LENNOX INTERNATIONAL INC
Form 10-Q
October 26, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

OR

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

For the transition period from __________ to __________

Commission file number 001-15149

LENNOX INTERNATIONAL INC.

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)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes o No þ

As of October 19, 2010, the number of shares outstanding of the registrant s common stock, par value $.01 per share, was 53,439,246.

LENNOX INTERNATIONAL INC.
FORM 10-Q
For the Three and Nine Months Ended September 30, 2010
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PART I FINANCIAL INFORMATION
Item 1. Financial Statements.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share data)

	As of September 30, 2010 (unaudited)	As of December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 92.4	$ 124.3
Restricted cash	13.1	
Accounts and notes receivable, net of allowances of $14.9 and $15.6 in 2010 and 2009, respectively	429.2	357.0
Inventories, net	347.7	250.2
Deferred income taxes	36.7	34.9
Other assets	63.8	67.5
Total current assets	982.9	833.9
PROPERTY, PLANT AND EQUIPMENT, net	320.9	329.6
GOODWILL	267.6	257.4
DEFERRED INCOME TAXES	66.1	74.6
OTHER ASSETS, net	59.8	48.4
TOTAL ASSETS	$ 1,697.3	$ 1,543.9
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term debt	$ 8.2	$ 2.2
Current maturities of long-term debt	0.8	35.5
Accounts payable	284.0	238.2
Accrued expenses	329.1	317.9
Income taxes payable	5.4	
Total current liabilities	627.5	593.8
LONG-TERM DEBT	362.1	193.8
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	13.1	13.4
PENSIONS	70.7	66.7
OTHER LIABILITIES	67.3	71.8
Total liabilities	1,140.7	939.5
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, no shares issued or outstanding		

Common stock, $.01 par value, 200,000,000 shares authorized, 86,143,637 shares and 85,567,485 shares issued for 2010 and 2009, respectively		0.9		0.9
Additional paid-in capital		857.2		839.1
Retained earnings		622.6		558.6
Accumulated other comprehensive income (loss)		19.6		(0.8)
Treasury stock, at cost, 32,709,867 shares and 29,292,512 shares for 2010 and 2009, respectively		(943.7)		(793.4)
Total stockholders equity		556.6		604.4
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	1,697.3	$	1,543.9

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

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LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in millions, except per share data)

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
NET SALES	$ 818.2	$ 749.5	$ 2,334.4	$ 2,114.0
COST OF GOODS SOLD	585.4	527.7	1,662.6	1,529.8
Gross profit	232.8	221.8	671.8	584.2
OPERATING EXPENSES:				
Selling, general and administrative expenses	163.5	157.1	513.0	473.7
Losses (gains) and other expenses, net	0.8	(2.1)	6.3	(2.3)
Restructuring charges	4.7	11.5	15.0	27.4
Income from equity method investments	(2.8)	(2.4)	(8.9)	(5.6)
Operational income from continuing operations	66.6	57.7	146.4	91.0
INTEREST EXPENSE, net	3.5	2.2	9.1	6.1
OTHER EXPENSE, net		0.1	0.1	0.2
Income from continuing operations before income taxes	63.1	55.4	137.2	84.7
PROVISION FOR INCOME TAXES	21.2	21.7	47.9	32.8
Income from continuing operations	41.9	33.7	89.3	51.9
DISCONTINUED OPERATIONS:				
Loss from discontinued operations	0.1	2.9	0.9	10.2
Income tax benefit		(0.2)	(0.1)	(3.0)
Loss from discontinued operations	0.1	2.7	0.8	7.2
Net income	$ 41.8	$ 31.0	$ 88.5	$ 44.7
EARNINGS PER SHARE BASIC:				
Income from continuing operations	$ 0.78	$ 0.60	$ 1.62	$ 0.94
Loss from discontinued operations		(0.05)	(0.01)	(0.13)
Net income	$ 0.78	$ 0.55	$ 1.61	$ 0.81
EARNINGS PER SHARE DILUTED:				
Income from continuing operations	$ 0.76	$ 0.59	$ 1.59	$ 0.92
Loss from discontinued operations		(0.05)	(0.02)	(0.13)
Net income	$ 0.76	$ 0.54	$ 1.57	$ 0.79
AVERAGE SHARES OUTSTANDING:				

Basic	53.8	55.8	55.0	55.5
Diluted	55.0	57.1	56.2	56.3
CASH DIVIDENDS DECLARED PER SHARE	$ 0.15	$ 0.14	$ 0.45	$ 0.42

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

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LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2010 (unaudited) and the Year Ended December 31, 2009
(In millions, except share and per share data)

	Common Stock Issued Shares	Common Stock Issued Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost	Total Stockholders Equity	Comprehensive Income
BALANCE AS OF DECEMBER 31, 2008	84.2	$ 0.8	$ 805.6	$ 538.8	$ (98.8)	$ (787.8)	$ 458.6	
Net income				51.1			51.1	$ 51.1
Dividends, $0.56 per share				(31.3)			(31.3)	
Foreign currency translation adjustments, net					59.5		59.5	59.5
Pension and postretirement liability changes, net of tax provision of $6.4					8.1		8.1	8.1
Stock-based compensation expense			12.8				12.8	
Derivatives and other, net of tax provision of $15.4					30.4		30.4	30.4
Common stock issued	1.4	0.1	9.3				9.4	
Treasury stock purchases (183,484 shares at $30.55 average price per share)						(5.6)	(5.6)	
Tax benefits of stock-based compensation			6.0				6.0	
Other tax related items			5.4				5.4	
Comprehensive income								$ 149.1

BALANCE AS OF DECEMBER 31, 2009	85.6	0.9	839.1	558.6	(0.8)	(793.4)	604.4	
Net income				88.5			88.5	$ 88.5
Dividends, $0.45 per share				(24.5)			(24.5)	
Foreign currency translation adjustments, net					17.8		17.8	17.8
Stock-based compensation expense			11.8				11.8	
Derivatives and other, net of tax provision of $1.7					2.6		2.6	2.6
Common stock issued	0.5		2.5				2.5	
Treasury stock purchases (3,417,355 shares at $43.97 average price per share)						(150.3)	(150.3)	
Tax benefits of stock-based compensation			3.8				3.8	
Comprehensive income								$ 108.9
BALANCE AS OF SEPTEMBER 30, 2010	86.1	$ 0.9	$ 857.2	$ 622.6	$ 19.6	$ (943.7)	$ 556.6	

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2010 and 2009
(Unaudited, in millions)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 88.5	$ 44.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from equity method investments	(8.9)	(5.6)
Dividends from affiliates	7.4	6.8
Restructuring expenses, net of cash paid	(7.1)	11.9
Impairment of assets held for sale and equity method investment		2.1
Provision for bad debts	3.9	11.0
Unrealized loss (gain) on derivative contracts	1.0	(6.3)
Return of collateral for hedges		37.9
Stock-based compensation expense	11.8	9.0
Depreciation and amortization	39.9	39.2
Deferred income taxes	7.8	12.5
Other items, net	10.0	18.4
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts and notes receivable	(71.6)	(18.9)
Inventories	(102.7)	21.1
Other current assets	(6.7)	16.2
Accounts payable	43.8	37.3
Accrued expenses	19.0	(1.9)
Income taxes payable and receivable	11.1	0.4
Other	(3.6)	(22.5)
Net cash provided by operating activities	43.6	213.3
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the disposal of property, plant and equipment	0.1	0.9
Purchases of property, plant and equipment	(30.0)	(33.9)
Proceeds from sale of businesses	3.5	0.5
Acquisition of business	(6.0)	
Return of investment		0.7
Restricted cash	(13.1)	
Purchases of short-term investments		(16.9)
Proceeds from sales and maturities of short-term investments		50.2
Net cash (used in) provided by investing activities	(45.5)	1.5
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings (payments), net	5.7	(1.0)
Long-term payments	(35.8)	(1.5)
Issuance of senior unsecured notes	199.8	
Payments on revolving credit facility	(31.5)	(217.3)
Additional investment in affiliate	(1.0)	

Proceeds from stock option exercises	2.5	7.6
Payments of deferred financing costs	(1.8)	
Repurchases of common stock	(150.3)	(3.1)
Excess tax benefits related to share-based payments	3.7	3.4
Cash dividends paid	(24.4)	(23.2)
Net cash used in financing activities	(33.1)	(235.1)
DECREASE IN CASH AND CASH EQUIVALENTS	(35.0)	(20.3)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	3.1	0.1
CASH AND CASH EQUIVALENTS, beginning of period	124.3	122.1
CASH AND CASH EQUIVALENTS, end of period	$ 92.4	$ 101.9
Supplementary disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 5.8	$ 5.2
Income taxes (net of refunds)	$ 25.7	$ 13.5

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

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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 Interna Inc. and its subsidiaries, unless the context requires otherwise.

