LENNOX INTERNATIONAL INC
Form DEF 14A
April 17, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Lennox International Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(l) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11 (a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)

Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

2140 Lake Park Blvd.
Richardson, Texas 75080

April 17, 2009

Dear Stockholders:

It is my pleasure to invite you to the 2009 Annual Meeting of Stockholders of Lennox International Inc. The meeting will be held at 1:00 p.m., local time, on Thursday, May 21, 2009, at the University of Texas at Dallas School of Management, southeast corner of Drive A and University Parkway, Richardson, Texas 75083.

The accompanying Notice of Annual Meeting of Stockholders and Proxy Statement describe the items of business that will be discussed and voted upon during the meeting. It is important that you vote your shares whether or not you plan to attend the meeting. To be sure your vote is counted, we urge you to carefully review the Proxy Statement and to vote as soon as possible. You have a choice of voting over the Internet, by telephone or by returning the enclosed Proxy Card by mail. You may also vote in person at the meeting. Please refer to the instructions in the enclosed materials. If you attend the meeting and wish to vote in person, the ballot you submit at the meeting will supersede your proxy.

I look forward to seeing you at the Annual Meeting of Stockholders. On behalf of management and our Board of Directors, I want to thank you for your continued support and confidence in 2009.

Sincerely,

Richard L. Thompson
Chairman of the Board

Table of Contents

2140 Lake Park Blvd.
Richardson, Texas 75080

April 17, 2009

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 21, 2009

To Our Stockholders:

Notice is hereby given that the 2009 Annual Meeting of Stockholders of Lennox International Inc. will be held on Thursday, May 21, 2009 at 1:00 p.m., local time, at the University of Texas at Dallas School of Management, southeast corner of Drive A and University Parkway, Richardson, Texas 75083 to:

elect four Class II directors to hold office for a three-year term expiring at the 2012 Annual Meeting of Stockholders;

ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2009 fiscal year; and

transact any other business that may properly come before the Annual Meeting of Stockholders.

A Proxy Statement, Proxy Card and Annual Report to Stockholders, which includes our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, accompany this Notice.

The Board of Directors has determined that our stockholders of record at the close of business on March 27, 2009 are entitled to notice of, and to vote at, the Annual Meeting of Stockholders.

By Order of the Board of Directors,

John D. Torres
Corporate Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 21, 2009:

This Proxy Statement and the accompanying Annual Report to Stockholders are available at http://www.lennoxinternational.com/financials/financialreportproxy.htm

Your Vote Is Important

To be sure your shares are represented at the Annual Meeting of Stockholders, please vote (1) by calling the toll-free number (800) 690-6903 and following the prompts; (2) by Internet at http://www.proxyvote.com; or

(3) by completing, dating, signing and returning your Proxy Card in the enclosed postage-paid envelope as soon as possible. You may vote in person at the Annual Meeting of Stockholders even if you send in your Proxy Card, vote by telephone or vote by Internet. The ballot you submit at the meeting will supersede any prior vote.

PROXY STATEMENT

TABLE OF CONTENTS

GENERAL INFORMATION REGARDING THE 2009 ANNUAL MEETING OF STOCKHOLDERS

Meeting Date and Location

The 2009 Annual Meeting of Stockholders will be held on May 21, 2009 at 1:00 p.m., local time, at the University of Texas at Dallas School of Management, southeast corner of Drive A and University Parkway, Richardson, Texas 75083. We began mailing this Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders, Proxy Card and Annual Report to Stockholders, which includes our Annual Report on Form 10-K, to our stockholders on or about April 17, 2009 for the purpose of soliciting proxies on behalf of our Board of Directors.

Matters to be Voted On

At the meeting, you will be asked to vote on two proposals:

> ***Proposal 1:*** Election of four Class II directors to hold office for a three-year term expiring at the 2012 Annual Meeting of Stockholders.
>
> ***Proposal 2:*** Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the 2009 fiscal year.

Our Board of Directors recommends you vote for each of our Board nominees and for ratification of our independent registered public accounting firm for 2009.

Record Versus Beneficial Ownership of Shares

If your shares are registered directly in your name with our transfer agent, BNY Mellon Shareowner Services, you are considered, with respect to those shares, the stockholder of record. If you are a stockholder of record, we sent our Notice of Annual Meeting of Stockholders, Proxy Statement, Proxy Card and Annual Report to Stockholders directly to you.

If your shares are held in a stock brokerage account or by a bank, you are considered the beneficial owner of shares held in street name. In that case, our Notice of Annual Meeting of Stockholders, Proxy Statement, Proxy Card and Annual Report to Stockholders have been forwarded to you by your broker or bank, which is considered, with respect to those shares, the stockholder of record. Your broker or bank will also send you instructions on how to vote. If you have not heard from your broker or bank, please contact them as soon as possible.

Record Date and Number of Votes

The record date for the 2009 Annual Meeting of Stockholders is March 27, 2009. If you were a stockholder of record at the close of business on March 27, 2009, you may vote at the meeting. At the close of business on the record date, there were 55,376,859 shares of our common stock outstanding and entitled to vote and approximately 715 stockholders of record. Each stockholder is entitled to one vote per share.

Quorum and Vote Required

A quorum is required to transact business at the meeting. To achieve a quorum at the meeting, stockholders holding a majority of our outstanding shares entitled to vote must be present either in person or represented by proxy. Shares held by us in treasury will not count towards a quorum. In the event a quorum is not present at the meeting, we expect the meeting will be adjourned or postponed to solicit additional proxies.

To be elected, nominees for director must receive a plurality of the votes cast. This means that the director nominees with the most votes are elected, regardless of whether any nominee received a majority of the votes. Ratification of our independent registered public accounting firm and any other matters submitted to you at the meeting will be decided by the affirmative vote of a majority of our common stock represented in person or by proxy at the meeting and entitled to vote.

Abstentions and Broker Non-Votes

If a broker or bank holds shares in street name and the beneficial owner does not provide the broker or bank with specific voting instructions, the broker or bank generally has discretion to vote on routine matters but does not have discretion to vote on non-routine matters. When a broker or bank does not vote on a proposal because it does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner, the missing votes are referred to as broker non-votes. We understand that pursuant to New York Stock Exchange rules, Proposals 1 and 2 will be considered routine proposals for which your broker or bank may exercise voting discretion even if it does not receive voting instructions from you.

Abstentions and broker non-votes, if applicable, will be included in determining whether a quorum is present, but will not be counted as votes for or against either Proposal 1 or Proposal 2.

Voting Procedures

To be sure your shares are represented at the 2009 Annual Meeting of Stockholders, please vote as soon as possible by using one of the following methods:

> ***By Mail:*** You may complete, date, sign and return your Proxy Card in the enclosed postage-paid envelope. If you sign and return the accompanying Proxy Card and your proxy is not revoked, your shares will be voted in accordance with your voting instructions. If you sign and return your Proxy Card but do not give voting instructions, your shares will be voted as recommended by our Board of Directors.
>
> ***By Telephone or Internet:*** The telephone and Internet voting procedures established by our company and administered by Broadridge Financial Solutions, Inc. are available to our stockholders of record only. If you are a stockholder of record, you can vote by calling the toll-free number (800) 690-6903 and following the prompts or by Internet at http://www.proxyvote.com. You should have your Proxy Card containing your control number in hand when you call or access the website. Telephone and Internet voting for stockholders of record will be available 24 hours a day and will close at 11:59 p.m., Eastern Time, on May 20, 2009.

If you are the beneficial owner of shares held in a stock brokerage account or by a bank, you will *not* be able to vote by calling the phone number or accessing the Internet address provided above. The availability of telephone and Internet voting for beneficial owners will depend on the voting procedures of your broker or bank. These procedures differ from the procedures provided by Broadridge for stockholders of record. Therefore, you should check the information forwarded to you by your broker or bank to find out which voting options are available to you.

If you vote by telephone or Internet and your proxy is not revoked, your shares will be voted in accordance with your voting instructions and you do not need to return your Proxy Card.

> ***In Person at the Annual Meeting of Stockholders:*** You may vote in person at the meeting even if you send in your Proxy Card, vote by telephone or vote by Internet. The ballot you submit at the meeting will supersede any prior vote. If you attend the Annual Meeting of Stockholders in person and want to vote shares you beneficially hold in street name, you must bring a written proxy from your broker or bank that identifies you as the sole representative entitled to vote the shares indicated.

