LENNOX INTERNATIONAL INC
Form 10-Q
April 20, 2015

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 March 31, 2015
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 [X]   No [ ]

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 [X]   No [ ]

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.

Large Accelerated Filer	[X]	Accelerated Filer	[ ]
Non-Accelerated Filer	[ ]	Smaller Reporting Company	[ ]

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

As of April 16, 2015, the number of shares outstanding of the registrant's common stock, par value $.01 per share, was 44,995,652.

LENNOX INTERNATIONAL INC.
FORM 10-Q
For the three months ended March 31, 2015

INDEX

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 March 31, 2015 (unaudited)	As of December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$36.7	$37.5
Accounts and notes receivable, net of allowances of $7.5 and $7.9 in 2015 and 2014, respectively	449.4	421.4
Inventories, net	533.1	463.3
Deferred income taxes, net	32.7	32.5
Other assets	88.4	59.3
Total current assets	1,140.3	1,014.0
Property, plant and equipment, net of accumulated depreciation of $655.3 and $654.1 in 2015 and 2014, respectively	356.0	358.6
Goodwill	204.5	209.4
Deferred income taxes	91.5	97.5
Other assets, net	87.2	84.8
Total assets	$1,879.5	$1,764.3
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current Liabilities:		
Short-term debt	$185.3	$226.6
Current maturities of long-term debt	31.5	24.0
Accounts payable	347.6	324.3
Accrued expenses	204.9	239.0
Income taxes payable	1.2	13.4
Total current liabilities	770.5	827.3
Long-term debt	869.0	675.0
Post-retirement benefits, other than pensions	4.0	4.5
Pensions	131.0	129.9
Other liabilities	121.2	118.6
Total liabilities	1,895.7	1,755.3
Commitments and contingencies		
Stockholders' (deficit) 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, 87,170,197 shares issued	0.9	0.9
Additional paid-in capital	839.4	824.9
Retained earnings	1,022.5	1,022.1
Accumulated other comprehensive loss	(178.7)	(153.5)
Treasury stock, at cost, 42,181,306 shares and 42,535,126 shares in 2015 and 2014, respectively	(1,700.9)	(1,686.0)
Noncontrolling interests	0.6	0.6

Total stockholders’ (deficit) equity	(16.2)	9.0
Total liabilities and stockholders' (deficit) equity	$1,879.5	$1,764.3

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

1

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

(Amounts in millions, except per share data)	For the Three Months Ended March 31,	
	2015	2014
Net sales	$685.8	$695.4
Cost of goods sold	522.8	527.3
Gross profit	163.0	168.1
Operating Expenses:		
Selling, general and administrative expenses	133.4	135.6
Losses (gains) and other expenses, net	5.6	2.4
Restructuring charges	0.3	0.1
Income from equity method investments	(3.3)	(3.9)
Operational income from continuing operations	27.0	33.9
Interest expense, net	5.7	3.3
Other expense (income), net	—	—
Income from continuing operations before income taxes	21.3	30.6
Provision for income taxes	7.3	10.7
Income from continuing operations	14.0	19.9
Discontinued Operations:		
Loss from discontinued operations before income taxes	(0.2)	—
Benefit from income taxes	(0.1)	—
Loss from discontinued operations	(0.1)	—
Net income	$13.9	$19.9
Earnings per share – Basic:		
Income from continuing operations	$0.31	$0.41
Loss from discontinued operations	—	—
Net income	$0.31	$0.41
Earnings per share – Diluted:		
Income from continuing operations	$0.31	$0.40
Loss from discontinued operations	—	—
Net income	$0.31	$0.40
Weighted Average Number of Shares Outstanding - Basic	44.7	49.0
Weighted Average Number of Shares Outstanding - Diluted	45.5	49.9
Cash dividends declared per share	$0.30	$0.24