Basis of Presentation

The accompanying unaudited Consolidated Balance Sheet as of September 30, 2010, the accompanying unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009, the accompanying unaudited Consolidated Statement of Stockholders Equity for the nine months ended September 30, 2010 and the accompanying unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009 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, 2009. 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 generally accepted accounting principles 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 the full year.

Our fiscal year ends on December 31 and our quarters are each comprised of 13 weeks. For convenience, throughout these financial statements, the 13 weeks comprising each quarterly period 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 postretirement medical benefits, among others. These estimates and assumptions are based on our best estimates and judgment.

We evaluate our 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 adjust such estimates and assumptions when facts and circumstances dictate.

Reclassifications

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

2. Inventories:

Components of inventories are as follows (in millions):

	As of September 30, 2010	As of December 31, 2009
Finished goods	$ 241.3	$ 182.3
Work in process	9.0	7.2
Raw materials and repair parts	169.9	132.7
	420.2	322.2

Excess of current cost over last-in, first-out cost		(72.5)		(72.0)
Total inventories	$	347.7	$	250.2

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3. Goodwill:

The changes in the carrying amount of goodwill for the nine months ended September 30, 2010, in total and by segment, are as follows (in millions):

	Segment				
	Residential Heating & Cooling	Commercial Heating & Cooling	Service Experts	Refrigeration	Total
Balance as of January 1, 2010:					
Goodwill	$ 33.7	$ 31.3	$ 314.9	$ 85.5	$ 465.4
Accumulated impairment loss			(208.0)		(208.0)
	33.7	31.3	106.9	85.5	257.4
Changes (1)		(0.7)	7.3	3.6	10.2
Balance as of September 30, 2010:					
Goodwill	33.7	30.6	322.2	89.1	475.6
Accumulated impairment loss			(208.0)		(208.0)
	$ 33.7	$ 30.6	$ 114.2	$ 89.1	$ 267.6

(1) During the second quarter of 2010, our Service Experts segment acquired a company which resulted in additional goodwill of $3.5 million. Adjustments to the purchase price in the third quarter resulted in additional goodwill of $0.6 million. The other changes are related to fluctuations in foreign currency

translation rates.

4. Derivatives:

Cash Flow Hedges

We include (gains) losses in accumulated other comprehensive income (AOCI) in connection with our commodity cash flow hedges. The (gains) losses related to commodity price hedges are expected to be reclassified into earnings within the next 18 months based on the prices of the commodities at settlement date. Assuming that commodity prices remain constant, $5.1 million of derivative gains are expected to be reclassified into earnings within the next 12 months. Commodity futures contracts that are designated as cash flow hedges and are in place as of September 30, 2010 are scheduled to mature through February 2012.

On June 12, 2009, we entered into a $100 million pay-fixed, receive-variable interest rate swap with a financial institution at a fixed interest rate of 2.66%. The variable portion of the interest rate swap is tied to the 1-Month LIBOR (the benchmark interest rate). The interest rates under both the interest rate swap and the underlying debt are reset, the swap is settled with the counterparty, and interest is paid, on a monthly basis. The interest rate swap expires October 12, 2012. We account for the interest rate swap as a cash flow hedge. The (gains) losses related to our interest rate swap are expected to be reclassified into earnings within the next 25 months based on the term of the swap. Assuming that the benchmark interest rate remains constant, $1.4 million of derivative losses are expected to be reclassified into earnings within the next 12 months.

We recorded the following amounts related to our cash flow hedges (in millions):

	As of September 30, 2010	**As of December 31, 2009**
Commodity Price Hedges:		
Gains included in AOCI, net of tax	$ (5.6)	$ (7.2)
Provision for income taxes	3.2	4.1
Interest Rate Swap:		
Losses included in AOCI, net of tax	$ 2.7	$ 1.4
Benefit from income taxes	(1.5)	(0.8)

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We had the following outstanding commodity futures contracts designated as cash flow hedges (in millions):

	As of September 30, 2010	**As of December 31, 2009**
	(pounds)	(pounds)
Copper	16.0	12.6

Derivatives not Designated as Cash Flow Hedges

For commodity derivatives not designated as cash flow hedges, we follow the same hedging strategy as for derivatives designated as cash flow hedges. We elect not to designate these derivatives as cash flow hedges at the inception of the arrangement. We had the following outstanding commodity futures contracts not designated as cash flow hedges (in millions):

	As of September 30, 2010	**As of December 31, 2009**
	(pounds)	(pounds)
Copper	1.3	0.9
Aluminum	1.3	0.9

During the third quarter of 2010, we entered into foreign currency forward contracts with notional amounts of $62.5 million and £6.5 million, of which $35.0 million and £4.0 million were outstanding at September 30, 2010.

Information About the Location and Amounts of Derivative Instruments

For information on the location and amounts of derivative fair values in the Consolidated Balance Sheets and derivative gains and losses in the Consolidated Statements of Operations, see the tabular information presented below (in millions):

Fair Values of Derivative Instruments

	As of September 30, 2010		**As of December 31, 2009**	
Asset Derivatives	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments:				
Commodity futures contracts	Other Assets (Current)	$ 8.3	Other Assets (Current)	$ 11.1
Commodity futures contracts	Other Assets (Non-current)	0.8	Other Assets (Non-current)	0.3
		9.1		11.4
Derivatives not designated as hedging instruments:				
Commodity futures contracts	Other Assets (Current)	0.8	Other Assets (Current)	1.1
Commodity futures contracts	Other Assets (Non-current)	0.1	Other Assets (Non-current)	
Foreign currency forward contracts	Other Assets (Current)	0.2	Other Assets (Current)	
		1.1		1.1

Total Asset for Derivatives		$	10.2		$	12.5
Liability Derivatives						
Derivatives designated as hedging instruments:						
Interest rate swap	Accrued Expenses	$	2.2	Accrued Expenses	$	2.0
Interest rate swap	Other Liabilities		2.1	Other Liabilities		0.3
			4.3			2.3
Derivatives not designated as hedging instruments:						
Foreign currency forward contracts	Accrued Expenses		0.8	Accrued Expenses		
Total Liability for Derivatives		$	5.1		$	2.3

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The Effect of Derivative Instruments on the Consolidated Statements of Operations

Derivatives in Cash Flow Hedging Relationships	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)			
		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2010	2009	2010	2009
Commodity futures contracts	Cost of Goods Sold	$ (1.4)	$ 2.8	$ (9.0)	$ 19.7
Interest rate swap	Interest Expense, net	0.6	0.6	1.8	0.7
		$ (0.8)	$ 3.4	$ (7.2)	$ 20.4

Derivatives in Cash Flow Hedging Relationships	Location of (Gain) or Loss Recognized in Income on Derivatives (Ineffective Portion)	Amount of (Gain) or Loss Recognized in Income on Derivatives (Ineffective Portion)			
		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2010	2009	2010	2009
Commodity futures contracts	Losses (Gains) and Other Expenses, net	$(0.3)	$	$(0.4)	$(0.1)

Derivatives Not Designated as Hedging Instruments	Location of (Gain) or Loss Recognized in Income on Derivatives	Amount of (Gain) or Loss Recognized in Income on Derivatives			
		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2010	2009	2010	2009
Commodity futures contracts	Losses (Gains) and Other Expenses, net	$ (1.3)	$ (0.8)	$ (0.7)	$ (2.6)
Foreign currency forward contracts	Losses (Gains) and Other Expenses, net	0.7	0.9	(0.1)	3.2
		$ (0.6)	$ 0.1	$ (0.8)	$ 0.6

For more information on the fair value of these derivative instruments, see Note 14.

