	—	192.0
Senior unsecured notes	1,100.0	600.0
Debt issuance costs	(10.3)	(6.1)
Total long-term debt	$ 1,121.6	$ 814.2
Total debt	$ 1,483.2	$ 1,524.8

Foreign Obligations

Through several of our foreign subsidiaries, we have facilities available to assist us in financing seasonal borrowing needs for our foreign locations. We had no outstanding foreign obligations as of September 30, 2023 or December 31, 2022 and there were no borrowings or repayments on these facilities during the nine months ended September 30, 2023.

Asset Securitization Program

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

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

	September 30, 2023	December 31, 2022
Eligible amount available under the ASP on qualified accounts receivable	$ 400.0	$ 350.0
Less: Beneficial interest transferred	—	(350.0)
Remaining amount available	$ 400.0	$ —

We pay certain discount fees to use the ASP and to have the facility available to us. These fees relate to both the used and unused portions of the securitization. The used fee is based on the beneficial interests sold and calculated on the floating commercial paper rate determined by the purchaser of the beneficial interest, plus a program fee of 0.70%. The average rates as of September 30, 2023 and December 31, 2022 were 0.00% and 5.17%, respectively. The unused fee is based on 101% of the maximum available amount less the beneficial interest transferred and is calculated at a rate ranging between 0.25% and 0.35%, depending on the available borrowings, throughout the term of the agreement. We recorded these fees in Interest expense, net in the accompanying Consolidated Statements of Operations.

The ASP contains certain restrictive covenants relating to the quality of our accounts receivable and cross-default provisions with our Credit Agreement (as defined below), senior unsecured notes and any other indebtedness we may have over $75.0 million. The administrative agent under the ASP is also a participant in our Credit Agreement, as defined below. The participating financial institutions have investment grade credit ratings. As of September 30, 2023, we were in compliance with all covenant requirements. The ASP will expire according to its terms in November 2023 and we do not intend to renew it.

Second Amendment to the Credit Agreement

In August 2023, we entered into the Second Amendment (the "Second Amendment") to our existing Credit Agreement, dated as of July 14, 2021 (as amended, the "Credit Agreement"), with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto. Under the Second Amendment, the revolving commitments were increased by $350 million and certain representations required to be made as conditions precedent to borrowing were revised to provide us greater flexibility to enter into additional future financing.

The Credit Agreement consists of a $1.1 billion unsecured revolving credit facility. We had outstanding borrowings of $0.0 million as well as $1.7 million committed to standby letters of credit as of September 30, 2023. Subject to covenant limitations, $1,098.3 million was available for future borrowings. The Credit Agreement includes a subfacility for swingline loans up to $65.0 million. The Credit Agreement will expire and outstanding loans will be required to be repaid in July 2026, unless maturity is extended by the lenders pursuant to two one-year extension options that we may request under the Credit Agreement.

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

	September 30, 2023	December 31, 2022
Weighted average borrowing rate	— %	5.57 %

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

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

• We fail to pay any principal or interest when due on any other indebtedness or receivables securitization exceeding $75.0 million; or

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

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

If any event of default occurs and is continuing, the administrative agent, or lenders with a majority of the aggregate commitments may require the administrative agent to, terminate our right to borrow under our Credit Agreement and accelerate amounts due under our Credit Agreement (except for a bankruptcy event of default, in which case such amounts will automatically become due and payable and the lenders’ commitments will automatically terminate). As of September 30, 2023, we were in compliance with all covenant requirements.

Senior Unsecured Notes

In September 2023, we issued $500.0 million of senior unsecured notes, which will mature in September 2028 (the "2028 Notes") with interest being paid semi-annually in March and September at 5.50%. We issued two series of senior unsecured notes on July 30, 2020 for $300.0 million each, which will mature on August 1, 2025 (the "2025 Notes") and August 1, 2027 (the "2027 Notes") with interest being paid semi-annually in February and August at 1.35% and 1.70% respectively, per annum. We also issued $350.0 million of senior unsecured notes in November 2016 (the "2023 Notes," and together with the 2025 Notes, 2027 Notes, and the 2028 Notes, the "Notes") which will mature on November 15, 2023 with interest being paid semi-annually on May 15 and November 15 at 3.00% per annum.

All the Notes are guaranteed, on a senior unsecured basis, by certain of our subsidiaries that guarantee indebtedness under our Credit Agreement. The indenture governing the Notes contains covenants that, among other things, limit our ability and the ability of the subsidiary guarantors to: create or incur certain liens; enter into certain sale and leaseback transactions; and enter into certain mergers, consolidations and transfers of substantially all of our assets. The indenture also contains a cross default provision which is triggered if we default on other debt of at least $75.0 million in principal which is then accelerated, and such acceleration is not rescinded within 30 days of the notice date. As of September 30, 2023, we believe we were in compliance with all covenant requirements.

