LENNOX INTERNATIONAL INC
Form 10-Q
October 17, 2016

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED September 30, 2016
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 October 14, 2016, the number of shares outstanding of the registrant’s common stock, par value $.01 per share, was 43,047,803.

LENNOX INTERNATIONAL INC.
FORM 10-Q
For the three and nine months ended September 30, 2016

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Part I - Financial Information
Item 1. Financial Statements
LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
Consolidated Balance Sheets

(Amounts in millions, except shares and par values)	As of September 30, 2016 (unaudited)	As of December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 47.8	$ 38.9
Accounts and notes receivable, net of allowances of $7.7 and $6.3 in 2016 and 2015, respectively	570.4	422.8
Inventories, net	474.0	418.8
Other assets	74.3	57.7
Total current assets	1,166.5	938.2
Property, plant and equipment, net of accumulated depreciation of $718 and $682.9 in 2016 and 2015, respectively	346.2	339.6
Goodwill	198.5	195.1
Deferred income taxes	147.4	145.7
Other assets, net	68.0	58.8
Total assets	$ 1,926.6	$ 1,677.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ 327.8	$ 204.1
Current maturities of long-term debt	215.6	31.0
Accounts payable	371.7	320.1
Accrued expenses	272.2	242.6
Income taxes payable	0.8	26.0
Total current liabilities	1,188.1	823.8
Long-term debt	512.5	506.0
Post-retirement benefits, other than pensions	2.2	4.1
Pensions	72.9	120.8
Other liabilities	126.7	121.1
Total liabilities	1,902.4	1,575.8
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, 87,170,197 shares issued	0.9	0.9
Additional paid-in capital	1,017.5	1,002.4
Retained earnings	1,331.1	1,146.7
Accumulated other comprehensive loss	(187.0)	(204.7)
Treasury stock, at cost, 44,126,432 shares and 42,491,910 shares as of September 30, 2016 and December 31, 2015, respectively	(2,138.7)	(1,844.1)
Noncontrolling interests	0.4	0.4
Total stockholders' equity	24.2	101.6
Total liabilities and stockholders' equity	$ 1,926.6	$ 1,677.4

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)

(Amounts in millions, except per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	$1,010.0	$955.0	$2,744.4	$2,633.3
Cost of goods sold	699.7	681.6	1,935.5	1,913.5
Gross profit	310.3	273.4	808.9	719.8
Operating Expenses:				
Selling, general and administrative expenses	156.5	143.8	456.2	430.0
Losses and other expenses, net	0.7	6.0	5.5	14.9
Restructuring charges (gains)	0.6	(0.4)	1.2	1.8
Income from equity method investments	(4.4)	(3.0)	(15.3)	(11.8)
Operating income	156.9	127.0	361.3	284.9
Interest expense, net	7.0	5.7	19.6	17.9
Other income, net	—	(0.7)	(0.2)	(0.7)
Income from continuing operations before income taxes	149.9	122.0	341.9	267.7
Provision for income taxes	48.2	41.7	104.0	91.9
Income from continuing operations	101.7	80.3	237.9	175.8
Discontinued Operations:				
Loss from discontinued operations before income taxes	—	—	(0.9)	(0.9)
Benefit from income taxes	—	—	(0.3)	(0.4)
Loss from discontinued operations	—	—	(0.6)	(0.5)
Net income	$101.7	$80.3	$237.3	$175.3
Earnings per share – Basic:				
Income from continuing operations	$2.35	$1.78	$5.46	$3.92
Loss from discontinued operations	—	—	(0.01)	(0.01)
Net income	$2.35	$1.78	$5.45	$3.91
Earnings per share – Diluted:				
Income from continuing operations	$2.33	$1.76	$5.39	$3.86
Loss from discontinued operations	—	—	(0.01)	(0.01)
Net income	$2.33	$1.76	$5.38	$3.85
Weighted Average Number of Shares Outstanding - Basic	43.2	45.0	43.6	44.9
Weighted Average Number of Shares Outstanding - Diluted	43.7	45.6	44.2	45.6
Cash dividends declared per share	$0.43	$0.36	$1.22	$1.02