5. Income Taxes:

As of September 30, 2010, we had approximately $1.4 million in total gross unrecognized tax benefits. Of this amount, $0.9 million (net of federal benefit on state issues), if recognized, would be recorded through the

Consolidated Statement of Operations. As of September 30, 2010, we had recognized $0.1 million (net of federal tax benefits) in interest and penalties in income tax expense.

We are currently under examination for our U.S. federal income taxes for 2010, 2009 and 2008 and are subject to examination by numerous other taxing authorities in the U.S. and in jurisdictions such as Australia, Belgium, France, Canada, and Germany. 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 before 2002.

Since January 1, 2010, numerous states including Colorado, Maine, Utah, the District of Columbia and California have enacted legislation effective for tax years beginning on or after January 1, 2010, including requirements for combined reporting and changes to apportionment methods.

6. Commitments and Contingencies:

We are subject to contingencies that arise in the normal course of business, including product warranties and other product related contingencies, pending litigation, environmental matters and other guarantees or claims.

We use a combination of third-party insurance and self-insurance plans (large deductible or captive) to provide protection against claims relating to contingencies such as workers compensation, general liability, product liability, property damage, aviation liability, directors and officers liability, auto liability, physical damage and other exposures. Self-insurance expense and liabilities are actuarially determined based on our historical claims information, as well as industry factors and trends and because we have a captive insurance company, we are required to maintain specified levels of liquid assets from which we must pay claims. The majority of our self-insured risks (excluding auto liability and physical damage) will be paid over an extended period of time. There have been no material changes since our latest fiscal year-end. We also maintain third-party insurance coverage for risks not retained within our large deductible or captive insurance plans. The self-insurance liabilities recorded in Accrued Expenses in the accompanying Consolidated Balance Sheets were $63.3 million and $60.4 million as of September 30, 2010 and December 31, 2009, respectively.

Product Warranties and Product Related Contingencies

Total liabilities for estimated warranty are included in the following captions on the accompanying Consolidated Balance Sheets (in millions):

	As of September 30, 2010	As of December 31, 2009
Accrued Expenses	$ 31.5	$ 31.5
Other Liabilities	44.6	50.0
	$ 76.1	$ 81.5

The changes in the total warranty liabilities for the first nine months of 2010 were as follows (in millions):

Total warranty liability as of December 31, 2009	$ 81.5
Payments made in 2010	(21.2)
Changes resulting from issuance of new warranties	20.9
Changes in estimates associated with pre-existing liabilities	(5.3)
Changes in foreign currency exchange rates	0.2
Total warranty liability as of September 30, 2010	$ 76.1

	As of September 30, 2010	As of December 31, 2009
Accrued product quality issue (not covered under warranty)	$ 17.5	$ 21.6

At the end of each accounting period, we evaluate our warranty liabilities and during the second quarter of each year, we perform a complete reevaluation of our heating, ventilation and air conditioning (HVAC) warranty liabilities. As a result of our annual evaluation, we have recorded a reduction of $6.3 million in warranty liabilities that is the principal amount contained within the changes in estimates associated with pre-existing liabilities.

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We incur the risk of liability claims for the installation and service of heating and air conditioning products, and we maintain liabilities for those claims that we self-insure. We are involved in various claims and lawsuits related to our products. Our product liability insurance policies have limits that, if exceeded, may result in substantial costs that could have an adverse effect on our results of operations. In addition, warranty claims are not covered by our product liability insurance and certain product liability claims may also not be covered by our product liability insurance. There have been no material changes in the circumstances since our latest fiscal year-end.

We also may incur costs related to our products that may not be covered under our warranties and are not covered by insurance, and we may, from time to time, repair or replace installed products experiencing quality issues in order to satisfy our customers and to protect our brand. These product quality issues may be caused by vendor-supplied components that fail to meet required specifications.

We have identified a product quality issue in a heating and cooling product line produced in 2006 and 2007 that we believe results from a vendor-supplied materials quality issue. We have recorded an expense of $24.6 million in 2009 for the portion of the issue that is probable and can be reasonably estimated. There were no additional charges recorded in 2010. We may incur additional charges in the future as more information becomes available. The expense for this product quality issue, and the related liability, is not included in the tables related to our estimated warranty liabilities. The expense related to this product quality issue was classified in Cost of Goods Sold in the Consolidated Statements of Operations and the related liability is included in Accrued Expenses in the accompanying Consolidated Balance Sheets.

We estimate the costs to settle pending litigation based on experience involving similar claims and specific facts known. We do not believe that any current or pending or threatened litigation will have a material adverse effect on our financial position. Litigation and arbitration, however, involve uncertainties and it is possible that the eventual outcome of litigation could adversely affect our results of operations for a particular period. We are the defendant in a class action lawsuit related to certain hearth products we produced and sold that claims such products are hazardous and that consumers were not adequately warned. On August 23, 2010, the Company and the plaintiffs entered into a binding Memorandum of Understanding (MOU) and have reached tentative terms for settlement of the case. At the parties request, the court has stayed the litigation. If the terms of the MOU are fulfilled, as is expected, the parties will file a motion for preliminary approval of the settlement with the court by December 1, 2010. Total charges related to this matter recorded in the first nine months of 2010 were $8.2 million. We recorded charges totaling $2.6 million related to this matter during the third quarter of 2010 and we may incur additional charges in the future. These charges are included in Selling, General and Administrative Expenses and Losses (Gains) and Other Expenses, Net in the accompanying Consolidated Statement of Operations.

Our obligations under the Lake Park Lease are secured by a pledge of our interest in the leased property and are also guaranteed by us and certain of our subsidiaries. The Lake Park Lease, as amended, contains restrictive covenants that are consistent with those of our domestic revolving credit facility. We are in compliance with these financial covenants as of September 30, 2010.

7. Lines of Credit and Financing Arrangements:

Long Term Debt and Lines of Credit

The following tables summarize our outstanding debt obligations and the classification in the accompanying Consolidated Balance Sheets (in millions):

Description of Obligations As of September 30, 2010	Short-Term Debt	Current Maturities	Long-Term Maturities	Total
Domestic revolving credit facility	$	$	$ 145.0	$ 145.0
Senior unsecured notes			200.0	200.0
Capital lease obligations		0.8	17.1	17.9
Foreign obligations	8.2			8.2
Total debt	$ 8.2	$ 0.8	$ 362.1	$ 371.1

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Description of Obligations As of December 31, 2009	Short-Term Debt	Current Maturities	Long-Term Maturities	Total
Domestic promissory notes [1]	$	$ 35.0	$	$ 35.0
Domestic revolving credit facility			176.5	176.5
Capital lease obligations		0.4	17.1	17.5
Foreign obligations	2.2	0.1	0.2	2.5
Total debt	$ 2.2	$ 35.5	$ 193.8	$ 231.5

(1) The domestic promissory notes that were due to mature on June 1, 2010 were prepaid during the first quarter of 2010.