A representative of Broadridge will tabulate the votes and act as inspector of election at the meeting.

Table of Contents

Changing Your Vote

You can change your vote on a proposal at any time before the meeting for any reason by revoking your proxy. Proxies may be revoked by filing a written notice of revocation, bearing a later date than your proxy, with our Corporate Secretary at or before the meeting. Proxies may also be revoked by:

- submitting a new written proxy bearing a later date than the Proxy Card you previously submitted prior to or at the Annual Meeting of Stockholders;
- voting again by telephone or Internet before 11:59 p.m., Eastern Time, on May 20, 2009; or
- attending the Annual Meeting of Stockholders and voting in person; however, attendance at the meeting will not in and of itself constitute a revocation of your proxy.

In each case, the later submitted vote will be recorded and the earlier vote revoked. Any written notice of a revocation of a proxy should be sent to Lennox International Inc., 2140 Lake Park Blvd., Richardson, Texas 75080, Attention: Corporate Secretary. To be effective, the revocation must be received by our Corporate Secretary before the taking of the vote at the Annual Meeting of Stockholders.

Other Business; Adjournments

We are not aware of any other business to be acted upon at the 2009 Annual Meeting of Stockholders. However, if you have voted by proxy and other matters are properly presented at the Annual Meeting for consideration, the persons named in the accompanying Proxy Card will have discretion to act on those matters according to their best judgment. In the absence of a quorum, stockholders representing a majority of the votes present in person or by proxy at the meeting may adjourn the meeting.

PROPOSAL 1: ELECTION OF DIRECTORS

ELECTION OF DIRECTORS

In accordance with our Bylaws, our Board of Directors may be composed of no less than three and no more than 15 members. The Board currently consists of 12 members, divided into three classes, with each class serving a three-year term.

Upon the recommendation of the Board Governance Committee, the Board has nominated four Class II directors for re-election to our Board of Directors to hold office for a three-year term expiring at the 2012 Annual Meeting of Stockholders. All Class III and Class I directors will continue in office, in accordance with their previous election, until the expiration of the terms of their classes at the 2010 or 2011 Annual Meeting of Stockholders.

If you do not wish your shares to be voted for any particular nominee, you may withhold your vote for that particular nominee. If any nominee for Class II director becomes unavailable, the persons named in the accompanying Proxy Card may vote for any alternate designated by the incumbent Board of Directors, upon the recommendation of the Board Governance Committee, or the number of directors constituting the Board may be reduced.

Our Board of Directors continues to evaluate the optimal size of the Board and, if it determines it is in our company s best interest, will fill any vacancies in accordance with our Bylaws and our Corporate Governance Guidelines. Although the Board has less than 15 members, you may not vote for a greater number of directors than the number nominated.

Biographical information for each nominee for Class II director and for each current director in the classes continuing in office is provided below.

Table of Contents

The Board has nominated the following individuals for re-election as Class II directors for a three-year term expiring at the 2012 Annual Meeting of Stockholders:

Linda G. Alvarado, 57, has served as a director of our company since 1987. She has served as President and Chief Executive Officer of Alvarado Construction, Inc., a commercial development and general contracting firm specializing in commercial, government and industrial construction, since 1976. She currently serves on the Boards of Directors of Qwest Communications International Inc., a telecommunications company; Pepsi Bottling Group, Inc., a soft drink and beverage company; 3M Company, a diversified technology company; and Pitney Bowes Inc., an office equipment and services company. Ms. Alvarado is also a partner in the Colorado Rockies Baseball Club.

Steven R. Booth, 49, has served as a director of our company since 2002. He became the President and CEO of Polytech Molding Inc., a plastic injection molding company serving the industrial, health care and automotive markets, in 2001. From 1994 to 2001, Mr. Booth was employed by Process Science Inc., a designer and manufacturer of equipment and products using hydrostatic extrusion technology.

John E. Major, 63, has served as a director of our company since 1993. Mr. Major is President of MTSG, a company that provides consulting, management and governance services, which he formed in 2003. From 2003 to 2006, he served as Chief Executive Officer of Apacheta Corporation, a mobile wireless software company whose products are used to manage inventory and deliveries. From 2000 to 2003, he served as Chairman and Chief Executive Officer of Novatel Wireless, Inc., a leading provider of wireless Internet solutions. Prior to joining Novatel Wireless, Mr. Major served as President and CEO of Wireless Knowledge, Inc., a joint venture between Microsoft Corporation and QUALCOMM Inc., from 1998 through 1999. From 1997 to 1998, he served as Executive Vice President of QUALCOMM and President of its Wireless Infrastructure Division. Prior to joining QUALCOMM, Mr. Major served as Senior Vice President and Chief Technology Officer at Motorola, Inc., a manufacturer of telecommunications equipment. Prior to that he served as Senior Vice President and General Manager for Motorola s Worldwide Systems Group of the Land Mobile Products Sector. Mr. Major currently serves as the Chairman of the Board of Broadcom Corporation, a semiconductor manufacturing company; and serves on the Boards of Directors of Littelfuse, Inc., a manufacturer of fuses; and ORBCOMM Inc., a satellite communications service provider.

Jeffrey D. Storey, M.D., 43, has served as a director of our company since 2006. He is a founding partner and President of Cheyenne Women s Clinic in Cheyenne, Wyoming, a position he has held since 2004. Dr. Storey graduated from Dartmouth Medical School in 1993 and has been a practicing obstetrician/gynecologist since 1997. He is also a Lieutenant Colonel and State Air Surgeon for the Wyoming Air National Guard and a veteran of Operation Enduring Freedom. Dr. Storey is a Fellow in the American College of Obstetricians and Gynecologists and serves as an Adjunct Clinical Faculty Member for the University of Wyoming, Department of Family Practice.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE ABOVE NOMINEES.

The following Class III directors terms will continue until the 2010 Annual Meeting of Stockholders:

Todd M. Bluedorn, 46, was appointed Chief Executive Officer and elected as a director of our company in 2007. Prior to joining the company, Mr. Bluedorn served in numerous senior management positions for United Technologies since 1995, including President, Americas - Otis Elevator Company beginning in 2004; President, North America - Commercial Heating, Ventilation and Air Conditioning for Carrier Corporation beginning in 2001; and President, Hamilton Sundstrand Industrial beginning in 2000. He began his professional career with McKinsey & Company in 1992, after receiving an MBA from Harvard University in 1992 and serving in the United States Army as a combat engineer officer and United States Army Ranger from 1985 to 1990. He also holds a BS in Electrical Engineering from the United States Military Academy at West Point.

Janet K. Cooper, 55, has served as a director of our company since 1999. From 2002 to 2008, Ms. Cooper served as Senior Vice President and Treasurer of Qwest Communications International Inc. From 2001 to 2002, she served as Chief Financial Officer and Senior Vice President of McDATA Corporation, a global leader in open storage networking solutions. From 2000 to 2001, she served as Senior Vice President, Finance of Qwest. From 1998 to 2000, she served in various senior level finance positions at US West Inc., a regional Bell operating company, including Vice President, Finance and Controller and Vice President and Treasurer. From 1978 to 1998, Ms. Cooper served in various capacities with the Quaker Oats Company, including Vice President, Treasurer and Tax from 1997 to 1998 and Vice President, Treasurer from 1992 to 1997. Ms. Cooper serves on the Board of Directors of The TORO Company, a manufacturer of equipment for lawn and turf care maintenance, and MWH, a firm providing water, wastewater, energy, natural resource, program management, consulting and construction services to clients around the world.

C. L. (Jerry) Henry, 67, has served as a director of our company since 2000. Prior to his retirement, Mr. Henry served as Chairman, President and CEO of Johns Manville Corporation, a leading manufacturer of insulation and building products, from 1996 to 2004. Mr. Henry served as Executive Vice President and Chief Financial Officer for E. I. du Pont de Nemours and Company, a global science and technology company, from 1993 to 1996. Mr. Henry currently serves on the Board of Directors of Georgia Gulf Corp., a leading manufacturer and worldwide marketer of several integrated lines of commodity chemicals and polymers and MWH, a firm providing water, wastewater, energy, natural resource, program management, consulting and construction services to clients around the world.