Commercial Paper Program

On October 25, 2023, we established a commercial paper program (the “Program”) pursuant to which we may issue short-term, unsecured commercial paper notes (the “CP Notes”) under the exemption from registration contained in Section 4(a)(2) of the Securities Act of 1933, as amended. Amounts available under the Program may be borrowed, repaid, and re-borrowed from time to time, with the aggregate face or principal amount of the CP Notes outstanding under the Program at any time not to exceed $500.0 million. The CP Notes will have maturities of up to 397 days from the date of issue. The CP Notes will rank pari passu with all of our other unsecured and unsubordinated indebtedness. The net proceeds of the issuances of the CP Notes are expected to be used for general corporate purposes. We plan to use our revolving credit facility as a liquidity backstop for the repayment of CP Notes outstanding under the Program. No CP Notes are currently outstanding under the Program.

12. Comprehensive Income (Loss):

The following table provides information on items reclassified from AOCL to Net income in the accompanying Consolidated Statements of Operations (in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		Affected Line Item(s) in the Consolidated Statements of Operations
	2023	2022	2023	2022	
(Losses) Gains on Cash Flow Hedges:					
Derivatives contracts	$ (0.8)	$ (3.7)	$ (1.2)	$ 12.5	Cost of goods sold; Losses (gains) and other expenses, net
Income tax (expense) benefit	0.2	0.8	0.3	(2.9)	Provision for income taxes
Net of tax	$ (0.6)	$ (2.9)	$ (0.9)	$ 9.6	
Defined Benefit Plan items:					
Pension and post-retirement benefit costs	$ —	$ (1.5)	$ (0.6)	$ (4.4)	Other expense (income), net
Pension settlements	(0.3)	—	(0.4)	(0.3)	Pension settlements
Income tax benefit	0.1	0.4	0.2	1.2	Provision for income taxes
Net of tax	$ (0.2)	$ (1.1)	$ (0.8)	$ (3.5)	
Total reclassifications from AOCL	**$ (0.8)**	**$ (4.0)**	**$ (1.7)**	**$ 6.1**	

The following table provides information on changes in AOCL, by component (net of tax), for the nine months ended September 30, 2023 (in millions):

	(Losses) Gains on Cash Flow Hedges	Share of equity method investments other comprehensive income	Defined Benefit Pension Plan Items	Foreign Currency Translation Adjustments	Total AOCL
Balance as of December 31, 2022	**$ (4.9)**	**$ (0.5)**	**$ (46.2)**	**$ (39.0)**	**$ (90.6)**
Other comprehensive income (loss) before reclassifications	2.7	1.1	(0.6)	8.7	11.9
Amounts reclassified from AOCL	0.9	—	0.8	—	1.7
Net other comprehensive income	3.6	1.1	0.2	8.7	13.6
Balance as of September 30, 2023	**$ (1.3)**	**$ 0.6**	**$ (46.0)**	**$ (30.3)**	**$ (77.0)**

13. Fair Value Measurements:

Fair Value Hierarchy

The methodologies used to determine the fair value of our financial assets and liabilities at September 30, 2023 were the same as those used at December 31, 2022.

Assets and Liabilities Carried at Fair Value on a Recurring Basis

Derivatives were classified as Level 2 and primarily valued using estimated future cash flows based on observed prices from exchange-traded derivatives. We also considered the counterparty's creditworthiness, or our own creditworthiness, as appropriate. Adjustments were recorded to reflect the risk of credit default, however, they were insignificant to the overall value of the derivatives. Refer to Note 8 for more information related to our derivative instruments.

Other Fair Value Disclosures

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

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

	September 30, 2023	December 31, 2022
Senior unsecured notes	$ 1,386.2	$ 878.0

14. Subsequent Event:

On October 25, 2023, we announced the acquisition of AES, a company dedicated to service and sustainability in the light commercial markets. Across North America, AES provides installation services, adapter curbs, and recycling services. AES will become part of the Commercial segment. The final net purchase price is expected to be approximately $90 million in cash which will be funded by the available borrowing capacity on our outstanding debt.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on information currently available to management as well as management’s assumptions and beliefs as of the date such statements were made. All statements, other than statements of historical fact, included in this Quarterly Report on Form 10-Q constitute forward-looking statements, including but not limited to statements identified by forward-looking terminology, such as the words “may,” “will,” “should,” “plan,” “anticipate,” “believe,” “intend,” “estimate” and “expect” and similar expressions. Such statements reflect our current views with respect to future events, based on what we believe are reasonable assumptions; however, such statements are subject to certain risks and uncertainties.

In addition to the specific uncertainties discussed elsewhere in this Quarterly Report on Form 10-Q, the risk factors set forth in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, and those set forth in Part II, “Item 1A. Risk Factors” of this report, if any, may affect our performance and results of operations. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those in the forward-looking statements. We disclaim any intention or obligation to update or review any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law.

Business Overview

We operate in two reportable business segments of the heating, ventilation, air conditioning and refrigeration (“HVACR”) industry. Our reportable segments are Residential and Commercial. For additional information regarding our reportable segments, see Note 2 in the Notes to the Consolidated Financial Statements.

Our fiscal quarterly periods are comprised of approximately 13 weeks, but the number of days per quarter may vary year-over-year. Our quarterly reporting periods usually end on the Saturday closest to the last day of March, June and September. Our fourth quarter and fiscal year ends on December 31, regardless of the day of the week on which December 31 falls. For convenience, throughout this Management’s Discussion and Analysis of Financial Condition and Results of Operations, the 13-week periods comprising each fiscal quarter are denoted by the last day of the respective calendar quarter.