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 March 31, 2015	2014
Net income	$13.9	$19.9
Other comprehensive income (loss):		
Foreign currency translation adjustments	(27.3)	2.6
Net change in pension and post-retirement liabilities	(0.6)	(0.3)
Reclassification of pension and post-retirement benefit losses into earnings	2.0	1.2
Change in fair value of available-for-sale marketable equity securities	—	0.5
Net change in fair value of cash flow hedges	(1.9)	(7.0)
Reclassification of cash flow hedge losses into earnings	3.4	1.1
Other comprehensive income (loss) before income taxes	(24.4)	(1.9)
Income tax (expense) benefit	(0.8)	1.9
Other comprehensive income (loss), net of tax	(25.2)	—
Comprehensive income	$(11.3)	$19.9

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 Three Months Ended March 31	
	2015	2014
Cash flows from operating activities:		
Net income	$13.9	$19.9
Net loss from discontinued operations	0.1	—
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from equity method investments	(3.3)	(3.9)
Dividends from affiliates		
Restructuring expenses, net of cash paid	(0.1)	(0.1)
Provision for bad debts	0.9	(0.1)
Unrealized losses on derivative contracts	0.2	0.6
Stock-based compensation expense	3.5	3.8
Depreciation and amortization	15.5	15.0
Deferred income taxes	(1.1)	0.5
Other items, net	0.1	12.8
Changes in assets and liabilities, net of effects of divestitures:		
Accounts and notes receivable	(40.1)	(33.8)
Inventories	(78.5)	(122.9)
Other current assets	1.0	(1.7)
Accounts payable	29.6	59.5
Accrued expenses	(29.0)	(33.1)
Income taxes payable and receivable	(40.1)	(29.3)
Other	5.3	(12.2)
Net cash used in discontinued operations	(0.1)	—
Net cash used in operating activities	(122.2)	(125.0)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(18.0)	(17.3)
Net cash used in investing activities	(18.0)	(17.3)
Cash flows from financing activities:		
Short-term borrowings, net	(0.2)	2.5
Asset securitization payments	(40.0)	—
Long-term debt payments	—	(0.4)
Borrowings from revolving credit facility	580.5	479.0
Payments on revolving credit facility	(379.0)	(319.0)
Proceeds from employee stock purchases	0.6	0.5
Repurchases of common stock to satisfy employee withholding tax obligations	(20.5)	(10.7)
Excess tax benefits related to share-based payments	16.0	4.2
Cash dividends paid	(13.4)	(11.8)
Net cash provided by financing activities	144.0	144.3
Increase in cash and cash equivalents	3.8	2.0
Effect of exchange rates on cash and cash equivalents	(4.6)	(1.0)
Cash and cash equivalents, beginning of period	37.5	38.0

Cash and cash equivalents, end of period	$36.7	$39.0
Supplemental disclosures of cash flow information:		
Interest paid	$3.1	$1.2
Income taxes paid (net of refunds)	$32.2	$35.4

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 March 31, 2015, the accompanying unaudited Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014, the accompanying unaudited Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and 2014, and the accompanying unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014 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, 2014. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. 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 year ends on December 31 and each quarter is 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 post-retirement medical benefits, 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.

Reclassifications

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

2. Inventories:

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

	As of March 31, 2015	As of December 31, 2014
Finished goods	$399.3	$338.2
Work in process	9.4	8.1
Raw materials and parts	190.6	182.6
Subtotal	599.3	528.9
Excess of current cost over last-in, first-out cost	(66.2)	(65.6)
Total inventories, net	$533.1	$463.3

3. Goodwill:

The changes in the carrying amount of goodwill for the first three months of 2015, in total and by segment, are summarized in the table below (in millions):

	Balance at December 31, 2014	Acquisitions / (Dispositions)	Other [(1)]	Balance at March 31, 2015
Residential Heating & Cooling	$26.1	$—	$—	$26.1
Commercial Heating & Cooling	62.3	—	(1.7)	60.6
Refrigeration	121.0	—	(3.2)	117.8
Total Goodwill	$209.4	$—	$(4.9)	$204.5

(1) Other consists of changes in foreign currency translation rates.

We performed our annual goodwill impairment test in the fourth quarter of 2014 and did not record any goodwill impairments. We continue to 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.

4. 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 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. These forward contracts are not designated as hedges and generally expire during the quarter that we enter into them. By entering into forward contracts, we lock in exchange rates that would otherwise cause losses should the U.S. dollar appreciate and gains should the U.S. dollar depreciate.