As of September 30, 2010, we had outstanding borrowings of $145.0 million under the $650 million domestic revolving credit facility and $69.5 million was committed to standby letters of credit. All of the remaining $435.5 million was available for future borrowings after consideration of covenant limitations. The facility matures in October 2012. As of September 30, 2010, we were in compliance with all covenant requirements.

We have additional borrowing capacity through several of our foreign subsidiaries used primarily to finance seasonal borrowing needs. We had $8.2 million and $2.5 million of obligations outstanding through our foreign subsidiaries as of September 30, 2010 and December 31, 2009, respectively. Available borrowing capacity at September 30, 2010 and December 31, 2009, under foreign facilities was $10.0 million and $12.6 million, respectively.

The domestic revolving credit facility includes a subfacility for swingline loans of up to $50 million and provides for the issuance of letters of credit for the full amount of the credit facility. Our weighted average borrowing rate on the facility was 0.96% and 0.84% as of September 30, 2010 and December 31, 2009, respectively.

Our domestic revolving credit facility contains financial covenants relating to leverage and interest coverage. Other covenants contained in the domestic revolving credit facility restrict, among other things, mergers, asset dispositions, guarantees, debt, liens, acquisitions, investments, affiliate transactions and our ability to make restricted payments. The financial covenants require us to maintain defined levels of Consolidated Indebtedness to Adjusted EBITDA Ratio and a Cash Flow (defined as EBITDA minus capital expenditures) to Net Interest Expense Ratio. The required ratios under our domestic revolving credit facility as of September 30, 2010 are detailed below:

Consolidated Indebtedness to Adjusted EBITDA Ratio no greater than	3.5 : 1.0
Cash Flow to Net Interest Expense Ratio no less than	3.0 : 1.0

Our domestic revolving credit facility 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 securitizations (cross default), and bankruptcy. A cross default under our revolving credit facility could occur if:

- we fail to pay any principal or interest when due on any other indebtedness or receivables securitization of at least $40.0 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 of at least $40.0 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 revolving credit facility, our senior unsecured notes, or our revolving period asset securitization program 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, lenders with a majority of the aggregate commitments may require the administrative agent to terminate our right to borrow under our domestic revolving credit facility and accelerate amounts due under our domestic revolving credit facility (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).

On May 6, 2010, we issued $200.0 million of senior unsecured notes due May 15, 2017 bearing fixed interest at 4.90% as a result of a public offering of securities. We received proceeds of $199.8 million from the offering for a yield of 4.91%. We also paid and capitalized $1.9 million of debt issue costs related to the issuance. We will pay interest on the notes semiannually on May 15 and November 15.

The notes are guaranteed, on a senior unsecured basis, by each of our domestic subsidiaries that guarantee payment by us of any indebtedness under our domestic revolving credit facility. 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; enter into certain mergers, consolidations and transfers of substantially all of our assets; and transfer certain properties. The indenture also contains a cross default provision which is triggered if we default on other debt of at least $75 million in principal which is then accelerated, and such acceleration is not rescinded within 30 days of the notice date.

During the first quarter of 2010, our captive insurance subsidiary entered into an agreement in which cash was placed into a trust for the benefit of a third-party insurance provider. The purpose of the trust is to pay Workers Compensation claims for policy years 2003 2009 until the liabilities are fully extinguished. These policies were written by the third-party insurance provider, and then reinsured by our captive insurance subsidiary. This transaction was classified as restricted cash on the accompanying Consolidated Balance Sheets. The balance at September 30, 2010 was $13.1 million.

Asset Securitization

Under a revolving period asset securitization arrangement (ASA), we are eligible to sell beneficial interests in a portion of our trade accounts receivable to participating financial institutions for cash.

The ASA contains certain restrictive covenants relating to the quality of our accounts receivable and cross-default provisions with our Credit Agreement. The administrative agent under the ASA is also a participant in our Credit Agreement. The administrative agent has an investment grade credit rating. We continue to evaluate its creditworthiness and have no reason to believe it will not perform under the ASA. As of September 30, 2010, we were in compliance with all covenant requirements.

The ASA provides for a maximum securitization amount of $100.0 million or 100% of the net pool balance as defined by the ASA. However, eligibility for securitization is limited based on the amount and quality of the qualifying accounts receivable and is calculated monthly. The beneficial interest sold cannot exceed the maximum amount even if our qualifying accounts receivable is greater than the maximum amount at any point in time. The eligible amounts available and beneficial interests sold were as follows (in millions):

	As of September 30, 2010	**As of December 31, 2009**
Eligible amount available under the ASA on qualified accounts receivable	$ 93.9	$ 72.5
Beneficial interest sold		
Remaining amount available	$ 93.9	$ 72.5

Under the ASA, we pay certain discount fees to use the program and 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 interest sold and calculated on the average floating commercial paper rate determined by the purchaser of the beneficial interest, plus a program fee of 1.15%. The rate was 1.45% and 1.38% as of September 30, 2010 and December 31, 2009, respectively. The unused fee is based on 102% of the maximum available amount less the beneficial interest sold and calculated at 0.5% fixed rate throughout the term of the agreement. We recorded these fees in Selling, General and Administrative Expenses in the accompanying Consolidated Statements of Operations. The amounts recorded were as follows (in millions):

	For the Three Months Ended	**For the Nine Months Ended**

	September 30,		September 30,	
	2010	2009	2010	2009
Discount fees	$ 0.1	$ 0.1	$ 0.4	$ 0.6

8. Pension and Postretirement Benefit Plans:

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

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	For the Three Months Ended September 30,			
	2010	2009	2010	2009
	Pension Benefits		Other Benefits	
Service cost	$ 1.3	$ 1.4	$ 0.2	$ 0.2
Interest cost	4.4	4.4	0.2	0.2
Expected return on plan assets	(4.9)	(4.1)		
Amortization of prior service cost	0.1	0.2	(0.5)	(0.5)
Amortization of net loss	2.1	2.2	0.3	0.3
Settlements or curtailments		0.5		
Total net periodic pension cost	$ 3.0	$ 4.6	$ 0.2	$ 0.2

	For the Nine Months Ended September 30,			
	2010	2009	2010	2009
	Pension Benefits		Other Benefits	
Service cost	$ 3.7	$ 4.2	$ 0.4	$ 0.5
Interest cost	13.2	13.1	0.6	0.7
Expected return on plan assets	(14.5)	(12.2)		
Amortization of prior service cost	0.4	0.5	(1.4)	(1.5)
Amortization of net loss	6.4	6.8	0.9	0.9
Settlements or curtailments		0.8		
Total net periodic pension cost	$ 9.2	$ 13.2	$ 0.5	$ 0.6

The fair values of our pension plan assets, by asset category, are as follows:

	Fair Value Measurements as of September 30, 2010			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets Category:				
Cash and cash equivalents	$ 0.8	$	$	$ 0.8
Commingled pools / Collective Trusts				
U.S. equity (1)		31.7		31.7
International equity (2)		48.4		48.4
Fixed income (3)		78.7		78.7
Mutual funds				
U.S. equity (4)	37.8			37.8
International equity (4)	6.0			6.0

Fixed income (5)	6.1			6.1
Balanced pension trust (6)				
U.S. equity		2.0		2.0
International equity		7.0		7.0
Bonds		5.1		5.1
Pension fund				
U.S. equity (7)		1.0		1.0
International equity (7)		5.1		5.1
Fixed income (8)		4.1		4.1
Money market instruments (9)		0.8		0.8
Guaranteed investment contracts		1.8		1.8
Total	$ 50.7	**$** 185.7	$	$ 236.4

Additional information about assets measured at Net Asset Value per share (in millions):

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	As of September 30, 2010		
	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
Assets Category:			
Commingled pools / Collective Trusts			
U.S. equity (1)	$ 31.7	n/a	n/a
International equity (2)	48.4	Monthly	10 15 days
Fixed income (3)	78.7	Quarterly	15 days
Mutual funds			
U.S. equity (4)	37.8	n/a	n/a
International equity (4)	6.0	n/a	n/a
Fixed income (5)	6.1	n/a	n/a
Balanced pension trust (6)			
U.S. equity	2.0	Daily	5 days
International equity	7.0	Daily	5 days
Bonds	5.1	Daily	5 days
Pension fund			
U.S. equity (7)	1.0	Daily	7 days
International equity (7)	5.1	Daily	7 days
Fixed income (8)	4.1	Daily	7 days
Money market instruments (9)	0.8	Daily	7 days
Total	$ 233.8		

(1) This category includes investments primarily in U.S. equity securities that include large, mid and small capitalization companies.