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

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

Change in Segment Reporting

Prior to January 1, 2023, we operated in three reportable business segments. In November 2022, we announced the decision to explore strategic alternatives for our European commercial HVAC and refrigeration businesses. We continue to operate and invest in our Heatcraft Worldwide Refrigeration business which became part of the Commercial segment effective on January 1, 2023, while the European portfolio will be presented with Corporate and Other until disposition. The consolidation of our Heatcraft business within the Commercial segment provides the opportunity to leverage synergies and create long-term growth opportunities by integrating entities with similar products, end consumers and financial performance metrics under the same management. The change in segment reporting better aligns with how the businesses are managed and evaluated given the change in portfolio. All amounts discussed in this *Management's Discussion and Analysis of Financial Condition and Results of Operations* reflect the revised segment presentation.

Financial Overview

Results for the third quarter of 2023 were driven by overall year-over-year sales and profit increases. Net sales increased 15% and segment profit increased $45 million for the Commercial segment. Net sales increased 7% and segment profit increased $28 million for the Residential segment. Net sales increased 13% and segment loss decreased $7 million for the Corporate & Other segment.

Financial Highlights

- Net sales increased $121 million to $1,366 million in the third quarter of 2023 driven by favorable mix and price partially offset by lower sales volumes and unfavorable foreign currency.
- Operating income in the third quarter of 2023 increased $1 million to $187 million primarily driven by favorable mix and price partially offset by a $63 million loss on assets held for sale.
- Net income for the third quarter of 2023 was $130 million.
- Diluted earnings per share was $3.65 per share in the third quarter of 2023 compared to $3.99 per share in the third quarter of 2022.
- For the nine months ended September 30, 2023, we returned $153 million to shareholders through dividend payments.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022 - Consolidated Results

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

	For the Three Months Ended September 30,				
	Dollars (in millions)		Percent Change Fav/(Unfav)	Percent of Sales	
	2023	2022		2023	2022
Net sales	**$ 1,366.3**	**$ 1,244.9**	**9.8 %**	**100.0 %**	**100.0 %**
Cost of goods sold	937.8	910.7	(3.0)	68.6	73.2
Gross profit	428.5	334.2	28.2	31.4	26.8
Selling, general and administrative expenses	178.9	147.3	(21.5)	13.1	11.8
Losses (gains) and other expenses, net	3.5	3.3	(6.1)	0.3	0.3
Restructuring charges	0.3	0.2	(50.0)	—	—
Impairment on assets held for sale	63.2	—	(100.0)	4.6	—
Income from equity method investments	(4.2)	(2.4)	75.0	(0.3)	(0.2)
Operating income	**$ 186.8**	**$ 185.8**	**0.5 %**	**13.7 %**	**14.9 %**

Net Sales

Net sales for the third quarter of 2023 compared to the third quarter of 2022 increased 10% as a result of favorable mix of 6% and favorable product price of 5% which was partially offset by lower sales volumes of 1%.

Gross Profit

Gross profit margins in the third quarter of 2023 increased 460 basis points ("bps") to 31.4% compared to 26.8% in the third quarter of 2022. Gross margins increased 280 bps from favorable price, 220 bps from favorable product mix, and 70 bps from favorable commodity costs. Partially offsetting these increases were 40 bps from higher warranty costs, 30 bps from higher component costs, 20 bps from higher freight and distribution costs, 10 bps from lower sales volume, and 10 bps from higher other miscellaneous costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") increased $32 million to $179 million in the third quarter of 2023 compared to $147 million in the third quarter of 2022 primarily due to higher employee-related costs including incentive compensation and wage inflation. As a percentage of net sales, SG&A increased 130 bps to 13.1%.

Losses (gains) and Other Expenses, Net

Losses (gains) and other expenses, net for the third quarter of 2023 and 2022 included the following (in millions):

	For the Three Months Ended September 30,	
	2023	**2022**
Realized losses on settled future contracts	$ —	$ 0.3
Foreign currency exchange (gains) losses	(1.2)	0.3
Gain on disposal of fixed assets	(0.2)	(0.4)
Other operating income	(0.1)	(0.2)
Environmental liabilities and special litigation charges	3.9	3.1
Other items, net	1.1	0.2
Losses (gains) and other expenses, net (pre-tax)	$ 3.5	$ 3.3

Impairment on Assets Held for Sale

We recorded a $63 million impairment on assets held for sale in the third quarter of 2023 related to the sale of our European commercial HVAC and refrigeration businesses. The loss is the result of the difference between the expected fair value of the consideration received for these businesses, net of our costs to sell, and the carrying value of the net assets.

Income from Equity Method Investments

We participate in two joint ventures that are engaged in the manufacture and sale of compressors, unit coolers and condensing units. We exert significant influence over these affiliates based upon our ownership, but do not control them due to venture partner participation. Accordingly, these joint ventures have been accounted for under the equity method and their financial position and results of operations are not consolidated. We recognized income from equity method investments of $4 million in the third quarter of 2023 and $2 million in the third quarter of 2022.

Interest Expense, net

Interest expense, net remained relatively unchanged at $11 million in the third quarter of 2023 as compared to the third quarter of 2022.