Cash Flow Hedges

We have commodity futures contracts designated as cash flow hedges that are scheduled to mature through September 2016. 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 18 months based on the prices of the commodities at the settlement dates.

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

	As of March 31, 2015	As of December 31, 2014
Unrealized losses on unsettled futures contracts	$5.8	$7.2
Income tax benefit	(2.1)	(2.6)
Losses included in AOCL, net of tax [1]	$3.7	$4.6

[1] Assuming commodity prices remain constant, we expect to reclassify $3.8 million of derivative losses into earnings within the next 12 months.

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

	As of March 31, 2015	As of December 31, 2014
Copper	24.9	29.4

Derivatives not Designated as Cash Flow Hedges

For commodity derivatives not designated as cash flow hedges, we follow the same hedging strategy as derivatives designated as cash flow hedges, except that we elect not to designate them 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 of pounds):

	As of March 31, 2015	As of December 31, 2014
Copper	2.5	2.9
Aluminum	2.5	2.2

We also had the following outstanding foreign currency forward contracts not designated as cash flow hedges (in millions):

	As of March 31, 2015	As of December 31, 2014
Notional Amounts (in local currency):		
Brazilian Real	4.1	8.7
Mexican Peso	60.7	229.7
United States Dollar	9.0	4.5
Euro	3.9	3.6
Polish Zloty	20.2	30.6
Russian Ruble	69.9	80.8

Information about the Locations and Amounts of Derivative Instruments

The following tables provide the locations and amounts of derivative fair values in the Consolidated Balance Sheets and derivative gains and losses in the Consolidated Statements of Operations (in millions):

	Fair Values of Derivative Instruments [1]			
	Derivatives Designated as Hedging Instruments		Derivatives Not Designated as Hedging Instruments	
	As of March 31, 2015	As of December 31, 2014	As of March 31, 2015	As of December 31, 2014
Current Assets:				
Other Assets				
Commodity futures contracts	$—	$—	$—	$—
Foreign currency forward contracts	—	—	0.3	0.3
Non-Current Assets:				
Other Assets, net				
Commodity futures contracts	0.2	—	—	—
Total Assets	$0.2	$—	$0.3	$0.3
Current Liabilities:				
Accrued Expenses				
Commodity futures contracts	$5.9	$6.7	$0.7	$0.7
Foreign currency forward contracts	—	—	0.2	—
Non-Current Liabilities:				
Other Liabilities				
Commodity futures contracts		0.5	—	0.1
Total Liabilities	$5.9	$7.2	$0.9	$0.8

[1] All derivative instruments are classified as Level 2 within the fair value hierarchy. See Note 16 for more information.

Derivatives Designated as Cash Flow Hedges	For the Three Months Ended March 31,	
	2015	2014
Amount of Loss reclassified from AOCL into Income (Effective Portion) [1]	$3.4	$1.1
Amount of Loss (Gain) recognized in Net income (Ineffective Portion) [2]	$—	$0.1

Derivatives Not Designated as Hedging Instruments	For the Three Months Ended March 31,	
	2015	2014
Amount of Loss (Gain) Recognized in Net Income:		
Commodity futures contracts [2]	$0.3	$0.7
Foreign currency forward contracts [2]	0.2	0.1
	$0.5	$0.8

[1] The loss was recorded in Cost of goods sold in the accompanying Consolidated Statements of Operations.
[2] The loss (gain) was recorded in Losses (gains) and other expenses, net in the accompanying Consolidated Statements of Operations.

5. Income Taxes:

As of March 31, 2015, we had approximately $1.6 million in total gross unrecognized tax benefits. Of this amount, $1.2 million (net of federal benefit on state issues), if recognized, would be recorded through the Consolidated Statement of Operations. As of March 31, 2015, we had approximately $0.2 million (net of federal tax benefits) in interest and penalties recognized in income tax expense in accordance with FASB Accounting Standards Codification ("ASC") Topic 740.

We are currently under examination for our U.S. federal income taxes under the Internal Revenue Service's Compliance Assurance Program for 2015 and 2014 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 prior to 2009.