Terry D. Stinson, 67, has served as a director of our company since 1998. Mr. Stinson currently serves as Group Vice President of AAR Corp., an international, publicly traded aerospace manufacturing and services firm. In addition, Mr. Stinson has served as Chief Executive Officer of his own consulting practice, Stinson Consulting, LLC, engaged in strategic alliances and marketing for the aerospace industry, since 2001. From 2002 to 2005, Mr. Stinson served as Chief Executive Officer of Xelus, Inc., a collaborative enterprise service management solution company. From 1998 to 2001, Mr. Stinson was Chairman and Chief Executive Officer of Bell Helicopter Textron Inc., the world s leading manufacturer of vertical lift aircraft, and served as President from 1996 to 1998. From 1991 to 1996, Mr. Stinson served as Group Vice President and Segment President of Textron Aerospace Systems and Components for Textron Inc. Prior to that position, he was President of the Hamilton Standard Division of United Technologies Corporation, a defense supply company, since 1986.

Richard L. Thompson, 69, has served as a director of our company since 1993. He served as Vice Chairman of the Board from February 2005 to July 2006 and was appointed Chairman of the Board in July 2006. Mr. Thompson served as Group President and Member of the Executive Office of Caterpillar Inc., a manufacturer of construction and mining equipment, from 1995 until his retirement in 2004. He joined Caterpillar in 1983 as Vice President, Customer Services. In 1989, he was appointed President of Solar Turbines Inc., a wholly-owned subsidiary of Caterpillar and manufacturer of gas turbines. From 1990 to 1995, he served as Vice President of Caterpillar, with responsibility for its worldwide engine business. Previously, he held the positions of Vice President of Marketing and Vice President and General Manager, Components Operations of RTE Corporation, a manufacturer of electrical distribution products. Mr. Thompson serves as a Director of Gardner Denver, Inc., a manufacturer of air compressors, blowers and petroleum pumps, and of NiSource Inc., a natural gas and electric utility. In addition, he is a former Director of the National Association of Manufacturers, the nation s largest industrial trade association.

Table of Contents

The following Class I directors terms will continue until the 2011 Annual Meeting of Stockholders:

James J. Byrne, 73, has served as a director of our company since 1990. Since January 2007, he has been the Executive Professor in Residence at the Duquesne University Graduate School of Business. In addition, he has been Chairman of Byrne Technology Partners, Ltd., a firm that provides interim management at the CEO and senior executive levels for technology companies, since 1995. Mr. Byrne has assisted his clients by assuming executive responsibility with their investments and in that regard served as Chairman and Chief Executive Officer of OpenConnect Systems Incorporated, a developer of computer software products, from 1999 to 2001. Mr. Byrne served as the Chief Executive Officer of the Entrepreneurs Foundation of North Texas, an organization that promotes community involvement and philanthropy with emerging technology companies, from 2004 to 2007. Prior to his current roles, he held a number of positions in the technology industry including President of Harris Adacom Corporation, a network products and services company, Senior Vice President of United Technologies Corporation s Semiconductor Operation and President of the North American Group of Mohawk Data Sciences, a manufacturer of distributed computer products. Mr. Byrne began his career in technology with General Electric Company. He currently serves as a Fellow of the Legacy Center for Public Policy.

John W. Norris, III, 51, has served as a director of our company since 2001. Mr. Norris is a founder of Maine Network Partners and is the Founding Chair of the Environmental Funders Network. From 2000 to 2005, he served as the Associate Director of Philanthropy for the Maine Chapter of The Nature Conservancy. Mr. Norris was Co-Founder and President of Borealis, Inc., an outdoor products manufacturer, from 1988 to 2000 and served as an economic development Peace Corps Volunteer in Jamaica, West Indies from 1985 to 1987. Before joining the Peace Corps, Mr. Norris completed a graduate school internship at Lennox Industries Inc., a subsidiary of the company, in 1983. He currently serves on the Boards of the Maine Philanthropy Center, Common Good Ventures and the Maine Wilderness Guides Organization.

Paul W. Schmidt, 64, has served as a director of our company since 2005. In early 2007, Mr. Schmidt retired from his position as Corporate Controller of General Motors Corporation, a position he held since 2002. He began his career in 1969 as an analyst with the Chevrolet Motor Division of General Motors and subsequently served in a wide variety of senior leadership roles for General Motors, including financial, product and factory management, business planning, investor relations and international operations. Mr. Schmidt also served as Director of Capital, Performance and Overseas Analysis in General Motors s New York Treasurer s Office.

The following family relationships exist among certain members of our Board of Directors:

John W. Norris, III, Steven R. Booth and Jeffrey D. Storey, M.D. are great-grandchildren of D.W. Norris, one of our original owners.

PROPOSAL 2
RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has selected KPMG LLP to continue as our independent registered public accounting firm for the 2009 fiscal year. We are asking our stockholders to ratify the appointment of KPMG LLP as our independent registered public accounting firm. If our stockholders do not ratify the appointment, the Audit Committee will consider whether it should select a different firm, however, it is not required to do so. On the other hand, even if the appointment is ratified, the Audit Committee, in its discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of our company and our stockholders.

A representative of KPMG LLP will be present at the 2009 Annual Meeting of Stockholders and will be available to respond to appropriate questions. The representative will also have an opportunity to make a statement at the meeting if he or she desires to do so.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE 2009 FISCAL YEAR.

Independent Registered Public Accountants

Audit and Non-Audit Fees

The following table sets forth the aggregate fees billed to date for professional services rendered by KPMG LLP for each of the last two fiscal years (in thousands).

	2008	2007
Audit Fees(1)	$ 3,183	$ 3,576
Audit-Related Fees(2)	21	63
Tax Fees(3)	131	187
All Other Fees	0	0
TOTAL	$ 3,335	$ 3,826

(1) Represents fees billed for the audit of our annual financial statements included in our Annual Reports on Form 10-K and review of financial statements included in our Quarterly Reports on Form 10-Q; the audit of our internal control over financial reporting; and for services that are normally provided by KPMG LLP in connection with statutory and regulatory filings or engagements. The 2007 audit fees differ from the amounts shown in our 2008 Proxy Statement due to the finalization of billings during 2008.

(2) Represents fees billed for assurance and related services reasonably related to the performance of the audit or review of our financial statements and internal control over financial reporting. Such services in 2007 consisted primarily of audits of our employee benefit plans. Services in 2008 consisted primarily of assistance provided to

a foreign subsidiary to restate financial statements in accordance with International Financial Accounting Standards for statutory audit purposes.

(3) Represents fees billed for tax compliance, including review of tax returns, tax advice and tax planning.

Audit Committee Approval of Audit and Non-Audit Services

The Audit Committee pre-approves all audit services provided by our independent registered public accountants. In addition, all non-audit services provided by KPMG LLP are pre-approved in accordance with our policy entitled Use of External Audit Firm for Non-Attest Services. The policy identifies services that are specifically prohibited by Securities and Exchange Commission rules and states that these services may not be performed by our independent registered public accountants. For permissible non-audit services, the Audit Committee has delegated pre-approval authority to the Audit Committee Chairperson. In addition, the Audit Committee has approved annual maximum amounts for tax advisory and tax return services. No

Table of Contents

engagements are commenced until the Audit Committee Chairperson s approval has been received. All approved services are reported to the full Audit Committee at each quarterly meeting.

In accordance with the foregoing, all services provided by KPMG LLP in 2008 were pre-approved by the Audit Committee.

AUDIT COMMITTEE REPORT

Audit Committee Charter. The Audit Committee of Lennox International Inc. acts pursuant to its written charter adopted by the Board of Directors. A copy of the Audit Committee charter is available on our website at http://www.lennoxinternational.com by following the links About Us Corporate Governance Committee Charters. The role of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the company s financial reporting process, the system of internal control, the audit process and the company s process for monitoring compliance with laws and regulations and corporate policies. The Audit Committee maintains effective working relationships with the Board of Directors, management, the company s internal auditors and the company s independent registered public accounting firm (Independent Accountants). As set forth in the Audit Committee Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the company s financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable rules and regulations of the Securities and Exchange Commission and the New York Stock Exchange. The Independent Accountants are responsible for auditing the company s financial statements and expressing an opinion as to their conformity with generally accepted accounting principles.

Auditor Independence. The Audit Committee (i) reviewed and discussed the company s quarterly and audited financial statements for the year ended December 31, 2008 with the company s management and with the Independent Accountants; (ii) discussed with the Independent Accountants the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and (iii) received the written disclosures and the letter from the Independent Accountants required by applicable requirements of the Public Company Accounting Oversight Board regarding the Independent Accountants communications with the Audit Committee concerning independence and discussed with Independent Accountants the Independent Accountants independence and considered whether the provision of non-audit services by the Independent Accountants to the company is compatible with maintaining the accountants independence.