Income Taxes

Our effective tax rate was 25.6% for the third quarter of 2023 compared to 18.7% for the third quarter of 2022. The rate increased primarily due to the allocation of income to higher tax jurisdictions and a discrete adjustment related to the European businesses.

We expect our annual effective tax rate to be 20-22%, excluding the impacts of excess tax benefits recorded as a reduction of income taxes under ASU No. 2016-09.

Third Quarter of 2023 Compared to Third Quarter of 2022 - Results by Segment

Residential

The following table presents our Residential segment's net sales and profit for the third quarter of 2023 and 2022 (dollars in millions):

	For the Three Months Ended September 30,			
	2023	2022	Difference	% Change
Net sales	$ 896.3	$ 835.3	$ 61.0	7 %
Profit	$ 181.4	$ 153.8	$ 27.6	18 %
% of net sales	20.2 %	18.4 %		

Net sales increased 7% in the third quarter of 2023 compared to 2022 due to favorable product mix of 7% and higher price of 2%. Partially offsetting these increases were lower sales volumes of 2%.

Segment profit in the third quarter of 2023 compared to 2022 increased by $28 million, primarily due to $37 million from favorable product mix, $14 million from higher price and $10 million from lower commodity costs. Partially offsetting these increases were $16 million from higher SG&A costs, $7 million from higher factory inefficiencies, $6 million from miscellaneous other items and $4 million from lower sales volumes.

Commercial

The following table presents our Commercial segment's net sales and profit for the third quarter of 2023 and 2022 (dollars in millions):

	For the Three Months Ended September 30,			
	2023	2022 [1]	Difference	% Change
Net sales	$ 405.5	$ 352.3	$ 53.2	15 %
Profit	$ 97.3	$ 52.4	$ 44.9	86 %
% of net sales	24.0 %	14.9 %		

[1] 2022 amounts have been recast to reflect the changes in segment reporting. Please see Note 2 in the Notes to the Consolidated Financial Statements for further detail.

Net sales increased 15% in the third quarter of 2023 compared to 2022 as price increased 10%, product mix increased 3% and sales volumes increased 2%.

Segment profit in the third quarter of 2023 compared to 2022 increased $45 million primarily due to $37 million from favorable price, $10 million from favorable product mix, and $1 million from higher sales volumes. Partially offsetting these increases were $3 million from higher SG&A costs.

Corporate and Other

The following table presents our Corporate and Other segment's net sales and loss for the third quarter of 2023 and 2022 (dollars in millions):

	For the Three Months Ended September 30,			
	2023	2022 [1]	Difference	% Change
Net sales	$ 64.5	$ 57.3	$ 7.2	13 %
Loss	$ (23.4)	$ (16.9)	$ (6.5)	(38)%

[1] 2022 amounts have been recast to reflect the changes in segment reporting. Please see Note 2 in the Notes to the Consolidated Financial Statements for further detail.

Net sales increased $7 million and segment loss increased $7 million in the third quarter of 2023 as compared to 2022. Our European businesses generated $4 million profit in the third quarter of 2023 and a loss of less than $1 million in the third quarter of 2022. Excluding our European businesses, Corporate and Other costs increased to $11 million in the third quarter of 2023 compared to 2022 due primarily to higher incentive compensation and wage inflation.

Year-to-Date through September 30, 2023 Compared to Year-to-Date through September 30, 2022 - Consolidated Results

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

	For the Nine Months Ended September 30,				
	Dollars (in millions)		Percent Change Fav/(Unfav)	Percent of Sales	
	2023	2022		2023	2022
Net sales	**$ 3,827.1**	**$ 3,624.6**	**5.6 %**	**100.0 %**	**100.0 %**
Cost of goods sold	2,634.1	2,625.1	(0.3)	68.8	72.4
Gross profit	1,193.0	999.5	19.4	31.2	27.6
Selling, general and administrative expenses	527.6	472.2	(11.7)	13.8	13.0
Losses (gains) and other expenses, net	5.2	5.4	3.7	0.1	0.1
Restructuring charges	0.2	1.2	83.3	—	—
Impairment on assets held for sale	63.2	—	(100.0)	1.7	—
Income from equity method investments	(8.0)	(3.9)	105.1	(0.2)	(0.1)
Operating income	**$ 604.8**	**$ 524.6**	**15.3 %**	**15.8 %**	**14.5 %**

Net Sales

Net sales increased 6% for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 due to favorable product mix of 6% and higher price of 5%. Partially offsetting these increases were lower sales volumes of 5%.

Gross Profit

Gross profit margins for the nine months ended September 30, 2023 increased 360 bps to 31.2% compared to 27.6% for the nine months ended September 30, 2022. Gross margins increased 350 bps from higher price, 140 bps from favorable mix and 90 bps from lower commodity costs. Partially offsetting these increases were 70 bps from higher other product costs, 60 bps from higher component costs, 40 bps from lower sales volumes, 30 bps from higher freight and distribution costs and 20 bps from higher miscellaneous other costs.

Selling, General and Administrative Expenses

SG&A increased $55 million to $528 million for the nine months ended September 30, 2023 compared to $472 million for the nine months ended September 30, 2022 primarily due to higher employee-related costs. As a percentage of net sales, SG&A increased 80 bps to 13.8% from 13.0%.