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

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

(Amounts in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$101.7	$80.3	$237.3	$175.3
Other comprehensive income (loss):				
Foreign currency translation adjustments	(3.1)	(28.6)	11.3	(56.1)
Net change in pension and post-retirement liabilities	(0.4)	(1.0)	(4.5)	(4.4)
Reclassification of pension and post-retirement benefit losses into earnings	1.6	2.0	4.8	6.2
Change in fair value of available-for-sale marketable equity securities	(1.2)	1.4	(1.8)	1.8
Net change in fair value of cash flow hedges	2.0	(10.2)	1.4	(14.6)
Reclassification of cash flow hedge losses into earnings	2.4	3.2	10.6	9.4
Other comprehensive income (loss) before income taxes	1.3	(33.2)	21.8	(57.7)
Income tax expense	(1.7)	2.3	(4.1)	1.4
Other comprehensive income (loss), net of tax	(0.4)	(30.9)	17.7	(56.3)
Comprehensive income	$101.3	$49.4	$255.0	$119.0

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

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

(Amounts in millions)	For the Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$237.3	$175.3
Adjustments to reconcile net income to net cash used in operating activities:		
Income from equity method investments	(15.3)	(11.8)
Dividends from affiliates	3.9	7.4
Restructuring (gains) expenses, net of cash paid	(0.8)	(0.2)
Provision for bad debts	3.4	2.1
Unrealized (gains) losses on derivative contracts	(2.2)	1.3
Stock-based compensation expense	24.8	18.5
Depreciation and amortization	43.4	46.6
Deferred income taxes	(2.6)	(0.2)
Pension expense	4.8	8.1
Pension contributions	(52.6)	(3.8)
Other items, net	0.4	0.3
Changes in assets and liabilities, net of effects of divestitures:		
Accounts and notes receivable	(146.2)	(135.9)
Inventories	(49.9)	(41.0)
Other current assets	(6.6)	(2.8)
Accounts payable	56.4	23.4
Accrued expenses	40.7	15.1
Income taxes payable and receivable	(35.0)	(0.9)
Other	3.0	5.4
Net cash provided by operating activities	106.9	106.9
Cash flows from investing activities:		
Purchases of property, plant and equipment	(59.4)	(47.0)
Net cash used in investing activities	(59.4)	(47.0)
Cash flows from financing activities:		
Short-term borrowings, net	(2.1)	0.8
Asset securitization borrowings	145.0	40.0
Asset securitization payments	(20.0)	(40.0)
Long-term debt payments	(30.9)	(23.5)
Borrowings from credit facility	1,715.0	1,401.0
Payments on credit facility	(1,493.0)	(1,385.0)
Payments of deferred financing costs	(0.9)	—
Proceeds from employee stock purchases	1.9	1.8
Repurchases of common stock	(300.0)	—
Repurchases of common stock to satisfy employee withholding tax obligations	(26.3)	(23.5)
Excess tax benefits related to share-based payments	20.0	18.6
Cash dividends paid	(50.5)	(43.1)
Net cash used in financing activities	(41.8)	(52.9)
Increase in cash and cash equivalents	5.7	7.0

Effect of exchange rates on cash and cash equivalents	3.2	(9.4)
Cash and cash equivalents, beginning of period	38.9	37.5
Cash and cash equivalents, end of period	$47.8	$35.1
Supplemental disclosures of cash flow information:		
Interest paid	$17.0	$15.9
Income taxes paid (net of refunds)	$120.9	$73.4

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

Basis of Presentation

The accompanying unaudited Consolidated Balance Sheet as of September 30, 2016, the accompanying unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015, the accompanying unaudited Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, and the accompanying unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 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, 2015. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The accompanying consolidated financial statements contain all material adjustments, consisting principally of normal recurring adjustments, necessary for a fair presentation of our financial position, results of operations and cash flows. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to applicable rules and regulations, although we believe that the disclosures herein are adequate to make the information presented not misleading. The operating results for the interim periods are not necessarily indicative of the results that may be expected for a full year.

Our fiscal year ends on December 31 and each quarter is comprised of approximately13 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 September 30, 2016	As of December 31, 2015
Finished goods	$ 335.5	$ 300.0
Work in process	6.8	4.2
Raw materials and parts	193.8	178.3
Subtotal	536.1	482.5
Excess of current cost over last-in, first-out cost	(62.1)	(63.7)
Total inventories, net	$ 474.0	$ 418.8

3. Goodwill:

The changes in the carrying amount of goodwill for the first nine months of 2016, in total and by segment, are summarized in the table below (in millions):

	Balance at December 31, 2015	Acquisitions / (Dispositions)	Other [(1)]	Balance at September 30, 2016
Residential Heating & Cooling	$ 26.1	$ —	$ —	$ 26.1
Commercial Heating & Cooling	60.6	—	0.5	61.1
Refrigeration	108.4	—	2.9	111.3
Total Goodwill	$ 195.1	$ —	$ 3.4	$ 198.5

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

We performed our annual goodwill impairment test in the fourth quarter of 2015 and recorded a $5.5 million goodwill impairment charge. 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. We will perform our annual goodwill assessment in the fourth quarter of 2016.