Members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management and the Independent Accountants. Accordingly, the Audit Committee s oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee s considerations and discussions referred to above do not assure that the audits of the company s financial statements have been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that the company s Independent Accountants are in fact independent.

Audit Committee Recommendation. Based upon the reviews and discussions described above, and subject to the limitations on the role and responsibilities of the Audit Committee referred to in this report and in the Audit Committee Charter, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the company s Annual Report on Form 10-K for the year ended December 31, 2008.

Submitted by the Audit Committee of the Board of Directors:

Paul W. Schmidt (Chairperson)	Janet K. Cooper
C. L. (Jerry) Henry	John E. Major

Table of Contents

CORPORATE GOVERNANCE

Director Independence

Our Corporate Governance Guidelines require a majority of our directors to be independent. Pursuant to New York Stock Exchange rules, our Board of Directors has adopted a formal definition of independent for the purpose of determining whether a particular director or nominee meets the independence standards of our company and the New York Stock Exchange. In accordance with this definition, a director must be determined to have no material relationship with our company other than as a director and must not receive any material benefit or suffer any material detriment as a member of our Board that is not shared with or suffered by other stockholders of our company so as to possibly influence any decisions of the director. The definition further requires that the director meet the independence tests promulgated by the New York Stock Exchange. The full text of our definition of an independent director can be found on our website at http://www.lennoxinternational.com by following the links About Us Corporate Governance Definition of Independent Director.

Applying these standards and the independence standards of the New York Stock Exchange, the Board has determined that a majority of our Board of Directors is independent (see table below). We believe we are in compliance with the corporate governance requirements of the New York Stock Exchange, the Securities and Exchange Commission and the Sarbanes-Oxley Act of 2002.

Board of Directors and Board Committees

The Board of Directors met six times in 2008. All directors attended in excess of 75% of the total number of meetings of the Board and committees of the Board on which they served. While the Board of Directors does not currently have a policy with regard to attendance of Board members at the Annual Meeting of Stockholders, 11 of our 12 directors attended our 2008 Annual Meeting of Stockholders.

The standing committees of the Board are as follows: Audit, Board Governance, Compensation and Human Resources, Technology and Acquisition, Pension and Risk Management and Public Policy. The Board has adopted charters for each of these committees which are available on our website at http://www.lennoxinternational.com by following the links About Us Corporate Governance Committee Charters. Stockholders may also receive a free copy of these documents by sending a written request to 2140 Lake Park Blvd., Richardson, Texas 75080, Attention: Investor Relations, or calling (972) 497-5000.

The following table provides current membership information for each of the Board committees and indicates which directors our Board has determined are independent.

Name	Independent	Audit	Board Governance	Compensation and Human Resources	Technology and Acquisition	Pension and Risk Management	Public Policy
Richard L. Thompson	X						
Todd M. Bluedorn							
Linda G. Alvarado	X			X			X

Steven R. Booth	X				X		X
James J. Byrne	X			X *	X		X
Janet K. Cooper	X	X				X *	
C.L. (Jerry) Henry	X	X	X				
John E. Major	X	X		X	X *		
John W. Norris, III	X		X			X	X *
Paul W. Schmidt	X	X *	X			X	
Terry D. Stinson	X		X *	X	X		
Jeffrey D. Storey, M.D.	X			X		X	X

* Committee Chairperson

Table of Contents

Audit Committee

The Audit Committee met 13 times in 2008. The Audit Committee assists the Board in fulfilling its oversight responsibilities relating to the integrity of our financial statements and related systems of internal control, our compliance with legal and regulatory requirements, the independent registered public accounting firm s qualifications, independence and performance and the performance of our internal audit function. The Audit Committee also has the direct responsibility for the appointment, compensation, retention and oversight of our independent registered public accountants. Each Audit Committee member is independent as independence for audit committee members is defined by the New York Stock Exchange and satisfies the New York Stock Exchange s financial literacy requirements. The Board of Directors has determined that Mr. Schmidt, Chairperson of the Audit Committee, is an audit committee financial expert as defined by the Securities and Exchange Commission.

Board Governance Committee

The Board Governance Committee met two times in 2008. The Board Governance Committee assists the Board by identifying individuals qualified to become Board members, developing qualification criteria for Board membership, making recommendations to the Board regarding the appropriate size of the Board and appointment of members to the Board s committees, developing and recommending to the Board the Corporate Governance Guidelines and codes of conduct applicable to our company and overseeing the evaluation of our Board of Directors. Each member of the Board Governance Committee is independent as independence for nominating committee members is defined by the New York Stock Exchange.

Compensation and Human Resources Committee

The Compensation and Human Resources Committee met five times in 2008. The Compensation and Human Resources Committee assists the Board in the discharge of its responsibilities relating to our compensation and benefits programs, oversight of our short- and long-term incentive plans, compensation of our non-employee directors, executive officers and other key employees and the development of executive succession and development plans. Each member of the Compensation and Human Resources Committee is independent as independence for compensation committee members is defined by the New York Stock Exchange.

The Compensation and Human Resources Committee oversees our executive compensation programs and the compensation program maintained for the non-employee members of our Board of Directors. In accordance with its charter, the Compensation and Human Resources Committee reports to the full Board of Directors on a regular basis and seeks Board approval for actions relating to Board compensation. The committee forms and delegates authority to subcommittees when appropriate. Our Chief Executive Officer makes recommendations to the Compensation and Human Resources Committee with respect to various elements of executive compensation. Pursuant to its charter, the Compensation and Human Resources Committee is authorized to obtain advice and assistance from internal or external legal, accounting or other advisors and to retain third-party compensation consultants. To that end, since 2005, the committee has engaged Mercer Human Resource Consulting, Inc. as its executive compensation consultant to provide objective analysis, advice and recommendations regarding the compensation of our executives and non-employee directors. See Executive Compensation Compensation Discussion and Analysis for further information regarding executive compensation decisions and the scope of services provided by Mercer.

Technology and Acquisition Committee

The Technology and Acquisition Committee met four times in 2008. The Technology and Acquisition Committee is responsible for evaluating our technology strategies and making recommendations to the Board of Directors relating to potential acquisitions, divestitures and joint ventures.

Table of Contents

Pension and Risk Management Committee

The Pension and Risk Management Committee met four times in 2008. The Pension and Risk Management Committee is responsible for overseeing the administration of our qualified defined benefit and defined contribution retirement plans and matters relating to our insurance coverage as well as reviewing significant legal matters, environmental issues and other matters relating to safety and risk management.

Public Policy Committee

The Public Policy Committee met once in 2008. The Public Policy Committee is responsible for developing education programs for new and continuing members of our Board and overseeing our position on corporate social responsibilities and public issues of significance that affect our stockholders.

Director Nomination Process and Nominee Criteria

The Board of Directors is responsible for approving candidates for Board membership. The Board has delegated the screening and recruitment process to the Board Governance Committee. In this capacity, the Board Governance Committee develops and periodically reviews the qualification criteria for Board membership, identifies new director candidates and makes recommendations to the Board regarding the appropriate size of the Board and appointment of members to the Board s committees. The Board Governance Committee typically retains a third-party search firm to assist in identifying and evaluating potential new director candidates. Qualifications required of individuals for consideration for Board membership will vary according to the particular areas of expertise being sought as a compliment to the existing Board composition at the time of any vacancy. According to our qualification guidelines, criteria to be considered for Board membership include:

Personal Characteristics: leadership, integrity, interpersonal skills and effectiveness, accountability and high performance standards;

Business Attributes: high levels of leadership experience in business, substantial knowledge of issues faced by publicly traded companies, experience in positions demonstrating expertise, including on other boards of directors, financial acumen, industry and company knowledge, diversity of viewpoints, experience in international markets and strategic planning;

Independence: based on the standards of independence adopted by our Board of Directors, the New York Stock Exchange and the Securities and Exchange Commission;

Professional Responsibilities: willingness to commit the time required to fully discharge his or her responsibilities, commitment to attend meetings, ability and willingness to represent the stockholders long- and short-term interests, awareness of our responsibilities to our customers, employees, suppliers, regulatory bodies and the communities in which we operate and willingness to advance his or her opinions while supporting the majority Board decision, assuming questions of ethics or propriety are not involved;

Governance Responsibility: ability to understand and distinguish between the roles of governance and management; and

Availability and Commitment: based on the number of commitments to other entities existing or contemplated by the candidate.