6. Commitments and Contingencies:

Product Warranties and Product Related Contingencies

We offer warranties to customers for some of our products and record liabilities for 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 assumptions, 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 March 31, 2015	As of December 31, 2014
Accrued expenses	$26.3	$27.3
Other liabilities	60.3	59.9
Total warranty liability	$86.6	$87.2

The changes in product warranty liabilities related to continuing operations for the three months ended March 31, 2015 were as follows (in millions):

Total warranty liability as of December 31, 2014	$87.2	
Warranty claims paid	(4.7	)
Changes resulting from issuance of new warranties	6.4	
Changes in estimates associated with pre-existing liabilities	(1.2	)
Changes in foreign currency translation rates and other	(1.1	)
Total warranty liability as of March 31, 2015	$86.6	

We have incurred, and will likely continue to incur, product costs not covered by insurance or our suppliers' warranties. Also, to satisfy our customers and protect our brands, we have repaired or replaced installed products experiencing quality-related issues, and will likely continue such repairs and replacements. We currently estimate our probable liability for a supplier quality issue within a range of $2.2 million and $6 million; accordingly, we have accrued a $2.2 million liability in Accrued Expenses on the Consolidated Balance Sheet because all amounts in that range were equally likely. The supplier has agreed to reimburse our costs related to this liability; accordingly, we have also recorded a receivable of $2.2 million in Other Assets on the Consolidated Balance Sheet. If additional costs are incurred, we expect the supplier will also reimburse those costs. The $2.2 million accrual is not included in the estimated warranty liabilities tables immediately above.

Litigation

We are involved in a number of claims and lawsuits incident 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. Costs related to such matters were not material to the periods presented.

Some of these claims and lawsuits allege personal injury or health problems resulting from exposure to asbestos that was integrated into certain of our products. We have never manufactured asbestos and have not incorporated asbestos-containing components into our products for several decades. A substantial majority of asbestos-related claims have been covered by insurance or other forms of indemnity or have been dismissed without payment. The remainder of our closed cases have been resolved for amounts that are not material, individually or in the aggregate. Our defense costs for asbestos-related claims are generally covered by insurance; however, our insurance coverage for settlements and judgments for asbestos-related claims vary depending on several factors and are subject to policy limits. As a result, we may have greater financial exposure for future settlements and judgments. For the three months ended March 31, 2015, and 2014, expense for asbestos-related litigation was $0.1 million, and $0.2 million, net of insurance recoveries, respectively.

We are the defendant in an attempted class action lawsuit alleging evaporator coils in our residential air conditioning products are susceptible to a type of corrosion that can result in coil leaks. We dispute the allegations in the lawsuit. We have reached tentative settlement terms and recorded a liability of $2.4 million in Accrued Expenses on the Consolidated Balance Sheet. Any additional liability resulting from the proposed settlement is not currently reasonably estimable, but we do not expect the proposed settlement to have a material adverse effect on our financial condition or results of operations.

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.

7. 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 March 31, 2015	As of December 31, 2014
Short-Term Debt:		
Asset Securitization Program	$180.0	$220.0
Foreign obligations	5.3	6.6
Total short-term debt	$185.3	$226.6
Current maturities of long-term debt:		
Capital lease obligations	$1.5	$1.5
Domestic credit facility	$30.0	$22.5
Long-Term Debt:		
Capital lease obligations	$15.5	$15.5
Domestic credit facility	653.5	459.5
Senior unsecured notes	200.0	200.0
Total long-term debt	$869.0	$675.0
Total debt	$1,085.8	$925.6

Short-Term Debt

Foreign Obligations

Through several of our foreign subsidiaries, we have facilities available to assist in financing seasonal borrowing needs for our foreign locations. We had $5.3 million and $6.6 million of foreign obligations as of March 31, 2015 and December 31, 2014, respectively, that were primarily borrowings under non-committed facilities. Proceeds on these facilities were $11.0 million and $20.6 million during the three months ended March 31, 2015 and 2014, respectively.

Repayments on the facilities were $11.2 million and $18.1 million and during the three months ended March 31, 2015 and 2014, respectively.