Losses (gains) and Other Expenses, Net

Losses (gains) and other expenses, net for the nine months ended September 30, 2023 and 2022 included the following (in millions):

	For the Nine Months Ended September 30,	
	2023	2022
Realized losses (gains) on settled future contracts	$ 0.1	$ (0.1)
Foreign currency exchange gains	(4.2)	(0.5)
Gain on disposal of fixed assets	(1.4)	(1.3)
Other operating income	(1.4)	(0.6)
Net change in unrealized (gains) losses on unsettled futures contracts	(0.1)	1.2
Environmental liabilities and special litigation charges	11.1	6.2
Other items, net	1.1	0.5
Losses (gains) and other expenses, net (pre-tax)	$ 5.2	$ 5.4

Impairment on Assets Held for Sale

We recorded a $63 million impairment on assets held for sale in the third quarter of 2023 related to the sale of our European commercial HVAC and refrigeration businesses. The loss is the result of the difference between the expected fair value of the consideration received for these businesses, net of our costs to sell, and the carrying value of the net assets.

Income from Equity Method Investments

Income from equity method investments increased to $8 million for the nine months ended September 30, 2023 as compared to $4 million for the nine months ended September 30, 2022. The increase was due to lower operating costs at the investments.

Interest Expense, net

Interest expense, net increased $14 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to higher interest rates.

Income Taxes

Our effective tax rate increased to 21.0% for the nine months ended September 30, 2023 compared to 18.9% for the nine months ended September 30, 2022 primarily due to the allocation of income to higher tax jurisdictions and a discrete adjustment related to the European divestiture.

Year-to-Date through September 30, 2023 Compared to Year-to-Date through September 30, 2022 - Results by Segment

Residential

The following table presents our Residential segment's net sales and profit for the nine months ended September 30, 2023 and 2022 (dollars in millions):

	For the Nine Months Ended September 30,			
	2023	2022	Difference	% Change
Net sales	$ 2,513.6	$ 2,494.9	$ 18.7	1 %
Profit	$ 495.2	$ 477.7	$ 17.5	4 %
% of net sales	19.7 %	19.1 %		

Net sales increased 1% for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 due to favorable product mix of 7% and higher price of 2%. Partially offsetting these increases was lower sales volumes of 8%.

Segment profit for the first nine months of 2023 compared to 2022 increased $17 million primarily due to $65 million from favorable product mix, $60 million from higher price, and $27 million from lower commodity costs. Partially offsetting these increases was $62 million from lower sales volumes, $34 million from higher SG&A costs, $17 million from higher freight and distribution costs, $13 million from higher component costs, and $9 million from miscellaneous other items.

Commercial

The following table presents our Commercial segment's net sales and profit for the nine months ended September 30, 2023 and 2022 (dollars in millions):

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022 [(1)]	Difference	% Change
Net sales	$ 1,121.5	$ 959.2	$ 162.3	17 %
Profit	$ 250.3	$ 117.4	$ 132.9	113 %
% of net sales	22.3 %	12.2 %		

(1) 2022 amounts have been recast to reflect the changes in segment reporting. Please see Note 2 in the Notes to the Consolidated Financial Statements for further detail.

Net sales increased 17% for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 as price increased 11% and product mix was 6% favorable.

Segment profit for the first nine months of 2023 compared to 2022 increased $133 million primarily due to $112 million from higher price, $43 million from favorable product mix, $6 million from lower commodity costs, and $6 million from lower freight and distribution costs. Partially offsetting these increases were $16 million from higher other product costs including warranty costs, $9 million from higher component costs, and $9 million from higher SG&A costs.

Corporate and Other

The following table presents our Corporate and Other segment's net sales and loss for the nine months ended September 30, 2023 and 2022 (dollars in millions):

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022 [(1)]	Difference	% Change
Net sales	$ 192.0	$ 170.5	$ 21.5	13 %
Loss	$ (65.2)	$ (61.4)	$ (3.8)	(6)%

(1) 2022 amounts have been recast to reflect the changes in segment reporting. Please see Note 2 in the Notes to the Consolidated Financial Statements for further detail.

Net sales increased $21 million and segment loss increased $4 million during the nine months ended September 30, 2023 as compared to 2022. Our European businesses generated a profit of $6 million in the nine months ended September 30, 2023 and a loss of $4 million in the nine months ended September 30, 2022. Excluding our European businesses, Corporate and Other costs increased $14 million due primarily to higher incentive compensation costs and wage inflation.

Liquidity and Capital Resources

Our working capital and capital expenditure requirements are generally met through internally generated funds, bank lines of credit and an asset securitization arrangement. Upon expiration of the asset securitization arrangement, our new commercial paper program (described below) will serve as an additional source of liquidity. Working capital needs are generally greater in the first and second quarters due to the seasonal nature of our business cycle.