The full text of our qualification guidelines can be found on our website at http://www.lennoxinternational.com by following the links About Us Corporate Governance Board of Directors Board of Director Qualification Guidelines.

When a vacancy occurs on the Board, the Board Governance Committee may recommend to the Board a nominee to fill the vacancy, or alternatively, may recommend that the vacancy remain. The Board Governance Committee also evaluates and recommends to the Board nominees for election to our Board of Directors at our Annual Meeting of Stockholders.

Table of Contents

Stockholder Nominations for Director

The Board Governance Committee considers nominees for election to the Board of Directors recommended by stockholders. A stockholder wishing to nominate a candidate for election to the Board at a meeting of the stockholders is required to give written notice to our Corporate Secretary of his or her intention to make a nomination. We must receive the notice of nomination at least 60 days but no more than 90 days prior to the Annual Meeting of Stockholders, or if we give less than 70 days notice of the Annual Meeting of Stockholders date, the notice of nomination must be received within 10 days following the date on which notice of the date of the Annual Meeting of Stockholders was mailed or such public disclosure was made to our stockholders. In the case of a special meeting of stockholders for the election of directors, we must receive the notice of nomination within 10 days following the date on which notice of such meeting is first given to stockholders. Pursuant to our Bylaws, the notice of nomination is required to contain certain information about both the nominee and the stockholder making the nomination, including information sufficient to allow the Board Governance Committee to determine if the candidate meets our qualification criteria for Board membership. The Board Governance Committee may require that the proposed nominee furnish additional information in order to determine that person s eligibility to serve as a director. A nomination that does not comply with the above procedure will be disregarded. Stockholder nominees whose nominations comply with the foregoing procedure and who meet the criteria described above under the heading Director Nomination Process and Nominee Criteria and in our Corporate Governance Guidelines will be evaluated by the Board Governance Committee in the same manner as the Board Governance Committee s nominees.

Stockholder Communications with Directors

Stockholders may send written communications to the Board by:

- sending an email to the Board at directors@lennoxintl.com; or
- mailing a written communication to 2140 Lake Park Blvd., Richardson, Texas 75080, Attention: Board of Directors, c/o Investor Relations.

Communications addressed to the Board will be received by our Investor Relations department and reviewed by the Corporate Secretary. The Corporate Secretary will:

- refer substantiated allegations of improper accounting, internal controls or auditing matters affecting our company to the Audit Committee Chairperson;
- refer substantiated allegations of other improper conduct affecting our company to the Chairman of the Board;
- advise the Board at its regularly scheduled meetings of material stockholder communications; and
- refer questions concerning our products, services and human resources issues to the appropriate department for a response.

Interested parties may communicate with non-management directors of the Board by sending written communications to the addresses listed above to the attention of the Chairman of the Board.

Other Corporate Governance Policies

Code of Conduct and Code of Ethical Conduct

We have adopted a Code of Conduct that applies to all our directors and employees, including our senior financial and principal executive officers. Amendments to and waivers, if any, from our Code of Conduct as it pertains to our executive officers, will be disclosed on our website. Our Code of Conduct is available on our website at http://www.lennoxinternational.com by following the links About Us Corporate Governance Code of Conduct. Stockholders may also receive a free copy of our Code of Conduct by sending a written request to 2140 Lake Park Blvd., Richardson, Texas 75080, Attention: Investor Relations, or calling (972) 497-5000.

Table of Contents

Corporate Governance Guidelines

We have adopted Corporate Governance Guidelines that are available on our website at http://www.lennoxinternational.com by following the links About Us Corporate Governance Corporate Governance Guidelines. Stockholders may request a free copy of our Corporate Governance Guidelines from our Investor Relations department at the address and phone number set forth above under Code of Conduct and Code of Ethical Conduct.

Executive Session Meetings

In accordance with our Corporate Governance Guidelines, the independent members of our Board of Directors, all of whom are non-management directors, meet regularly in executive session without the presence of management. The Chairman of the Board chairs the executive session meetings of our independent directors.

Authority to Retain Independent Advisors

Our Board of Directors and each of the Audit, Compensation and Human Resources and Board Governance Committees has the authority to retain independent advisors and consultants, with all fees and expenses paid by our company.

Whistleblower Procedures

The Audit Committee has established procedures for the handling of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for confidential and anonymous submission by our employees of concerns regarding such matters.

Disclosure Committee

We have established a Disclosure Committee composed of members of management to assist us in fulfilling our obligations to maintain disclosure controls and procedures and to coordinate and oversee the process of preparing the reports we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis (CD&A)

Overview

Our executive compensation programs are established and administered by the Compensation and Human Resources Committee of the Board of Directors (the Committee). The Committee reviews, modifies and approves, as appropriate, our executive compensation philosophy, objectives and programs to ensure market-competitive, equitable and consistent administration of such programs for our executive officers and other key employees. The specific duties of the Committee are set forth in its charter, which can be found on our website at http://www.lennoxinternational.com by following the links About Us Corporate Governance Committee Charters.

The persons who served as our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) during 2008 and the other individuals named in the Summary Compensation Table are referred to as the named executive officers (NEOs) throughout this Proxy Statement, and include the following individuals:

Todd M. Bluedorn Chief Executive Officer

Susan K. Carter Executive Vice President (EVP) and Chief Financial Officer

Scott J. Boxer EVP and President and Chief Operating Officer, Service Experts

Douglas L. Young EVP and President and Chief Operating Officer, LII Residential

Daniel M. Sessa EVP and Chief Human Resources Officer

William F. Stoll, Jr. Former EVP, Chief Legal Officer and Corporate Secretary

Making Executive Compensation Decisions

The Committee

When determining executive compensation policies and programs, the Committee, with input from its executive compensation consultant and management, considers competitive practices, our business objectives, stockholder interests, regulatory requirements and other relevant factors. To promote our strategic objectives of retaining and rewarding top executive talent, the Committee believes it is important to keep each element of executive compensation market-competitive on a year-by-year basis. As part of its decision-making process, the Committee meets in executive session as needed. The Committee met five times in 2008.

Executive Officers

When making executive compensation decisions, the Committee typically receives input from management. The Chairman of the Board of Directors, the CEO, the CFO, the Chief Human Resources Officer and the Chief Legal Officer typically attend Committee meetings at the invitation of the Committee and provide input as requested. Customarily, the CEO makes recommendations to the Committee with respect to various elements of executive compensation for his direct reports and senior executives, including the other NEOs, but he is not involved in the deliberations or determinations regarding his own compensation.

Role of the Executive Compensation Consultant

Since 2005, the Committee has engaged Mercer Human Resource Consulting, Inc. (Mercer), an internationally recognized human resources consulting firm, as its executive compensation consultant to provide analysis, advice and recommendations.

At the Committee s request, Mercer performed the following services for the Committee in 2008:

- reviewed and opined on our executive compensation philosophy;
- reviewed and opined on our compensation peer group;

15

analyzed and provided data for various elements of executive compensation;

reviewed and opined on proposed changes to our executive compensation programs; and

presented executive compensation trends to the Committee.

After reviewing our compensation practices, Mercer determined that they were reasonably designed to fulfill our executive compensation philosophy and achieve our key objectives.

The Committee, using data and analysis provided by Mercer and management, evaluated and administered our executive compensation programs throughout the year. The Committee analyzed the information provided by Mercer and management to determine the appropriate program design, level and mix of each compensation element for the NEOs.

Executive Compensation Philosophy and Key Objectives

We maintain a pay-for-performance compensation philosophy that seeks to align executive rewards with the execution of our business strategy and achievement of desired business results. Where financial results exceed expected performance, monetary rewards will reflect this performance. Where financial results are below expected performance, monetary awards will reflect the below-target performance results.

The strategic objectives of our executive compensation program are to:

attract and retain top executive talent;

align executive compensation programs with the achievement of short-term and long-term business goals;

maintain market-competitive executive compensation programs; and

maintain a strong link between pay and performance.

The following table lists each element of executive compensation and how the Committee believes it correlates to our compensation objectives and philosophy.