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 participating financial institutions for cash. The ASP is subject to annual renewal and contains a provision whereby we retain the right to repurchase all of the outstanding beneficial interests transferred. 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 risk of loss for any uncollectible amounts in the pool of receivables sold under the ASP. The fair values assigned to the retained and transferred interests are based on the sold accounts receivable carrying value given the short term to maturity and low credit risk. The sale of the beneficial interests in our trade accounts receivable are reflected as short-term 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.

In November 2014, we amended the ASP, extending its term to November 13, 2015 and increasing the maximum securitization amount from a range of $160.0 million to $220.0 million to a range of $180.0 million to $220.0 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 March 31, 2015	As of December 31, 2014
Eligible amount available under the ASP on qualified accounts receivable	$180.0	$220.0
Beneficial interest sold	180.0	220.0
Remaining amount available	$—	$—

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 interest sold and calculated on the average LIBOR rate or floating commercial paper rate determined by the purchaser of the beneficial interest, plus a program fee of 0.60%. The average rate for both March 31, 2015 and December 31, 2014 was 0.79%. The unused fee is based on 101% of the maximum available amount less the beneficial interest sold and is calculated at a 0.30% fixed rate throughout the term of the agreement. In addition, a 0.05% unused fee is charged on incremental available amounts above $180 million during certain months of the year. 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 certain cross-default provisions with our Fifth Amended and Restated Credit Facility Agreement ("Domestic Credit Facility"), 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 Domestic Credit Facility. The participating financial institutions have investment grade credit ratings. We continue to evaluate their credit ratings and have no reason to believe they will not perform under the ASP. As of March 31, 2015, we were in compliance with all covenant requirements.

Long-Term Debt

Domestic Credit Facility

On November 13, 2014, we replaced our $650 million Domestic Revolving Credit Facility with a $950 million Domestic Credit Facility, which consists of a $650 million revolving credit facility and a $300 million term loan and matures in November 2019 (the "Maturity Date"). Under our $950.0 million Domestic Credit Facility, we had outstanding borrowings of $683.5 million as well as $27.2 million committed to standby letters of credit as of March 31, 2015. Subject to covenant limitations, $239.3 million was available for future borrowings. The unsecured $300 million term loan also matures on the Maturity Date and requires quarterly principal repayments of $7.5 million beginning on June 30, 2015. The revolving credit facility allows up to $150 million of letters of credit to be issued and also includes a subfacility for swingline loans of up to $65 million. Additionally, at our request and subject to certain conditions, the commitments under the Domestic Credit Facility may be increased by a maximum of $350 million as long as existing or new lenders agree to provide such additional commitments.

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

	As of March 31, 2015	As of December 31, 2014
Weighted average borrowing rate	1.66 %	1.88 %

Our Domestic Credit Facility is guaranteed by certain of our subsidiaries and contains financial covenants relating to leverage and interest coverage. Other covenants contained in the Domestic Credit Facility restrict, among other things, certain mergers, asset dispositions, guarantees, debt, liens, and affiliate transactions. The financial covenants require us to maintain a defined 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 Credit Facility 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 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 Domestic 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 $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 of at least $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 Domestic Credit Facility, our senior unsecured notes, the Lake Park Renewal (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, lenders with a majority of the aggregate commitments may require the administrative agent to terminate our right to borrow under our Domestic Credit Facility and accelerate amounts due under our Domestic 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). As of March 31, 2015, we were in compliance with all covenant requirements.

Senior Unsecured Notes

We issued $200.0 million of senior unsecured notes in May 2010 through a public offering. Interest is paid semiannually on May 15 and November 15 at a fixed interest rate of 4.90% per annum. These notes mature on May 15, 2017. 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 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 $75.0 million in principal which is then accelerated, and such acceleration is not rescinded within 30 days of the notice date. As of March 31, 2015, we were in compliance with all covenant requirements.

8. Pension and Post-retirement Benefit Plans:

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

	For the Three Months Ended March 31,			
	2015	2014	2015	2014
	Pension Benefits		Other Benefits	
Service cost	$1.2	$1.1	$—	$—
Interest cost	4.3	4.4	—	—
Expected return on plan assets	(5.3)	(5.7)	—	—
Amortization of prior service cost	—	0.1	(0.8)	(0.8)
Recognized actuarial loss	2.4	1.6	0.4	0.4

Settlements and curtailments	0.3	—	—	—
Net periodic benefit cost [1]	$2.9	$1.5	$(0.4)	$(0.4)

[1] All net periodic benefit cost for the three months ended March 31, 2015 and 2014 related to continuing operations.