Statement of Cash Flows

The following table summarizes our cash flow activity for the nine months ended September 30, 2023 and 2022 (in millions):

	For the Nine Months Ended September 30,	
	2023	2022
Net cash provided by operating activities	$ 429.9	$ 170.1
Net cash used in investing activities	(124.5)	(68.2)
Net cash used in financing activities	(215.6)	(89.1)

Net Cash Provided By Operating Activities - The change in net cash provided by operating activities for the nine months ended September 30, 2023 compared to the net cash provided by operating activities for the same period in 2022 reflects changes in working capital and an increase in net income.

Net Cash Used In Investing Activities - Capital expenditures were $125 million for the nine months ended September 30, 2023 compared to $67 million in the same period of 2022. Capital expenditures in 2023 were related to our Commercial factory in Mexico, the general expansion of manufacturing capacity and equipment, and investments in systems and software to support the overall enterprise.

Net Cash Used In Financing Activities - Net cash used in financing activities for the nine months ended September 30, 2023 increased to $216 million compared to $89 million used in financing activities in the same period of 2022. The change was primarily due to changes net borrowings and repayments of long-term debt partially offset by less share repurchases. We did not repurchase any shares for the nine months ended September 30, 2023 and we repurchased $300 million in shares in the same period of 2022. We returned $153 million to shareholders through dividend payments for the nine months ended September 30, 2023 and $142 million in the same period of 2022. For additional information on share repurchases, refer to Note 5 in the Notes to the Consolidated Financial Statements.

Debt Position

The following table details our lines of credit and financing arrangements as of September 30, 2023 (in millions):

	Outstanding Borrowings
Current maturities of long-term debt:	
Asset securitization program [1]	$ —
Finance lease obligations	11.6
Senior unsecured notes	350.0
Debt issuance costs	—
Total current maturities of long-term debt	$ 361.6
Long-term debt:	
Finance lease obligations	31.9
Credit agreement [2]	—
Senior unsecured notes	1,100.0
Debt issuance costs	(10.3)
Total long-term debt	1,121.6
Total debt	**$ 1,483.2**

[1] The maximum securitization amount ranges from $300.0 million to $450.0 million, depending on the period. The maximum capacity of the ASP is the lesser of the maximum securitization amount or 100% of the net pool balance less reserves, as defined under the ASP. Refer to Note 11 in the Notes to the Consolidated Financial Statements for more information.

[2] The available future borrowings on our Credit Agreement (as defined below) are $1,098.3 million, after being reduced by the outstanding borrowings and $1.7 million in outstanding standby letters of credit. Refer to Note 11 in the Notes to the Consolidated Financial Statements for more information.

Second Amendment to the Credit Agreement

In August 2023, we entered into the Second Amendment (the “Second Amendment”) to the Credit Agreement, dated as of July 14, 2021 (as amended, the "Credit Agreement"), with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto. Under the Second Amendment, the revolving commitments were increased by $350 million and certain representations required to be made as conditions precedent to borrowing were revised to provide us greater flexibility to enter into additional future financing.

The Credit Agreement provides for revolving credit commitments of $1.1 billion with sublimits for swingline loans of up to $65 million, letters of credit up to $100 million and revolving loans in certain non-U.S. currencies up to the U.S. dollar equivalent of $40 million. The Credit Agreement will expire and outstanding loans will be required to be repaid in July 2026, unless maturity is extended by the lenders pursuant to two one-year extension options that we may request under the Credit Agreement.

The Credit Agreement is guaranteed by certain of our subsidiaries and contains customary covenants applicable to us and our subsidiaries including limitations on indebtedness, liens, dividends, stock repurchases, mergers and sales of all or substantially all of our assets. In addition, the Credit Agreement contains a financial covenant requiring us to maintain, as of the last day of each fiscal quarter for the four prior fiscal quarters, a Total Net Leverage Ratio of no more than 3.50 to 1.00 (or, at our election, on up to two occasions following a material acquisition, 4.00 to 1.00). The Credit Agreement is subject to customary events of default, including non-payment of principal or other amounts under the Credit Agreement, material inaccuracy of representations and warranties, breach of covenants, cross-default to other indebtedness in excess of $75 million, judgements in excess of $75 million, certain voluntary and involuntary bankruptcy events, and the occurrence of a change of control. As of September 30, 2023, we believe we were in compliance with all covenant requirements.

Senior Unsecured Notes

In September 2023, we issued $500.0 million of senior unsecured notes, which will mature in September 2028 (the "2028 Notes") with interest being paid semi-annually in March and September at 5.50%. We issued two series of senior unsecured notes on July 30, 2020 for $300.0 million each, which will mature on August 1, 2025 (the "2025 Notes") and August 1, 2027 (the "2027 Notes") with interest being paid semi-annually in February and August at 1.35% and 1.70% respectively, per annum. We also issued $350.0 million of senior unsecured notes in November 2016 (the "2023 Notes," and together with the 2025 Notes, 2027 Notes, and the 2028 Notes, the "Notes") which will mature on November 15, 2023 with interest being paid semi-annually on May 15 and November 15 at 3.00% per annum.

All the Notes are guaranteed, on a senior unsecured basis, by certain of our subsidiaries that guarantee indebtedness under our Credit Agreement. The indenture governing the Notes contains covenants that, among other things, limit our ability and the ability of the subsidiary guarantors to: create or incur certain liens; enter into certain sale and leaseback transactions; and enter into certain mergers, consolidations and transfers of substantially all of our assets. The indenture also contains a cross default provision which is triggered if we default on other debt of at least $75.0 million in principal which is then accelerated, and such acceleration is not rescinded within 30 days of the notice date. As of September 30, 2023, we believe we were in compliance with all covenant requirements.