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.

Our forward contracts are generally not designated as hedges, but on occasion we have entered into forward contracts that are designated as cash flow hedges. 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 and foreign exchange forward contracts designated as cash flow hedges that are scheduled to mature through February 2018. 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 and foreign currencies at the settlement dates. We recorded the following amounts in AOCL related to our cash flow hedges (in millions):

	As of September 30, 2016	As of December 31, 2015
Unrealized losses on unsettled futures contracts	$ 1.2	$ 13.2
Income tax benefit	(0.4)	(4.8)
Losses included in AOCL, net of tax [1]	$ 0.8	$ 8.4

[1] Assuming commodity and foreign currency prices remain constant, we expect to reclassify $1.4 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 September 30, 2016	As of December 31, 2015
Copper	31.6	34.7

We had the following outstanding foreign exchange forward contracts designated as cash flow hedges (in millions):

	As of September 30, 2016	As of December 31, 2015
Notional Amounts (in local currency):		
Mexican Peso	230.6	201.4
Canadian Dollar	16.4	—

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 September 30, 2016	As of December 31, 2015
Copper	2.6	3.3
Aluminum	3.1	3.2

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

	As of September 30, 2016	As of December 31, 2015
Notional Amounts (in local currency):		
Mexican Peso	34.7	53.0
Indian Rupee	218.5	30.8
Euro	51.1	3.2
Chinese Yuan	14.0	—

Polish Zloty	—	25.4
Great Britain Pound	1.9	—
New Zealand Dollar	3.0	—
Australian Dollar	28.0	—

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 September 30, 2016	As of December 31, 2015	As of September 30, 2016	As of December 31, 2015
Current Assets:				
Other Assets				
Commodity futures contracts	$ 1.1	$ —	$ 0.1	$ —
Foreign currency forward contracts	—	—	0.4	0.2
Non-Current Assets:				
Other Assets, net				
Commodity futures contracts	0.6	—	0.1	—
Total Assets	$ 1.7	$ —	$ 0.6	$ 0.2
Current Liabilities:				
Accrued Expenses				
Commodity futures contracts	$ 2.0	$ 12.5	$ 0.2	$ 1.5
Foreign currency forward contracts	0.4	0.4	0.1	—
Non-Current Liabilities:				
Other Liabilities				
Commodity futures contracts	0.1	0.4	—	—
Foreign currency forward contracts	—	—	—	—
Total Liabilities	$ 2.5	$ 13.3	$ 0.3	$ 1.5

[1] All derivative instruments are classified as Level 2 within the fair value hierarchy. See Note 15 for more information.

Derivatives Designated as Cash Flow Hedges	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Amount of Loss reclassified from AOCL into Income (effective portion) [1]	$ 2.4	$ 3.2	$ 10.6	$ 9.4
Amount of Loss recognized in Net income (ineffective portion) [2]	$ (0.5)	$ —	$ (0.4)	$ —

Derivatives Not Designated as Hedging Instruments	For the Three Months Ended September 30,	For the Nine Months Ended September 30,

	2016	2015	2016	2015
Amount of Loss (Gain) Recognized in Net Income:				
Commodity futures contracts [2]	$(0.3)	$1.4	$(0.2)	$2.2
Foreign currency forward contracts [2]	0.4	—	0.3	0.2
	$0.1	$1.4	$0.1	$2.4

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

5. Income Taxes:

As of September 30, 2016, we had approximately$0.8 million in total gross unrecognized tax benefits. Of this amount,$0.8 million, if recognized, would be recorded through the Consolidated Statement of Operations.

We are currently under examination for our U.S. federal income taxes under the Internal Revenue Service's Compliance Assurance Program for 2016 and 2015 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 2010.

Since January 1, 2016, numerous states, including Delaware, North Carolina and the District of Columbia, have enacted legislation effective for tax years beginning on or after January 1, 2016, including changes to apportionment methodologies and tax rates. The impact of these changes is immaterial.

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 September 30, 2016	As of December 31, 2015
Accrued expenses	$ 30.3	$ 26.7
Other liabilities	69.9	65.6
Total warranty liability	$ 100.2	$ 92.3

The changes in product warranty liabilities related to continuing operations for the nine months ended September 30, 2016 were as follows (in millions):

Total warranty liability as of December 31, 2015	$92.3
Warranty claims paid	(20.4)
Changes resulting from issuance of new warranties	31.6
Changes in estimates associated with pre-existing liabilities	(3.9)
Changes in foreign currency translation rates and other	0.6
Total warranty liability as of September 30, 2016	$100.2

We have incurred, and will likely continue to incur, product costs not covered by insurance or our suppliers' warranties, which is not included in the estimated warranty liabilities tables immediately above. 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 certain supplier quality issue within a range of $1.9 million and $9.1 million with all amounts in that range equally likely. We have accrued a $1.9 million liability in Accrued expenses on the Consolidated Balance Sheet at September 30, 2016. The supplier is reimbursing the majority of costs related to this liability.