12

9. 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. 2010 Incentive Plan, as amended and restated. 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 March 31,	
	2015	2014
Stock-based compensation expense [1]	$3.5	$3.8

[1] All expense was recorded in our Corporate and other business segment.

10. Stock Repurchases:

Our Board of Directors has authorized a total of $1.4 billion towards the repurchase of shares of our common stock (collectively referred to as the "Share Repurchase Plans"). The Share Repurchase Plans authorize open market repurchase transactions and do not have an expiration date. There were no additional share repurchase authorizations in the first three months of 2015. As of March 31, 2015, $395.9 million of shares may yet be repurchased under the Share Repurchase Plans.

We also repurchased 0.2 million shares for $20.5 million for the three months ended March 31, 2015 from employees who surrendered their shares to satisfy minimum tax withholding obligations upon the exercise of long-term incentive awards.

11. Comprehensive Income:

The following table provides information on items not reclassified in their entirety from AOCL to Net Income in the accompanying Consolidated Statements of Operations (in millions):

	For the Three Months Ended March 31,		Affected Line Item(s) in the Consolidated Statements of Operations
	2015	2014	
(Losses)/Gains on cash flow hedges:			
Commodity futures contracts	$(3.4)	$(1.1)	Cost of goods sold
Income tax benefit	1.2	0.4	Provision for income taxes
Net of tax	$(2.2)	$(0.7)	
Defined Benefit Plan items:			
Pension and post-retirement benefit costs	$(2.0)	$(1.2)	Cost of goods sold; Selling, general and administrative expenses
Income tax benefit	0.7	0.4	Provision for income taxes
Net of tax	$(1.3)	$(0.8)	
Total reclassifications from AOCL	$(3.5)	$(1.5)	

13

The following table provides information on changes in AOCL, by component (net of tax), for the three months ended March 31, 2015 (in millions):

	Gains (Losses) on Cash Flow Hedges	Unrealized Gains on Available-for-Sale Securities	Defined Benefit Pension Plan Items	Foreign Currency Translation Adjustments	Total AOCL
AOCL as of December 31, 2014	$(4.6)	$ 3.2	$(149.4)	$(2.7)	$(153.5)
Other comprehensive (loss) income before reclassifications	(1.1)	—	(0.3)	(27.3)	(28.7)
Amounts reclassified from AOCL	2.2	—	1.3	—	3.5
Net other comprehensive (loss) income	1.1	—	1.0	(27.3)	(25.2)
AOCL as of March 31, 2015	$(3.5)	$ 3.2	$(148.4)	$(30.0)	$(178.7)

12. Restructuring Charges:

We record restructuring charges associated with management-approved restructuring plans when we reorganize or remove duplicative headcount and infrastructure within our businesses. Restructuring charges include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, contract cancellation costs and other related activities. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over a multi-year period. Restructuring charges are not included in our calculation of segment profit (loss), as more fully explained in Note 15.

Restructuring Activities in 2015

Information regarding the restructuring charges for all ongoing activities are presented in the table below (in millions):

	Charges Incurred in 2015	Charges Incurred to Date	Total Charges Expected to be Incurred
Severance and related expense	$0.1	$7.0	$7.3
Asset write-offs and accelerated depreciation	0.1	1.9	1.9
Equipment moves	—	—	—
Lease termination	—	—	—
Other	0.1	1.9	2.2
Total restructuring charges	$0.3	$10.8	$11.4

While restructuring charges are excluded from our calculation of segment profit (loss), the table below presents the restructuring charges associated with each segment (in millions):

	Charges Incurred in 2015	Charges Incurred to Date	Total Charges Expected to be Incurred
Residential Heating & Cooling	$0.1	$1.6	$1.6
Commercial Heating & Cooling	—	0.9	0.9
Refrigeration	0.2	8.3	8.9
Corporate & Other	—	—	—
Total restructuring charges	$0.3	$10.8	$11.4