Financial Leverage

We periodically review our capital structure to ensure the appropriate levels of leverage and liquidity. We may access the capital markets, as necessary, based on business needs and to take advantage of favorable interest rate environments or other market conditions. We also evaluate our debt-to-capital and debt-to-EBITDA ratios to determine, among other considerations, the appropriate targets for capital expenditures and share repurchases under our share repurchase programs. Our debt-to-total-capital ratio decreased to 90% at September 30, 2023 from 115% at December 31, 2022.

As of September 30, 2023, our senior credit ratings were Baa2 with a stable outlook, and BBB with a stable outlook, by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Rating Group ("S&P"), respectively. The security ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating. Our goal is to maintain investment grade ratings from Moody's and S&P to help ensure the capital markets remain available to us.

Liquidity

We believe our cash and cash equivalents of $132 million, future cash generated from operations and available borrowing capacity are sufficient to fund operations, planned capital expenditures, future contractual obligations, potential share repurchases and dividends and other needs in the foreseeable future. Included in our cash and cash equivalents of $132 million as of September 30, 2023 was $18 million of cash held in foreign locations. Our cash held in foreign locations is used for investing and operating activities in those locations, and we generally do not have the need or intent to repatriate those funds to the United States. An actual repatriation in the future from our non-U.S. subsidiaries could be subject to foreign withholding taxes and U.S. state taxes.

Both our ASP as well as our $350.0 million 2023 Notes will mature during the fourth quarter. We pre-funded the 2023 notes maturity through the issuance of the 2028 Notes. We are replacing the expiring ASP with a $500.0 million commercial paper program, as described below. We do not believe that these changes will have any material impact on our results of operation or liquidity.

Guarantees related to our Debt Obligations

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

The following combined Parent and Guarantor Subsidiaries financial information is presented as of September 30, 2023 and December 31, 2022 and for the three and nine months ended September 30, 2023 (in millions):

	September 30, 2023	December 31, 2022
Current assets	933.7	772.1
Non-current assets	6,086.7	4,844.4
Current liabilities	1,004.9	1,023.2
Non-current liabilities	1,456.2	1,149.0
Amounts due to non-guarantor subsidiaries	(725.4)	(537.7)

	For the Three Months Ended September 30, 2023	For the Nine Months Ended, September 30, 2023
Net Sales	1,289.0	3,559.3
Gross Profit	339.5	888.4
Net Income	372.2	1,072.6

Off Balance Sheet Arrangements

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

Commitments, Contingencies and Guarantees

For information regarding our commitments, contingencies and guarantees, see Note 4 in the Notes to the Consolidated Financial Statements.

Recent Accounting Pronouncements

There were no recent accounting pronouncements that are expected to have a material impact on our financial statements and disclosures.

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

For quantitative and qualitative disclosures about market risk affecting LII, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. Our exposure to market risk has not changed materially since December 31, 2022.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our current management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2023, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. *Legal Proceedings*

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

Item 1A. *Risk Factors*

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, which could materially affect our business, financial condition or results of operations. There have been no material changes to our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

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

We did not repurchase any shares of our common stock in the third quarter of 2023. For additional information on our share repurchase program, refer to Note 5 in the Notes to the Consolidated Financial Statements.

Item 5. *Other Information*

Rule 10b5-1 Plan Elections

During the quarter ended September 30, 2023, none of our directors or officers adopted, modified, or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, as such terms are defined in Item 408(a) of Regulation S-K.

Commercial Paper Program

The information set forth below in this Item 5 is included herein in lieu of reporting on a Current Report on Form 8-K under Item 2.03. Creation of a Direct Financial Obligation of a Registrant.

On October 25, 2023, we established a commercial paper program (the “Program”) pursuant to which we may issue short-term, unsecured commercial paper notes (the “CP Notes”) under the exemption from registration contained in Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”). Amounts available under the Program may be borrowed, repaid, and re-borrowed from time to time, with the aggregate face or principal amount of the CP Notes outstanding under the Program at any time not to exceed $500.0 million. The CP Notes will have maturities of up to 397 days from the date of issue. The CP Notes will rank pari passu with all of our other unsecured and unsubordinated indebtedness. The net proceeds of the issuances of the CP Notes are expected to be used for general corporate purposes. We plan to use our revolving credit facility as a liquidity backstop for the repayment of CP Notes outstanding under the Program. No CP Notes are currently outstanding under the Program.

One or more commercial paper dealers will each act as a dealer under the Program (each, a “Dealer,” and collectively, the “Dealers”) pursuant to the terms and conditions of the respective commercial paper dealer agreement entered into between us and each Dealer (each, a “Dealer Agreement,” and collectively, the “Dealer Agreements”). We may engage additional commercial paper dealers to act as dealers under the Program. A national bank will act as the issuing and paying agent under the Program pursuant to the terms of an issuing and paying agent agreement.