Executive Compensation Elements	Attract Top Talent	Retain Top Talent	Achieve Short-Term Goals	Achieve Long-Term Goals	Maintain Market Competiveness	Pay-for-Performance
Base Salary	ü	ü			ü	
Short-Term Incentive Program	ü	ü	ü		ü	ü
Long-Term Incentive Program						
Performance Share Units	ü	ü		ü	ü	ü
Restricted Stock Units	ü	ü			ü	
Stock Appreciation Rights	ü	ü	ü	ü	ü	ü
Perquisites	ü	ü			ü	
Benefit Programs	ü	ü			ü	

Competitive Compensation

Market Analysis

To attract and retain leadership talent, we provide market-competitive compensation. Market analysis assists us in assessing the competitiveness of our executive compensation programs. We compare our NEO compensation to the practices of our Compensation Peer Group as well as published compensation data taken from Mercer s compensation databases and other studies of compensation trends and practices (collectively referred to as the Market).

The Committee selected our Compensation Peer Group using the following criteria:

- industry   building products, electrical components/equipment, household appliances, & industrial machinery;
- revenues of approximately 0.5 to 3.0 times our revenues;
- business/product mix similar to ours; and
- international presence/operations.

The Compensation Peer Group, as approved by the Committee, is composed of the following fifteen companies:

Acuity Brands, Inc.	Gardner Denver, Inc.*	Snap-On Incorporated
Armstrong World Industries, Inc.	ITT Corporation	SPX Corporation
Black & Decker Corporation	Kennametal Inc.	The Stanley Works
Briggs & Stratton Corporation	Owens Corning	Universal Forest Products Inc.
Dover Corporation	Smith (A O) Corporation*	USG Corporation

* New additions for 2008

Genlyte Group Incorporated, Goodman Global, Inc., and Trane Inc. were removed because they were no longer publicly-traded companies. Masco Corporation and Tecumseh Products Company were removed because each of their revenues were outside the established revenue range.

Pay Positioning and Compensation Mix

For 2008, the Committee set base salary for our NEOs at the 50^{th} percentile of the Market. The Committee set short-term incentive opportunities and long-term incentive anticipated delivered value between the 50^{th} 65^{th} percentiles of the Market and included stretch performance goals, allowing us to maintain a strong pay-for-performance link while attracting and retaining leadership talent.

The Committee has historically granted a majority of total compensation to our NEOs in the form of non-cash long-term incentive awards, as was the case in 2008. The graphs below illustrate the 2008 target compensation mix for the CEO and the average target compensation mix for the other NEOs.

We apply the same methodologies in setting compensation and determining the compensation mix for our CEO as we apply for our other NEOs. However, the CEO s target compensation mix has a greater percentage of at-risk compensation than the target compensation mix of the other NEOs. The Committee believes this difference is justified, given the scope of responsibility of the CEO within our company.

Table of Contents

Components and Analysis of 2008 Executive Compensation

Base Salary

The Committee considers salary data for the Market, our annual merit budget, achievement of performance objectives, internal equity and recommendations provided by the CEO for his direct reports when determining each NEO s base salary. The following table provides detail regarding 2008 base salary increases for each NEO.

NEO	2007 Annualized Base Salary	Increase % Effective January 1, 2008	2008 Annualized Base Salary
Mr. Bluedorn	$ 800,000	3.5%	$ 828,000
Ms. Carter	454,287	4.0	472,458
Mr. Boxer	485,233	3.5	502,217
Mr. Young	355,008	10.0	390,509
Mr. Sessa	365,000	3.5	377,775

As discussed earlier, in setting NEO base salaries, the Committee used the 50th percentile of the Market as a guideline. We believe that the base salary for each NEO for 2008 was market-competitive when compared to this guideline and commensurate with the experience and performance contributions of the respective individual.

Mr. Young s base salary included an adjustment of 6.5% to align his compensation with the Market and reflect his responsibilities and duties as President of the company s largest business segment, LII Residential. The 2008 base salary for each NEO is included in the Summary Compensation Table in the Salary column.

Short-Term Incentive Program

Our short-term incentive program is established under the Amended and Restated 1998 Incentive Plan of Lennox International Inc. (the 1998 Plan) and is a cash-based incentive program that ties annual pay to the performance of our company, each business unit, and each individual. We accomplish this objective by requiring the achievement of specific goals for those individuals who most directly influence performance results and only rewarding those individuals when those goals are achieved. Each year, the CEO proposes to the Committee for review and approval the financial metrics and performance goals that must be achieved to result in a payout.

Financial Performance. The following table summarizes the financial performance goals and payout opportunities under our 2008 short-term incentive program, along with the actual company performance for each metric.

2008 Short-Term Incentive Program Summary Financial Performance
($ in millions)

NEO	Metric	Weight	Threshold	Target	Maximum	Actual
All	Company Core Net Income(2)	60%	$ 158.2	$ 177.5	$207.6	$ 158.8
	Free Cash Flow (FCF)(3)	40%	$ 120.0	$ 151.2	$197.1	$ 159.2

Payout as a % of Target			**50%**	**100%**	**225%**	**79.6%**
Mr. Boxer(1)	Service Experts Earnings Before Interest and Taxes (EBIT)(4)	70%	$ 28.6	$ 31.1	$34.4	$ 20.0
	Service Experts Working Capital %(5)	30%	7.03%	6.43%	5.82%	6.73%
Payout as a % of Target			**50%**	**100%**	**225%**	**22.5%**
Mr. Young(1)	LII Residential EBIT(4)	70%	$ 157.8	$ 171.8	$190.3	$ 158.8
	LII Residential Controllable Cash Flow (CCF)(6)	30%	$ 102.2	$ 118.8	$140.0	$ 170.7
Payout as a % of Target			**50%**	**100%**	**225%**	**104.9%**

Table of Contents

(1) All NEOs except Mr. Boxer and Mr. Young are measured 100% on overall company financial performance. Because Mr. Boxer is the President of Service Experts his award is measured 50% on Service Experts financial performance and 50% on overall company financial performance, resulting in an actual payout as a percentage of target of 51.1%. Because Mr. Young is the President of LII Residential his award is measured 50% on LII Residential s financial performance and 50% on overall company financial performance, resulting in an actual payout as a percentage of target of 92.3%.

(2) Company core net income is U.S. Generally Accepted Accounting Principles (GAAP) income from continuing operations, adjusted for 2008 restructuring charges, net change in unrealized losses on open futures contracts, and impairment of equity method investment.

(4) Free cash flow is net cash provided by operating activities less capital spending as reported, adjusted for 2008 unplanned restructuring payments, collateral posted for hedges, proceeds from sale of accounts receivable under asset securitization, unplanned pension contributions, and certain unplanned tax items.

(5) EBIT is earnings from continuing operations before income taxes and interest expense, adjusted for 2008 restructuring charges, net changes in unrealized losses on open futures contracts, and impairment of equity method investment.

(6) Working capital % is the trailing twelve-month (TTM) average of accounts receivable plus inventory less accounts payable divided by TTM net sales.

(7) Controllable cash flow is EBIT (as defined above) less capital spending plus or minus changes in accounts receivable, inventory and accounts payable.

Individual Performance. The Committee added for 2008 an individual performance factor to supplement financial performance. The individual performance factor comprises 15% (at target) of an individual s payout to better recognize personal achievements. The individual performance factor is measured against specific goals established for each NEO by the Committee or the CEO as part of the performance review process.

Targets and Payouts. Under the short-term incentive program, target payout opportunities are expressed as a percentage of base salary. The target payout opportunities are based on publicly available Market data for equivalent executive officer positions using the 50th 65th percentiles as a guideline.

Based on Mercer s analysis of the Market data and internal equity considerations, the Committee set the following short-term incentive targets for 2008. Based on actual financial and individual performance, the Committee certified the corresponding 2008 payouts for each NEO.

2008 Short-Term Incentive Targets and Payouts
($ in thousands)

NEO	2008 Target as a % of Base Salary	2008 Target	2008 Payout	2008 Payout as % of Target
Mr. Bluedorn	100%	$ 828.0	$ 734.4	88.7%
Ms. Carter	70	330.7	263.4	79.6

Mr. Boxer	70	351.6	179.5	51.1
Mr. Young	70	273.4	252.2	92.3
Mr. Sessa	70	264.4	236.6	89.5

The Committee may, in its discretion, modify the short-term incentive program to account for unusual events or revised business objectives that occur during the performance period. The Committee did not make any such modifications in 2008.