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.

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 varies depending on several factors and is subject to policy limits. As a result, we may have greater financial exposure for future settlements and judgments. For the nine months ended September 30, 2016, and 2015, expense for asbestos-related litigation was $2.3 million, and $1.0 million, net of insurance recoveries, respectively.

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 September 30, 2016	As of December 31, 2015
Short-Term Debt:		
Asset Securitization Program	$ 325.0	$ 200.0
Foreign obligations	2.8	4.1
Total short-term debt	$ 327.8	$ 204.1
Current maturities of long-term debt:		
Capital lease obligations	$ 0.9	$ 1.2
Domestic credit facility	15.0	30.0
Senior unsecured notes	200.0	—
Debt issuance costs	(0.3)	(0.2)
Total current maturities of long-term debt	$ 215.6	$ 31.0
Long-Term Debt:		
Capital lease obligations	$ 15.1	$ 15.6
Domestic credit facility	500.0	293.0
Senior unsecured notes	—	200.0
Debt issuance costs	(2.6)	(2.6)
Total long-term debt	$ 512.5	$ 506.0
Total debt	$ 1,055.9	$ 741.1

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. We adopted this guidance in the first quarter of 2016 and have reclassified the unamortized debt issuance costs into the debt liability as shown in the table above.

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 $2.8 million and $4.1 million of foreign obligations as of September 30, 2016 and December 31, 2015, respectively, that were primarily borrowings under non-committed facilities. Proceeds on these facilities were $28.2 million and $63.6 million during the nine months ended September 30, 2016 and 2015, respectively. Repayments on the facilities were $30.3 million and $61.7 million during the nine months ended September 30, 2016 and 2015, 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 matures in November 2017 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.

Prior to the amendment in July 2016, the ASP provided for a maximum securitization amount ranging from $180.0 million to $220.0 million, depending on the period. The ASP was amended effective as of July 5, 2016 to increase the maximum securitization range from $200.0 million to $325.0 million, depending on the period. The maximum capacity under the ASP is the lesser of the maximum securitization amount or 100% of the net pool balance less allowances, as defined by the ASP. Eligibility for securitization is limited based on the amount and quality of the qualifying accounts receivable and is calculated monthly. The eligible amounts available and beneficial interests sold were as follows (in millions):

	As of September 30, 2016	As of December 31, 2015
Eligible amount available under the ASP on qualified accounts receivable	$ 325.0	$ 220.0
Beneficial interest sold	325.0	200.0
Remaining amount available	$ —	$ 20.0

We pay certain discount fees to use the ASP and to have the facility available to us. These fees relate to both the used and unused portions of the securitization. The used fee is based on the beneficial interest sold and calculated on the average floating commercial paper rate determined by the purchaser of the beneficial interest, plus a program fee of 0.65%. The average rate for September 30, 2016 and December 31, 2015 was 1.49% and 1.06% respectively. The unused fee is based on 102% of the maximum available amount less the beneficial interest sold and is calculated at a 0.33% fixed rate throughout the term of the agreement. In addition, a 0.05% unused fee is charged on incremental available amounts above $200 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 qualifications relating to the quality of our accounts receivable and certain cross-default provisions with our Sixth 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 September 30, 2016, we believe we were in compliance with all covenant requirements.

Long-Term Debt

Domestic Credit Facility

On August 30, 2016, we replaced an earlier $950.0 million credit facility with a $900.0 million credit facility (the "Domestic Credit Facility"), which consisted of a $650.0 million unsecured revolving credit facility and a $250.0 million unsecured term loan and matures in August 2021 (the "Maturity Date"). Under our Domestic Credit Facility, we had outstanding borrowings of $515.0 million, of which $250.0 million was the term loan balance, as well as $4.4 million committed to standby letters of credit as of September 30, 2016. Subject to covenant limitations, $380.6 million was available for future borrowings. The unsecured term loan also matures on the Maturity Date and requires quarterly principal repayments of $7.5 million beginning in March 2017. The revolving credit facility allows up to $100.0 million of letters of credit to be issued and also includes a subfacility for swingline loans of up to $65.0 million. Additionally, at our request and subject to certain conditions, the commitments under the Domestic Credit Facility may be increased by a maximum of $350.0 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 September 30, 2016	As of December 31, 2015
Weighted average borrowing rate	1.70 %	1.90 %