The Dealer Agreements provide the terms under which the Dealers will either purchase from us or arrange for the sale of the CP Notes by us. The Dealer Agreements contain customary representations, warranties, covenants, and indemnification provisions.

From time to time, the Dealers and certain of their respective affiliates have provided, and may in the future provide, lending, commercial banking, investment banking and other financial advisory services to us and our affiliates for which such Dealers have received or will receive customary fees and expenses.

The CP Notes have not been and will not be registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable state laws. The information contained in this Quarterly Report on Form 10-Q is neither an offer to sell nor a solicitation of an offer to buy any CP Notes.

Item 6. Exhibits

3.1	Restated Certificate of Incorporation of Lennox International Inc. ("LII") (filed as Exhibit 3.1 to LII's Annual Report on Form 10-K filed on February 15, 2022 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of LII (filed as Exhibit 3.2 to LII's Annual Report on Form 10-K filed on February 15, 2022 and incorporated herein by reference).
4.1	Indenture, dated as of May 3, 2010, between LII and U.S. Bank National Association, as trustee (filed as Exhibit 4.3 to LII's Post-Effective Amendment No. 1 to Registration Statement on S-3 (Registration No. 333-155796) filed on May 3, 2010 and incorporated herein by reference)
4.2	Sixth Supplemental Indenture, dated as of November 3, 2016, among LII, each other existing Guarantor under the Indenture, dated as of May 3 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee (filed as Exhibit 4.2 to LII's Current Report on Form 8-K filed on November 3, 2016 and incorporated herein by reference).
4.3	Form of 3.000% Notes due 2023 (filed as Exhibit A in Exhibit 4.2 to LII's Current Report on Form 8-K filed on November 3, 2016 and incorporated herein by reference).
4.4	Ninth Supplemental Indenture, dated as of July 30, 2020, among LII, each existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee (filed as Exhibit 4.2 to LII's Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference).
4.5	Form of 1.350% Notes due 2025 (filed as Exhibit A in Exhibit 4.2 to LII's Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference).
4.6	Form of 1.700% Notes due 2027 (filed as Exhibit B in Exhibit 4.2 to LII's Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference).
4.7	Tenth Supplemental Indenture, dated as of July 14, 2021, among LII, each existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee (filed as Exhibit 4.7 to LII's Annual Report on Form 10-K filed on February 15, 2022 and incorporated herein by reference).
4.8	Eleventh Supplemental Indenture, dated as of September 15, 2023, among LII, the guarantors party thereto and U.S. Bank Trust Company, National Association, as trustee (filed as Exhibit 4.2 to LII's Current Report on Form 8-K filed on September 15, 2023 and incorporated herein by reference).
4.9	Form of 5.500% Notes due 2028 (filed as Exhibit A in Exhibit 4.2 to LII's Current Report on Form 8-K filed on September 15, 2023 and incorporated herein by reference).
10.22	Second Amendment to the Credit Agreement, dated as of August 25, 2023, among LII as borrower, certain of its subsidiaries, as guarantors, the lenders party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on August 28, 2023 and incorporated herein by reference).
22.1	List of Guarantor Subsidiaries (filed herewith).
31.1	Certification of the principal executive officer (filed herewith).
31.2	Certification of the principal financial officer (filed herewith).
32.1	Certification of the principal executive officer and the principal financial officer pursuant to 18 U.S.C. Section 1350 (furnished herewith).
101	INS Inline XBRL Instance Document
101	SCH Inline XBRL Taxonomy Extension Schema Document
101	CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
101	LAB Inline XBRL Taxonomy Extension Label Linkbase Document
101	PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
101	DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

SIGNATURE

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

LENNOX INTERNATIONAL INC.

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

Date: October 26, 2023

Exhibit 22.1

List of Guarantor Subsidiaries

The following subsidiaries of Lennox International Inc. (the “Company”) are guarantors with respect to the Company’s (1) 3.00% Notes due 2023, (2) 1.35% Notes due 2025, (3) 1.70% Notes due 2027 and (4) 5.50% Notes due 2028:

Guarantor	**State or Other Jurisdiction of Formation**
Advanced Distributor Products LLC	Delaware
Allied Air Enterprises LLC	Delaware
Heatcraft Inc.	Delaware
Heatcraft Refrigeration Products LLC	Delaware
Heatcraft Technologies Inc.	Delaware
Lennox Global LLC	Delaware
Lennox Industries Inc.	Delaware
Lennox National Account Services Inc.	California
Lennox National Account Services, LLC	Florida
Lennox Procurement Company Inc.	Delaware
Lennox Services, LLC	Delaware
LGL Australia (US) Inc.	Delaware
LGL Europe Holding Co.	Delaware

Exhibit 31.1

CERTIFICATION

I, Alok Maskara, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: October 26, 2023

/s/ Alok Maskara

Alok Maskara
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Joseph W. Reitmeier, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: October 26, 2023

/s/ Joseph W. Reitmeier

Joseph W. Reitmeier
Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Lennox International Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned, Alok Maskara, Chief Executive Officer of the Company, and Joseph W. Reitmeier, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to his or her knowledge:

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

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

/s/ Alok Maskara
Alok Maskara
Chief Executive Officer

October 26, 2023

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

October 26, 2023

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