(2) This category includes investments primarily in Non-U.S. equity securities that include large, mid and small capitalization

companies in large developed markets as well as emerging markets equities.

(3) This category includes investments in U.S. investment grade and high yield fixed income securities, non-U.S. fixed income securities and emerging markets fixed income securities.

(4) These funds seek capital appreciation and generally invest in common stocks of U.S. and Non-U.S. issuers. They may invest in growth stocks or value stocks.

(5) This fund seeks to provide inflation protection. It currently invests at least 80% of its assets in inflation-indexed bonds issued by the U.S. government. It may invest in bonds of any maturity, though the fund typically maintains a dollar-weighted average maturity of 7 to 20 years.

(6) The investment objectives of the fund are to provide long-term capital growth and income by investing primarily in a well-diversified, balanced portfolio of Canadian common stocks, bonds and money market securities. The fund also holds a portion of its assets in U.S. and non-U.S. equities.

(7) This category includes investments in U.S. and Non-U.S. equity securities and aims to provide returns consistent with the markets in which it invests and provide broad exposure to countries around the world.

(8) This category includes investments in United Kingdom (U.K.) government index-linked securities (index-linked gilts) that have maturity periods of 5 years or longer and

investment grade corporate bonds denominated in sterling.

(9) This fund invests in U.K. money market instruments and includes cash, bank deposits and short-term fixed interest investments.

9. Stock-Based Compensation:

Our 2010 Incentive Plan, as amended and restated provides for various long-term incentive awards, which include stock options, performance share units, restricted stock units and stock appreciation rights. Net stock-based compensation expense of $4.1 million and $3.8 million was recognized for the third quarters of 2010 and 2009, respectively. Net stock-based compensation expense of $11.8 million and $9.0 million was recognized for the first nine months of 2010 and 2009, respectively. These expenses are included in Selling, General and Administrative Expenses in the accompanying Consolidated Statements of Operations.

10. Restructuring Charges:

As part of our strategic priorities of manufacturing and sourcing excellence and expense reduction, we have initiated various manufacturing rationalization actions designed to lower our cost structure. We also continue to reorganize our North American distribution network in order to better serve our customers needs by deploying parts and equipment inventory closer to them. We have also initiated a number of activities that rationalize and reorganize various support and administrative functions to reduce ongoing selling and administrative expenses.

Information on Total Restructuring Charges and Related Reserves

Restructuring charges incurred include the following amounts (in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Manufacturing rationalizations	$ 4.0	$ 9.7	$ 11.7	$ 18.7
Reorganization of distribution network		(0.5)	0.1	(0.3)
Reorganizations of corporate and business unit selling and administrative functions	0.7	2.3	3.2	9.0
Total	$ 4.7	$ 11.5	$ 15.0	$ 27.4

The components of the $4.7 million of restructuring charges recorded in the third quarter of 2010 are discussed in greater detail in later sections of this footnote.

In the third quarter of 2009, restructuring charges for manufacturing rationalizations included $7.5 million related to the consolidation of certain Commercial Heating & Cooling manufacturing operations located in Mions, France into our existing manufacturing operations in Longvic, France. Manufacturing rationalizations recorded in the third quarter of 2009 also included $1.5 million related to the consolidation of Residential Heating & Cooling manufacturing operations from Blackville, South Carolina into our operations in Orangeburg, South Carolina and Saltillo, Mexico and $0.2 million of charges related to the transition of production of certain Residential Heating & Cooling products from our Marshalltown, Iowa manufacturing facility to our manufacturing operations in Saltillo, Mexico.

In the third quarter of 2009, restructuring charges related to reorganizations of corporate and business unit selling and administrative functions included $1.2 million related to the relocation of Residential Heating & Cooling factory-built fireplace headquarters from Orange, California to Nashville, Tennessee and the consolidation of customer and technical service departments into our existing hearth products plant in Union City, Tennessee. Reorganization charges recorded in the third quarter of 2009 also included $0.2 million related to the reorganization of our Commercial Heating & Cooling business unit s selling and administrative functions in Northern Europe and $0.3 million related to the reorganization of the management structure of our Refrigeration administrative and support functions across the globe. Restructuring charges recorded in the third quarter of 2009 also included $0.6 million related to the centralization of certain Service Experts administrative and support functions.

Restructuring reserves are included in Accrued Expenses in the accompanying Consolidated Balance Sheets. The table below details activity within the restructuring reserves for the first three quarters of 2010 (in millions):

Description of Reserves	Balance as of December 31, 2009	Charged to Earnings	Cash Utilization	Non-Cash Utilization and Other	Balance as of September 30, 2010
Severance and related expense	$ 21.1	$ 8.9	$ (18.7)	$ (1.4)	$ 9.9
Asset write-offs and accelerated depreciation		2.8		(2.8)	
Equipment moves		0.7	(0.7)		
Lease termination	0.3	0.2	(0.3)		0.2
Other	0.8	2.4	(2.4)		0.8
Total restructuring reserves	$ 22.2	$ 15.0	$ (22.1)	$ (4.2)	$ 10.9

Manufacturing Rationalization Activities

Information regarding the restructuring charges related to manufacturing rationalizations is as follows (in millions):

	Charges Incurred in 2010	Charges Incurred to Date	Total Charges Expected to be Incurred
Severance and related expense	$ 6.6	$ 31.8	$ 31.8
Asset write-offs and accelerated depreciation	2.2	10.7	10.9
Equipment moves	0.5	2.6	3.5
Other	2.4	6.2	8.4
Total	$ 11.7	$ 51.3	$ 54.6

Restructuring expense for manufacturing rationalization activities related to the following:

In the third quarter of 2010, we began to exit contract coil manufacturing in our Refrigeration operations in Milperra, Australia. Total restructuring charges related to this action recorded in the first nine months and third quarter of 2010 were $3.4 million, which was composed of severance of $2.8 million and asset write-offs of $0.6 million. This action is expected to be completed during the fourth quarter of 2010.

In the first quarter of 2010, we began to exit OEM coil manufacturing in our Refrigeration operations in Milperra, Australia. Total restructuring charges related to this action recorded in the first nine months of 2010 were $5.3 million, which was composed of severance of $4.0 million, asset write-offs of $1.1 million and other charges of $0.2 million. During the third quarter of 2010 we recorded $0.1 million of restructuring charges related to this action. This action was substantially completed during the first nine months of 2010.

In the fourth quarter of 2009, we began the consolidation of certain Refrigeration manufacturing operations located in Parets, Spain into our existing operations in Genas, France. During the first nine months of 2010 we recorded restructuring charges totaling $1.5 million related to this action, which was composed of $0.2 of equipment moves, $0.2 million of severance, and $1.1 million of other charges. During the third quarter of 2010 we recorded $0.1 million of restructuring charges related to this action. This action was substantially completed during the first nine months of 2010.