The amounts earned in 2008, which were approved by the Committee and paid in March 2009, are included in the Summary Compensation Table in the Non-Equity Incentive Plan Compensation column.

Table of Contents

Long-Term Incentive Program

Under the 1998 Plan, we have established a long-term incentive program, which offers equity awards to those employees who have principal responsibility for our long-term profitability. We believe participation in our long-term incentive program assists in aligning the interests of our NEOs with the interests of our stockholders.

In 2008, our long-term incentive program consisted of three equity vehicles: performance share units (PSUs), restricted stock units (RSUs) and stock appreciation rights (SARs). SARs and PSUs are performance-based, with performance measured on stock price growth and the achievement of financial objectives, respectively. RSUs, which require continued employment to vest, support our critical retention efforts directed at continuity of management.

For 2008, the long-term incentive allocations for our NEOs were as follows:

The Committee believes this design is appropriate because it aligns our long-term incentive program with the achievement of our company goals and supports retention of key talent.

The Committee determines the grant date for all long-term incentive awards. The Committee generally grants awards on an annual basis at its regularly scheduled December meeting although awards may be granted in special circumstances or upon hire for certain executives. The Committee does not coordinate the grant date for any award with the release of material non-public information. We set the exercise price of our SARs at 100% of fair market value, which we define as the average of the high and low trading prices of our common stock on the New York Stock Exchange on the date of grant.

The target delivered values under the long-term incentive program are based on publicly available Market data for equivalent executive officer positions using the 50th 65th percentiles as a guideline. When determining award sizes and delivered values, the Committee also considers the number of shares available for grant under the 1998 Plan, internal equity, individual performance/potential and the financial impact on our company. In December 2008, the Committee agreed to hold the target delivered value flat, as it fell between the 50th 65th percentiles of the Market. The Committee made this decision to (1) maintain a market-competitive long-term incentive program; (2) recognize strong NEO performance in the face of challenging and uncertain markets; and (3) support our retention goals. In setting the actual delivered value for each NEO other than the CEO, the Committee took into account the CEO s recommendation with regard to individual performance and potential.

PSUs. To maintain our strong focus on performance, 50% of the delivered value for the December 2008 award was granted in the form of PSUs. PSUs generally vest at the end of the three-year performance period. If at the end of the performance period at least the threshold performance level has been achieved, the PSUs, to the extent earned, are distributed in the form of company common stock. Based on our CEO s recommendation, the Committee determines the measurement criteria annually and, in doing so, considers the financial metrics selected for the short-term incentive program as well as other metrics that enhance stockholder value. The Committee certifies the financial performance levels in February or March following the performance period and any earned shares are then distributed.

The following table summarizes the key attributes of the PSUs granted in December 2005, which vested on December 31, 2008, and sets out financial performance goals and payout opportunities versus actual performance.

December 2005 PSU Grant
(for the January 1, 2006 December 31, 2008 Performance Period)

Metric	Measurement Period	Threshold	Target	Maximum	Actual
Return on Invested Capital (ROIC)(1)	Three-year weighted-average (20% lowest year, 40% other two years)	9.0%	11.5%	16.5%	18.3%
Payout as a % of Target Award		**50%**	**100%**	**200%**	**200%**

(1) Return on invested capital is net operating profit from continuing operations after taxes on a TTM basis divided by TTM average invested capital (total assets less non-interest bearing liabilities), adjusted for restructuring charges, net change in unrealized losses on open futures contracts, and impairment of equity method investment.

As shown above, in 2008, certain NEOs earned the maximum payout of 200% for PSUs granted in December 2005 by exceeding the maximum level of ROIC performance over the three-year period beginning January 1, 2006 and ending December 31, 2008, the value of which is included in the Fiscal 2008 Option Exercises and Stock Vested Table in the Stock Awards Value Realized on Vesting column.

Similar to the December 2007 PSU grant, the Committee approved two metrics, ROIC and company core net income growth, for the December 2008 PSU award. The Committee established the ROIC performance goals based on its assessment of desired return relative to the cost of capital as well as historical and projected ROIC outcomes. Similarly, the Committee set the company core net income growth performance goals based on a detailed analysis of historical and projected outcomes relative to that measure.

The following table summarizes the key attributes of the PSUs granted in December 2008, for the performance period ending on December 31, 2011.

December 2008 PSU Grant
(for the January 1, 2009 December 31, 2011 Performance Period)

Metric	Weight	Rationale for Selection	Measurement Period	Threshold	Target	Maximum
ROIC(1)	50%	Measures efficient use of capital; higher ROIC correlates to greater cash flow	Three-year weighted-average (20% lowest year, 40% other two years)	No payout occurs unless mid-teens ROIC is achieved		
Company Core Net Income Growth(1)	50%	Measures profitability; higher company core net income correlates with higher earnings per share	Three-year compound average growth rate (CAGR)	Target level payout occurs only if mid-single digit company core net income CAGR is achieved		
Payout as a % of Target Award				**50%**	**100%**	**200%**

(1) ROIC and company core net income growth will be adjusted for special charges, such as restructuring charges.

The December 2008 PSU grants are included in the Fiscal 2008 Grants of Plan-Based Awards Table in the Estimated Future Payouts Under Equity Incentive Plan Awards column.

RSUs. To support our critical retention efforts directed at continuity of management, 30% of the delivered value for the December 2008 award was granted in the form of RSUs. RSUs generally vest and are distributed in shares of our common stock three years following the date of grant. The number of shares underlying RSUs granted to our NEOs in 2008 is included in the Fiscal 2008 Grants of Plan-Based Awards Table in the All Other Stock Awards: Number of Shares of Stock or Units column.

SARs. To incentivize participants to grow our business and deliver increased returns to our stockholders, 20% of the delivered value for the December 2008 award was granted in the form of SARs. SARs generally vest in one-third increments on each anniversary of the date of grant. Upon the exercise of vested SARs, the increase, if any, between the fair market value of our common stock on the date of grant and the fair market value on the date the right is exercised is paid in company common stock. SARs granted in 2008 expire seven years from the date of grant. The number of SARs granted to our NEOs in 2008 is included in the Fiscal 2008 Grants of Plan-Based Awards Table in the All Other Option Awards: Number of Securities Underlying Options column.

Perquisites

We believe reasonable perquisites should be provided to our NEOs as a market-competitive practice and to attract and retain top executive talent. Effective January 1, 2008, we simplified our perquisite program to replace most perquisites with a lump-sum cash stipend of $2,500 per month. However, we still offer the installation of company HVAC equipment at the executive s home to promote our brand to both business and personal guests.

Benefit Programs

To attract and retain top executive talent and as a market-competitive practice, we provide certain benefit programs to our NEOs that are in addition to those provided to our general employee population. The following table summarizes such additional benefit programs in place during 2008 and the purpose of each program.

Additional Benefit Programs Offered to NEOs in 2008

Plan	Type	Purpose
Supplemental Retirement Plan	Non-Qualified Defined Benefit	Provide market-competitive executive level retirement benefit opportunity by providing higher accruals and permitting accruals that otherwise could not occur because of Internal Revenue Code limitations on compensation
Profit Sharing Restoration Plan	Non-Qualified Defined Contribution	Provide market-competitive executive level retirement benefit opportunity by permitting accruals that otherwise could not occur because of Internal Revenue Code limitations on compensation
Life Insurance Plan	Company-Sponsored Life Insurance	Provide market-competitive executive level life insurance benefits; minimum of $3 million in coverage for CEO and minimum of $1 million for other NEOs

Employment Agreements and Change in Control (CIC) Agreements

We have entered into employment agreements and CIC agreements with each NEO. We believe employment agreements are necessary to attract and retain top executive talent and for financial and business planning purposes. We believe CIC agreements are necessary to (1) retain key executives during periods of uncertainty; (2) enable executives to evaluate, negotiate and execute a CIC transaction more objectively; (3) encourage executives to remain focused on running the business rather than seeking other employment; and (4) preserve shareholder value by providing continuity of management during transition period.

Since compensation under our CIC agreements will only be paid if in fact a triggering event occurs, we evaluate compensation to be provided under these agreements in isolation from the rest of the executive s compensation package. However, we do view these arrangements as a means to attract, motivate and retain highly talented executives.