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, our lease of our corporate headquarters in Richardson, Texas (recorded as an operating lease), or our ASP were to occur, it could have a wider impact on our liquidity than might otherwise occur from a default of a single debt instrument or lease commitment. If any event of default occurs and is continuing, 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 September 30, 2016, we believe 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 September 30, 2016, we believe 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 September 30,			
	2016	2015	2016	2015
	Pension Benefits		Other Benefits	
Service cost	$1.1	$1.2	$—	$—
Interest cost	3.8	4.3	—	0.1
Expected return on plan assets	(5.4)	(5.3)	—	—
Amortization of prior service cost	0.1	—	(0.8)	(0.8)
Recognized actuarial loss	1.9	2.4	0.4	0.4
Settlements and curtailments	0.2	—	—	—
Net periodic benefit cost [1]	$1.7	$2.6	$(0.4)	$(0.3)

	For the Nine Months Ended September 30,			
	2016	2015	2016	2015
	Pension Benefits		Other Benefits	
Service cost	$3.3	$3.6	$—	$—
Interest cost	11.5	12.9	0.1	0.2
Expected return on plan assets	(16.2)	(16.0)	—	—
Amortization of prior service cost	0.2	—	(2.3)	(2.4)
Recognized actuarial loss	5.7	7.2	1.1	1.2
Settlements and curtailments	0.2	0.4	—	—
Net periodic benefit cost [1]	$4.7	$8.1	$(1.1)	$(1.0)

[1] All net periodic benefit cost for the three and nine months ended September 30, 2016 and 2015 related to continuing operations.

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 September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock-based compensation expense [(1)]	$ 9.9	$ 7.7	$ 24.8	$ 18.5

[(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 nine months of 2016. As of September 30, 2016, $96.2 million of shares may yet be repurchased under the Share Repurchase Plans.

On February 10, 2016, the Company entered into a Fixed Dollar Accelerated Share Repurchase Transaction (the “First ASR Agreement”) with Merrill Lynch International (“Merrill Lynch”), acting through its agent, Merrill Lynch, Pierce, Fenner and Smith Incorporated to effect an accelerated stock buyback of the Company’s common stock (the “Common Stock”).

Under the First ASR Agreement, on February 10, 2016, the Company paid Merrill Lynch an initial purchase price of $200 million, and Merrill Lynch delivered to the Company a total of 1.3 million shares of Common Stock, representing approximately 75% of the shares expected to be purchased under the ASR Agreement. The First ASR Agreement was completed in the third quarter and Merrill Lynch delivered an additional 0.2 million shares of Common Stock to the Company.

On August 1, 2016, the Company entered into another Fixed Dollar ASR Agreement (the "Second ASR Agreement) with Wells Fargo to effect an accelerated stock buyback of Common Stock.

Under the Second ASR Agreement, on August 1, 2016, the Company paid Wells Fargo an initial purchase price of $100 million, and Wells Fargo delivered to the Company a total of 0.5 million shares of Common Stock, representing approximately 75% of the shares expected to be purchased under the Second ASR Agreement. The Second ASR Agreement will be completed in the fourth quarter.

We also repurchased 0.2 million shares for $26.3 million for the nine months ended September 30, 2016 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 September 30,		For the Nine Months Ended September 30,		Affected Line Item(s) in the Consolidated Statements of Operations
	2016	2015	2016	2015	
(Losses)/Gains on cash flow hedges:					
Commodity futures contracts	$(2.4)	$(3.2)	$(10.6)	$(9.4)	Cost of goods sold
Income tax benefit	0.8	1.2	3.7	3.2	Provision for income taxes
Net of tax	$(1.6)	$(2.0)	$(6.9)	$(6.2)	
Defined Benefit Plan items:					
Pension and post-retirement benefit costs	$(1.6)	$(2.0)	$(4.8)	$(6.1)	Cost of goods sold; Selling, general and administrative expenses
Income tax benefit	0.6	0.7	1.7	2.2	Provision for income taxes
Net of tax	$(1.0)	$(1.3)	$(3.1)	$(3.9)	
Total reclassifications from AOCL	$(2.6)	$(3.3)	$(10.0)	$(10.1)	

The following table provides information on changes in AOCL, by component (net of tax), for the nine months ended September 30, 2016 (in millions):

(Losses) Gains on Cash Flow Hedges	Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit Pension Plan Items