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In the first quarter of 2009, we began the consolidation of Residential Heating & Cooling manufacturing operations from Blackville, South Carolina into our operations in Orangeburg, South Carolina and Saltillo, Mexico. Total restructuring charges recorded related to this action in the first nine months of 2010 were $1.3 million, primarily composed of equipment move costs, accelerated depreciation, severance and other plant closure costs. During the third quarter of 2010 we recorded $0.3 million of restructuring charges related to this action. The consolidation is expected to be completed during the third quarter of 2011.

Additionally, during the first nine months of 2010, we reversed $0.3 million of restructuring severance charges related to the consolidation of certain Commercial Heating & Cooling manufacturing operations located in Mions, France into our existing manufacturing operations in Longvic, France to adjust estimated amounts to actual.

Reorganization of Distribution Network

In the fourth quarter of 2008, we commenced the transition of activities currently performed at our North American Parts Center in Des Moines, Iowa to other locations, including our North American Distribution Center in Marshalltown, Iowa. We incurred $0.1 million of restructuring charges, which was composed of severance, during the first nine months of 2010 related to this transition. To date, we have incurred $3.2 million, which was composed primarily of severance, and we expect the total cost to be $3.6 million related to this restructuring activity. The total cost of this restructuring activity will be composed of severance of $2.6 million, equipment moving costs of $0.3 million and other costs of $0.7 million. The transition is expected to be completed in the fourth quarter of 2011.

Reorganizations of Corporate and Business Unit Selling and Administrative Functions

Information regarding the restructuring charges related to the reorganization of corporate and business unit selling and administrative functions is as follows (in millions):

	Charges Incurred in 2010	Charges Incurred to Date	Total Charges Expected to be Incurred
Employee relocation	$ 1.2	$ 1.6	$ 1.7
Severance and related expense	1.0	21.5	21.6
Asset write-offs and accelerated depreciation	0.5	1.4	1.4
Lease termination	0.3	2.0	2.4
Other	0.2	0.8	0.9
Total	$ 3.2	$ 27.3	$ 28.0

We incurred costs related to the following restructuring actions in our selling and administrative activities:

In the third quarter of 2009, we initiated the relocation of Residential Heating & Cooling factory-built fireplace headquarters from Orange, California to Nashville, Tennessee and the consolidation of customer and technical service departments into our existing hearth products plant in Union City, Tennessee. As a result of this action, we recorded restructuring charges of $1.9 million during the first nine months of 2010, which primarily consisted of employee relocation and lease termination costs. During the third quarter of 2010 we recorded $0.3 million of restructuring charges related to this action. Total anticipated restructuring charges related to this action are expected to total $4.1 million and consist principally of severance, recruiting, relocation costs and lease termination costs. We substantially completed this action during the first nine months of 2010.

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During the first quarter of 2009, we reorganized the management structure of our Refrigeration administrative and support functions across the globe. As a result of this action, we recorded restructuring severance charges of $0.5 million during the first nine months of 2010. During the third quarter of 2010 we recorded no restructuring charges related to this action. The action was completed in the third quarter of 2010.

During the second quarter of 2010, we reorganized certain administrative operations of an acquired company within our Service Experts segment. In connection with this action, we recorded asset write-offs totaling $0.5 million during the first nine months of 2010. During the third quarter of 2010 we recorded $ 0.3 million of restructuring charges related to this action. Total anticipated restructuring costs associated with this action are $0.9 million and will consist of primarily of asset write-offs and lease termination costs. This action is expected to be completed by the end of the fourth quarter of 2010.

In the third quarter of 2008, our Commercial Heating & Cooling business unit began to reorganize its selling and administrative functions in Northern Europe through a series of restructuring actions. Total restructuring charges recorded in the first nine months of 2010 related to this action were $0.3 million.

11. Discontinued Operations:

Service Experts Discontinued Operations

A summary of net trade sales and operational losses classified as Discontinued Operations in the accompanying Consolidated Statements of Operations are detailed below (in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net trade sales	$	$ 7.6	$ 0.2	$ 20.2
Operational loss from discontinued operations[1]	0.1	2.9	0.9	10.2

(1) Included in the operational loss from discontinued operations are losses on the disposal of the assets and liabilities of the service centers sold of $0.3 million for the nine months ended September 30, 2010, and gains on disposal of the assets and liabilities of service centers sold of $1.1 million for

the nine months ended September 30, 2009. Included in operational loss from discontinued operations for the nine months ended September 30, 2009, was a charge of $6.2 million for litigation related to the sale of a service center in 2004. Included in operational loss from discontinued operations for the three and nine months ended September 30, 2009, was an impairment charge of $2.1 million from discontinued operations during the third quarter of 2009 that related to service centers where the estimated selling price less cost to sell off the assets was below the net book value of those assets.

The assets and liabilities of the discontinued operations are presented as follows in the accompanying Consolidated Balance Sheets (in millions):

	As of September 30,	**As of December 31,**

	2010	2009
Assets of discontinued operations:		
Other assets	$	$ 3.6
Liabilities of discontinued operations:		
Accrued expenses	$ 0.5	$ 1.3

12. Earnings Per Share:

Basic earnings per share are computed by dividing net income by the weighted-average number of common

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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 for Income from Continuing Operations were as follows (in millions, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	$ 41.8	$ 31.0	$ 88.5	$ 44.7
Add: Loss from discontinued operations	0.1	2.7	0.8	7.2
Income from continuing operations	$ 41.9	$ 33.7	$ 89.3	$ 51.9
Weighted-average shares outstanding basic	53.8	55.8	55.0	55.5
Effect of diluted securities attributable to stock-based payments	1.2	1.3	1.2	0.8
Weighted-average shares outstanding diluted	55.0	57.1	56.2	56.3
Earnings per share from continuing operations:				
Basic	$ 0.78	$ 0.60	$ 1.62	$ 0.94
Diluted	$ 0.76	$ 0.59	$ 1.59	$ 0.92

Stock appreciation rights were outstanding, but not included in the diluted earnings per share calculation because the assumed exercise of such rights would have been anti-dilutive. The details are as follows:

	For the Nine Months Ended September 30,	
	2010	2009
Number of shares	520,817	609,286
Price ranges per share	$ 36.94	$ 34.52 37.11

13. Reportable Business Segments:

We operate in four 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 provided. The table below details the nature of the operations of each reportable segment:

Segment	Product or Services	Markets Served	Geographic Areas
Residential Heating & Cooling	Heating Air Conditioning Hearth Products	Residential Replacement Residential New Construction	United States Canada
Commercial Heating & Cooling	Rooftop Products Chillers Air Handlers	Light Commercial	United States Canada Europe
Service Experts	Equipment Sales	Residential	United States

	Installation Maintenance Repair	Light Commercial	Canada
Refrigeration	Unit Coolers Condensing Units Other Commercial Refrigeration Products	Light Commercial Food Preservation and Non-Food/Industrial	United States Canada Europe Asia Pacific South America

Transactions between segments, such as products sold to Service Experts by the Residential Heating &

Cooling segment, are recorded on an arm s-length basis using the market price for these products. The eliminations of these intercompany sales and any associated profit are noted in the reconciliation of segment results to the income from continuing operations before income taxes below.

We use segment profit or loss as the primary measure of profitability to evaluate operating performance and to allocate capital resources.

Our corporate costs include those costs related to corporate functions such as legal, internal audit, treasury, human resources, tax compliance and senior executive staff. Corporate costs also include the long-term share-based incentive awards provided to employees throughout LII. We recorded these share-based awards as Corporate costs as they are determined at the discretion of the Board of Directors and based on the historical practice of doing so for internal reporting purposes.