Restructuring accruals are included in Accrued expenses in the accompanying Consolidated Balance Sheets. The table below details the activity in 2015 within the restructuring accruals (in millions):

	Balance as of December 31, 2014	Charged to Earnings	Cash Utilization	Non-Cash Utilization and Other	Balance as of March 31, 2015
Severance and related expense	$1.5	$0.1	$(0.2)		$1.4
Asset write-offs and accelerated depreciation	—	0.1			0.1
Equipment moves	0.1		(0.1)		—
Lease termination	—				—
Other	—	0.1	(0.1)		—
Total restructuring accruals	$1.6	$0.3	$(0.4)	$—	$1.5

13. Discontinued Operations:

On March 22, 2013, we sold our Service Experts business to a majority-owned entity of American Capital, Ltd. (the "Buyer") in an all-cash transaction for net proceeds of $10.4 million, excluding transaction costs. We also entered into a two-year equipment and parts supply agreement with the Buyer. In April 2012, we sold our Hearth business to Comvest Investment Partners IV in an all-cash transaction for net proceeds of $10.1 million, excluding the transaction costs and cash transferred with the business.

There were no assets and liabilities related to the Service Experts or Hearth businesses included in the accompanying Consolidated Balance Sheets as of March 31, 2015 or December 31, 2014, except for insurance casualty loss reserves which we retained after the respective transactions. The gains and losses on the sale of these businesses and their operating results for all periods are presented in discontinued operations in the accompanying Consolidated Statements of Operations. The following table provides a summary of net trade sales, pre-tax operating income (loss) and other supplemental information related to discontinued operations (in millions):

	Service Experts For the Three Months Ended March 31,	
	2015	2014
Net trade sales [1]	$—	$—
Pre-tax operating income (loss) [1]	(0.1)	—
Gain (loss) on sale of business	—	(0.1)

[1] Excludes eliminations of intercompany sales and any associated profit

	Hearth For the Three Months Ended March 31,	
	2015	2014
Net trade sales [1]	$—	$—
Pre-tax operating income (loss) [1]	(0.1)	—
Gain (loss) on sale of business	—	0.1

[1] Excludes eliminations of intercompany sales and any associated profit

14. Earnings Per Share:

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income 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 Net income were as follows (in millions, except per share data):

	For the Three Months Ended March 31,	
	2015	2014
Net income	$13.9	$19.9
Add: Loss from discontinued operations	0.1	—
Income from continuing operations	$14.0	$19.9
Weighted-average shares outstanding – basic	44.7	49.0
Add: Potential effect of dilutive securities attributable to stock-based payments	0.8	0.9
Weighted-average shares outstanding – diluted	45.5	49.9
Earnings per share – Basic:		
Income from continuing operations	$0.31	$0.41
Loss from discontinued operations	—	—
Net income	$0.31	$0.41
Earnings per share – Diluted:		
Income from continuing operations	$0.31	$0.40
Loss from discontinued operations	—	—
Net income	$0.31	$0.40

The following 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 (in millions, except for per share data):

	For the Three Months Ended March 31,	
	2015	2014
Weighted-average number of shares	0.2	0.3
Price range per share	$92.64	$81.11 - $81.14

15. Reportable Business Segments:

We operate in three 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 Heating & Cooling	Furnaces, air conditioners, heat pumps, packaged heating and cooling systems, indoor air quality equipment, comfort control products, replacement parts	Residential Replacement; Residential New Construction	United States Canada
Commercial Heating & Cooling	Unitary heating and air conditioning equipment, applied systems, controls, installation and service of commercial heating and cooling equipment	Light Commercial	United States Canada Europe
Refrigeration	Condensing units, unit coolers, fluid coolers, air cooled condensers, air handlers, process chillers, controls, compressorized racks, supermarket display cases and systems	Light Commercial; Food Preservation; Non-Food/Industrial	United States Canada Europe Asia Pacific South America

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 below details the items excluded.

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 because they are determined at the discretion of the Board of Directors and based on the historical practice of doing so for internal reporting purposes.

As they arise, transactions between segments are recorded on an arm's-length basis using the relevant market prices. 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 as follows.

Segment Data

Net sales and segment profit (loss) for each 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 March 31,