Table of Contents

In December 2008, the Committee approved several significant changes to our CIC agreements:

- reduced the severance payout from a maximum of 6 times to 3 times base salary and bonus (at target);
- changed the cash and benefits severance trigger from a modified single trigger to a double trigger; and
- replaced the potential CIC protection trigger with a 6-month pre-CIC protection period.

Our employment agreements and CIC agreements, and the potential costs associated with each, are discussed in detail under Potential Payments Upon Termination or Change in Control.

Tax and Accounting Implications

Section 162(m) Compliance

The income tax consequences to our company are an important consideration for the Committee when analyzing the design features and elements of our executive compensation programs. Section 162(m) of the Internal Revenue Code (Section 162(m)) limits a company s ability to deduct compensation paid in excess of $1 million to certain NEOs, unless the compensation meets certain stockholder-approved performance requirements. As a result, the Committee has designed several elements of our executive compensation program to qualify for the performance-based exemption. For example, our short-term incentive program, PSUs and SARs are all considered performance-based and are therefore exempt from the limitations imposed by Section 162(m). However, where granting awards or providing other executive compensation elements is consistent with Market data, our compensation philosophy or our strategic business goals, the Committee reserves the right to provide executive compensation that is non-deductible. For example, RSUs meet our compensation objective of key talent retention, but do not meet the performance-based exemption. Although the company did not pay any non-deductible compensation in 2008, some compensation paid in future years may be non-deductible to our company because it is not considered performance-based under Section 162(m). The Committee believes this is appropriate given the benefits provided by such compensation.

Nonqualified Deferred Compensation

All deferred compensation programs have been amended to comply with Section 409A of the Internal Revenue Code.

Accounting for Stock-Based Awards

When setting and analyzing each aspect of NEO compensation, the Committee took into account the accounting consequences (in accordance with the requirements of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS No. 123R)) of the program design and award levels. The Committee reviewed accounting cost models and structured our executive compensation program in a manner that considered the cost and benefits of the program.

Compensation and Human Resources Committee Report

The Committee has reviewed and discussed the foregoing CD&A with management. Based on our review and discussions with management, we have recommended to the Board that the CD&A be included in this Proxy Statement.

Submitted by the Compensation and Human Resources Committee of the Board of Directors:

James J. Byrne (Chairperson)	John E. Major	Jeffrey D. Storey, M.D.
Linda G. Alvarado	Terry D. Stinson	

Table of Contents

Summary Compensation Table

The following table provides information regarding total compensation earned by our NEOs, which include our CEO, our CFO, our three other most highly compensated executive officers and, in accordance with the Securities and Exchange Commission s rules, William F. Stoll, Jr., our former Executive Vice President, Chief Legal Officer and Corporate Secretary.

rincipal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(3)	All Other Compensation (4)	Co
edorn	2008	$ 828,000	$ 0	$ 1,681,126	$ 407,335	$ 734,419	$ 373,646	$ 73,246	$
tive Officer	2007	600,000	100,000	953,779	137,950	778,031	0	290,245	
rter	2008	472,458	0	898,665	156,755	263,386	203,510	52,191	
ce President	2007	454,287	0	1,317,190	102,281	416,033	144,629	107,218	
nancial Officer	2006	436,814	0	1,049,316	53,853	702,441	303,777	147,745	
er	2008	502,217	0	855,699	156,755	179,537	719,148	57,155	
ce President and	2007	485,233	0	1,267,674	102,281	622,026	389,788	101,721	
d Chief	2006	462,127	0	1,221,212	77,437	546,411	431,172	147,394	
fficer, Service									
Young	2008	390,509	0	569,630	121,738	252,198	224,924	45,484	
ce President and									
d Chief Operating									
Residential									
essa	2008	377,775	0	410,229	58,990	236,602	103,489	56,173	
ce President and									
n Resources Officer									
toll, Jr.	2008	314,943	0	(713,433)	(2,148)	0	0	1,947,526	
utive Vice	2007	397,501	0	1,148,682	102,073	364,029	231,395	99,484	
hief Legal Officer									
e Secretary(5)									

(1) The amounts shown represent the compensation costs (prior to any assumed forfeitures related to service-based vesting conditions, where applicable) recognized for financial statement reporting purposes for each fiscal year, in accordance with SFAS No. 123R, in connection with RSUs and PSUs granted under the 1998 Plan. Therefore, such amounts may include compensation costs for awards granted in and prior to each fiscal year shown. Assumptions used in calculating these amounts are included in note 17 to our audited financial statements for the fiscal year ended December 31, 2008, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2009. The negative amount shown for Mr. Stoll reflects the forfeiture of 63,180 stock awards in connection with his cessation of employment with our company.

(2) The amounts shown represent the compensation costs (prior to any assumed forfeitures related to service-based vesting conditions, where applicable) recognized for financial statement reporting purposes for each fiscal year, in accordance with SFAS No. 123R, in connection with SARs granted under the 1998 Plan. Therefore, such amounts may include compensation costs for awards granted in and prior to each fiscal year shown. Assumptions used in calculating these amounts are included in note 17 to our audited financial statements for the fiscal year ended December 31, 2008, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2009. The negative amount shown for Mr. Stoll reflects the forfeiture of 36,093 SARs in connection with his cessation of employment with our company.

(3) The amounts shown represent the aggregate change in the actuarial present value of accumulated pension benefits that accrued during the applicable year under our Supplemental Retirement Plan and Consolidated Pension Plan as a result of one additional year of service. No above market interest on nonqualified deferred compensation was earned.

Table of Contents

(4) The amounts shown include perquisites and other compensation. The following table identifies the separate amounts attributable to each category of perquisites and other compensation in 2008 for each NEO.

	Perquisites			Other Compensation		
Name	Cash Stipend	Company Equipment and Installation	Matching Charitable Contributions	Term Life Insurance Premiums	Contributions to Profit Sharing Plans	Other
Todd M. Bluedorn	$ 30,000			$ 3,903	$ 39,343	
Susan K. Carter	30,000		$ 1,000		21,191	
Scott J. Boxer	30,000				27,155	
Douglas L. Young	30,000			40	15,444	
Daniel M. Sessa	30,000	$ 12,377		961	12,835	
William F. Stoll, Jr.	22,500	3,267				$ 1,921,759

The values attributable to each item listed above are calculated as follows:

Cash Stipend   based on actual cash paid to each NEO in lieu of perquisites.

Company Equipment and Installation   company equipment is based on the sales price of the equipment, adjusted in accordance with our employee rebate program, and installation of such equipment is based on the incremental cost paid by our company in 2008.

Matching Charitable Contributions   we offer an employee matching charitable contribution program to all employees to promote our community values by matching gifts up to $1,000 per year. The value for this table is based on contributions made on the NEO s behalf and accrued by us in 2008.

Term Life Insurance Premiums   our NEOs participate in the same life insurance programs as the general employee population; however, they are guaranteed minimum coverage of $1 million or, in the case of Mr. Bluedorn, minimum coverage of $3 million. The amounts shown are based on the incremental cost paid by us in 2008 on behalf of each NEO for Basic Life and Basic Accidental Death and Dismemberment over and above the premiums we would otherwise pay under our life insurance programs for other employees.

Contributions to Profit Sharing Plans   based on contributions made on the NEO s behalf under our Profit Sharing Retirement Plan and our Profit Sharing Restoration Plan by us in 2008. Information regarding our 2008 contributions to the Profit Sharing Restoration Plan is included in the Nonqualified Deferred Compensation Table.

Other   based on the incremental cost paid or accrued by us in connection with Mr. Stoll s severance.

(5) Mr. Stoll s employment with our company ended on September 30, 2008.

Table of Contents

Fiscal 2008 Grants of Plan-Based Awards

The following table provides information regarding short-term incentive awards and long-term incentive awards (PSUs, RSUs and SARs) granted under the 1998 Plan to our NEOs in 2008.

	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Closing Market Price on Date of Grant
ant te	Threshold ($)	Target ($)	Max. ($)	Threshold (#)	Target (#)	Max. (#)	(#) (3)	(#) (4)	($/Sh) (5)	($/Sh)
	$ 414,000	$ 828,000	$ 1,863,000						$	$
11/08				31,296	62,592	125,184				
11/08							37,555			
11/08								103,976	28.24	27.22
	165,360	330,721	744,122							
11/08				7,824	15,648	31,296				
11/08							9,389			
11/08								25,994	28.24	27.22
	175,776	351,552	790,991							
11/08										