Net sales and segment profit (loss) by business segment, along with a reconciliation of segment profit (loss) to Income from Continuing Operations Before Income Taxes are shown below (in millions):

	For the Three Months Ended September 30,		**For the Nine Months Ended September 30,**	
	2010	**2009**	**2010**	**2009**
Net Sales				
Residential Heating & Cooling	$ 370.9	$ 347.1	$ 1,068.5	$ 972.7
Commercial Heating & Cooling	176.3	154.4	471.7	448.6
Service Experts	150.9	137.3	445.6	389.0
Refrigeration	140.6	133.6	411.8	369.4
Eliminations (1)	(20.5)	(22.9)	(63.2)	(65.7)
	$ 818.2	$ 749.5	$ 2,334.4	$ 2,114.0
Segment Profit (Loss)(2)				
Residential Heating & Cooling	$ 39.0	$ 39.0	$ 98.6	$ 73.5
Commercial Heating & Cooling	24.9	17.1	56.2	38.4
Service Experts	6.0	7.9	14.2	9.6
Refrigeration	17.3	16.8	47.5	32.9
Corporate and other	(15.5)	(13.4)	(48.2)	(42.0)
Eliminations (1)	0.1	0.2	(0.2)	(0.2)
Subtotal that includes segment profit and eliminations	71.8	67.6	168.1	112.2
Reconciliation to income from continuing operations before income taxes:				
Items in losses (gains) and other expenses, net that are excluded from segment profit (3)	0.5	(1.6)	6.7	(6.2)
Restructuring charges	4.7	11.5	15.0	27.4
Interest expense, net	3.5	2.2	9.1	6.1
Other expense, net		0.1	0.1	0.2
Income from continuing operations before income taxes	$ 63.1	$ 55.4	$ 137.2	$ 84.7

(1) Eliminations consist of intercompany

sales between business segments, such as products sold to Service Experts by the Residential Heating & Cooling segment.

(2) We define segment profit and loss as a segment s income or loss from continuing operations before income taxes included in the accompanying Consolidated Statements of Operations: Excluding:

- o Special product quality adjustments.
- o Items within Losses (Gains) and Other Expenses, net that are noted in [(3)].
- o Restructuring charges.
- o Goodwill and equity method investment impairments.
- o Interest expense, net.
- o Other expense, net.

(3) Items in Losses (Gains) and Other Expenses, net that are excluded from segment profit are net change in unrealized gains and/or losses on open future contracts, discount fee on accounts sold,

realized gains
and/or losses on
marketable
securities,
special legal
contingency
charge, and
other items.

Total assets by business segment are shown below (in millions). The assets in the Corporate segment are primarily comprised of cash and deferred tax assets. Assets recorded in the operating segments represent those assets directly associated with those segments.

	As of September 30, 2010	As of December 31, 2009
Total Assets		
Residential Heating & Cooling	$ 576.6	$ 484.2
Commercial Heating & Cooling	290.3	238.5
Service Experts	193.5	173.1
Refrigeration	380.9	357.5
Corporate and other	267.0	297.3
Eliminations (1)	(11.0)	(10.3)
Total assets	1,697.3	1,540.3
Discontinued operations (See Note 11)		3.6
Total assets	$ 1,697.3	$ 1,543.9

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

14. Fair Value Measurements:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (in millions):

	Fair Value Measurements on a Recurring Basis as of September 30, 2010	
	Quoted Prices in	Significant

	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investment in marketable equity securities (1)	$11.1	$	$	$11.1
Derivatives, net (2)		5.1		5.1

	Fair Value Measurements on a Recurring Basis as of December 31, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investment in marketable equity securities(1)	$5.4	$	$	$ 5.4
Derivatives, net (2)		10.2		10.2

(1) Investment in marketable equity securities is recorded in Other Long-term Assets in the accompanying Consolidated Balance Sheets.

(2) Liability derivatives are recorded in Accrued Expenses and Other Liabilities and asset derivatives are recorded in Other Assets in the accompanying Consolidated Balance Sheets. See Note 4 for more

information.

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Other Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts and notes receivable, net, accounts payable and other current liabilities approximate fair value due to the short maturities of these instruments. The fair values of each of our long-term debt instruments are based on the quoted market prices for the same issues or on the amount of future cash flows associated with each instrument using current market rates for debt instruments of similar maturities and credit risk. The estimated fair value of long-term debt (including our domestic revolving credit facility, capital lease obligations, foreign obligations and any related current maturities) was $168.0 million and $242.5 million as of September 30, 2010 and December 31, 2009, respectively. The estimated fair value of our senior unsecured notes was $218.1 million as of September 30, 2010. The fair values presented are estimates and are not necessarily indicative of amounts for which we could settle such instruments currently or indicative of our intent or ability to dispose of or liquidate them.

15. Condensed Consolidating Financial Statements

The Company s senior unsecured notes are unconditionally guaranteed by certain of the Company s subsidiaries (the Guarantor Subsidiaries) while they are not by other subsidiaries (the Non-Guarantor Subsidiaries). As results of these guarantee arrangements, we are required to present the following condensed consolidating financial statements.

The condensed consolidating financial statements reflect the investments in subsidiaries of the Company using the equity method of accounting. Intercompany account balances have been included in Accounts and Notes Receivable, Other (Current) Assets, Other Assets, net, Short-Term Debt, Accounts Payable, and Long-Term Debt line items of the Parent, Guarantor and Non-Guarantor balance sheets. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

Condensed consolidating financial statements of the Company, its Guarantor Subsidiaries and Non-Guarantor Subsidiaries as of September 30, 2010 and December 31, 2009 and for the three and nine months ended September 30, 2010 and 2009 are shown below:

Condensed Consolidating Balance Sheets
As of September 30, 2010
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
		ASSETS			
CURRENT ASSETS:					
Cash and cash equivalents	$ 0.8	$ 17.8	$ 73.8	$	$ 92.4
Short-term investments			13.1		13.1
Accounts and notes receivable, net	(1,017.8)	793.5	645.1	8.4	429.2
Inventories, net		218.2	134.5	(5.0)	347.7
Deferred income taxes	2.0	25.4	15.6	(6.3)	36.7
Other assets	9.5	20.7	91.6	(58.0)	63.8
Total current assets	(1,005.5)	1,075.6	973.7	(60.9)	982.9
PROPERTY, PLANT AND EQUIPMENT, net		203.1	117.8		320.9
GOODWILL		50.9	221.5	(4.8)	267.6
DEFERRED INCOME TAXES	(5.0)	67.0	18.1	(14.0)	66.1
OTHER ASSETS, net	2,033.0	412.0	49.6	(2,434.8)	59.8
TOTAL ASSETS	$ 1,022.5	$ 1,808.6	$ 1,380.7	$ (2,514.5)	$ 1,697.3

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES:					
Short-term debt	$ 32.1	$	$ 8.5	$ (32.4)	$ 8.2
Current maturities of long-term debt		0.3	0.5		0.8
Accounts payable	8.0	140.3	133.7	2.0	284.0
Accrued expenses	10.0	218.7	128.6	(28.2)	329.1

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	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Income taxes payable	(26.6)	12.6	23.4	(4.0)	5.4
Total current liabilities	23.5	371.9	294.7	(62.6)	627.5
LONG-TERM DEBT	345.0	5.4	143.7	(132.0)	362.1
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS		13.1			13.1
PENSIONS		62.2	8.5		70.7
OTHER LIABILITIES	5.0	47.0	30.2	(14.9)	67.3
Total liabilities	373.5	499.6	477.1	(209.5)	1,140.7
COMMITMENTS AND CONTINGENCIES					
TOTAL STOCKHOLDERS EQUITY	649.0	1,309.0	903.6	(2,305.0)	556.6
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,022.5	$ 1,808.6	$ 1,380.7	$ (2,514.5)	$ 1,697.3

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Condensed Consolidating Statements of Operations
For the Three Months Ended September 30, 2010
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$	$ 563.0	$ 318.8	$ (63.6)	$ 818.2
COST OF GOODS SOLD	0.1	413.4	233.6	(61.7)	585.4
Gross profit	(0.1)	149.6	85.2	(1.9)	232.8
OPERATING EXPENSES:					
Selling, general and administrative expenses		120.0	43.5		163.5
Losses (gains) and other expenses, net	(1.5)	2.1	0.3	(0.1)	0.8
Restructuring charges		0.8	3.8	0.1	4.7
Loss (income) from equity method investments	(52.6)	(4.1)	(2.8)	56.7	(2.8)
Operational income (loss) from continuing operations	54.0	30.8	40.4	(58.6)	66.6
INTEREST EXPENSE, net	8.9	(5.9)	0.5		3.5
OTHER EXPENSE, net					
Income (loss) from continuing operations before income taxes	45.1	36.7	39.9	(58.6)	63.1
(BENEFIT FROM) PROVISIONS FOR INCOME TAXES	(2.7)	12.1	11.9	(0.1)	21.2
Income (loss) from continuing operations	47.8	24.6	28.0	(58.5)	41.9
Loss from discontinued operations			0.1		0.1
Net income (loss)	$ 47.8	$ 24.6	$ 27.9	$ (58.5)	$ 41.8

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Condensed Consolidating Statements of Operations
For the Nine Months Ended September 30, 2010
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$	$ 1,606.7	$ 922.9	$ (195.2)	$ 2,334.4
COST OF GOODS SOLD	0.2	1,170.9	684.7	(193.2)	1,662.6
Gross profit	(0.2)	435.8	238.2	(2.0)	671.8
OPERATING EXPENSES:					
Selling, general and administrative expenses		367.3	145.7		513.0
Losses (gains) and other expenses, net	(0.1)	6.6	(0.2)		6.3
Restructuring charges		4.0	11.0		15.0
(Income) loss from equity method investments	(103.8)	(7.6)	(8.9)	111.4	(8.9)
Operational income (loss) from continuing operations	103.7	65.5	90.6	(113.4)	146.4
INTEREST EXPENSE, net	8.9	(2.1)	2.3		9.1
OTHER EXPENSE, net			0.1		0.1
Income (loss) from continuing operations before income taxes	94.8	67.6	88.2	(113.4)	137.2
(BENEFIT FROM) PROVISIONS FOR INCOME TAXES	(3.3)	22.2	29.0		47.9
Income (loss) from continuing operations	98.1	45.4	59.2	(113.4)	89.3
Loss from discontinued operations			0.8		0.8
Net income (loss)	$ 98.1	$ 45.4	$ 58.4	$ (113.4)	$ 88.5

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Condensed Consolidating Balance Sheets
As of December 31, 2009
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
		ASSETS			
CURRENT ASSETS:					
Cash and cash equivalents	$ 0.8	$ 6.6	$ 116.9	$	$ 124.3
Accounts and notes receivable, net	(975.0)	775.1	558.3	(1.4)	357.0
Inventories, net		139.4	113.7	(2.9)	250.2
Deferred income taxes		25.4	15.8	(6.3)	34.9
Other assets	12.2	19.1	93.0	(56.8)	67.5
Total current assets	(962.0)	965.6	897.7	(67.4)	833.9
PROPERTY, PLANT AND EQUIPMENT, net		207.8	121.8		329.6
GOODWILL		46.7	215.4	(4.7)	257.4
DEFERRED INCOME TAXES		67.3	21.2	(13.9)	74.6
OTHER ASSETS, net	1,905.1	371.4	41.5	(2,269.6)	48.4
TOTAL ASSETS	$ 943.1	$ 1,658.8	$ 1,297.6	$ (2,355.6)	$ 1,543.9
		LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES:					
Short-term debt	$ 25.1	$	$ 2.5	$ (25.4)	$ 2.2
Current maturities of long-term debt	35.0		0.5		35.5
Accounts payable	7.9	115.4	122.7	(7.8)	238.2
Accrued expenses	5.1	192.5	154.3	(34.0)	317.9
Income taxes payable	(17.5)	(21.6)	43.2	(4.1)	
Total current liabilities	55.6	286.3	323.2	(71.3)	593.8
LONG-TERM DEBT	176.5	98.8	117.4	(198.9)	193.8
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS		13.4			13.4
PENSIONS		56.3	10.5	(0.1)	66.7
OTHER LIABILITIES	2.6	50.9	32.9	(14.6)	71.8
Total liabilities	234.7	505.7	484.0	(284.9)	939.5
COMMITMENTS AND CONTINGENCIES					
TOTAL STOCKHOLDERS EQUITY	708.4	1,153.1	813.6	(2,070.7)	604.4
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 943.1	$ 1,658.8	$ 1,297.6	$ (2,355.6)	$ 1,543.9

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Condensed Consolidating Statements of Operations
For the Three Months Ended September 30, 2009
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$	$ 512.7	$ 310.1	$ (73.3)	$ 749.5
COST OF GOODS SOLD	0.1	368.0	232.8	(73.2)	527.7
Gross profit	(0.1)	144.7	77.3	(0.1)	221.8
OPERATING EXPENSES:					
Selling, general and administrative expenses		111.2	45.9		157.1
(Gains) losses and other expenses, net	(1.2)	(0.4)	(0.5)		(2.1)
Restructuring charges		2.7	8.8		11.5
(Income) loss from equity method investments	(26.8)	3.5	(2.4)	23.3	(2.4)
Operational income (loss) from continuing operations	27.9	27.7	25.5	(23.4)	57.7
INTEREST (INCOME) EXPENSE, net	(0.2)	0.8	1.7	(0.1)	2.2
OTHER EXPENSE, net			0.1		0.1
Income (loss) from continuing operations before income taxes	28.1	26.9	23.7	(23.3)	55.4
PROVISIONS FOR INCOME TAXES	0.5	11.2	10.0		21.7
Income (loss) from continuing operations	27.6	15.7	13.7	(23.3)	33.7
Loss from discontinued operations			2.6	0.1	2.7
Net income (loss)	$ 27.6	$ 15.7	$ 11.1	$ (23.4)	$ 31.0

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Condensed Consolidating Statements of Operations
For the Nine Months Ended September 30, 2009
(In millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$	$ 1,476.1	$ 827.9	$ (190.0)	$ 2,114.0
COST OF GOODS SOLD	0.2	1,083.8	635.7	(189.9)	1,529.8
Gross profit	(0.2)	392.3	192.2	(0.1)	584.2
OPERATING EXPENSES:					
Selling, general and administrative expenses		336.7	137.0		473.7
(Gains) losses and other expenses, net	(6.0)	(0.4)	4.1		(2.3)
Restructuring charges		11.7	15.7		27.4
(Income) loss from equity method investments	(27.0)	13.7	(5.6)	13.3	(5.6)
Operational income from continuing operations	32.8	30.6	41.0	(13.4)	91.0
INTEREST (INCOME) EXPENSE, net	(0.6)	5.3	1.4		6.1
OTHER EXPENSE, net			0.2		0.2
Income (loss) from continuing operations before income taxes	33.4	25.3	39.4	(13.4)	84.7
PROVISIONS FOR INCOME TAXES	2.4	14.4	16.1	(0.1)	32.8
Income (loss) from continuing operations	31.0	10.9	23.3	(13.3)	51.9
Loss from discontinued operations			7.2		7.2
Net income (loss)	$ 31.0	$ 10.9			