POOL CORP
Form 10-Q
October 30, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from to

Commission File Number: 0-26640

POOL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	36-3943363 (I.R.S. Employer Identification No.)
109 Northpark Boulevard, Covington, Louisiana (Address of principal executive offices)	70433-5001 (Zip Code)

985-892-5521
(Registrant's telephone number, including area code)

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 o

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

Large accelerated filer x Accelerated filer o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

As of October 24, 2014, there were 43,424,783 shares of common stock outstanding.

POOL CORPORATION
Form 10-Q
For the Quarter Ended September 30, 2014

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
POOL CORPORATION
Consolidated Statements of Income
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales	$615,536	$578,157	$1,870,120	$1,738,911
Cost of sales	439,292	415,600	1,332,800	1,243,427
Gross profit	176,244	162,557	537,320	495,484
Selling and administrative expenses	117,787	109,182	347,718	323,184
Operating income	58,457	53,375	189,602	172,300
Interest expense, net	1,864	1,544	5,691	5,239
Income before income taxes and equity earnings (loss)	56,593	51,831	183,911	167,061
Provision for income taxes	21,711	19,496	71,111	64,808
Equity earnings (loss) in unconsolidated investments	76	(3)	209	52
Net income	34,958	32,332	113,009	102,305
Less: net income attributable to noncontrolling interest	(122)	—	(122)	—
Net income attributable to Pool Corporation	$34,836	$32,332	$112,887	$102,305
Earnings per share:				
Basic	$0.80	$0.70	$2.53	$2.20
Diluted	$0.78	$0.68	$2.47	$2.14
Weighted average shares outstanding:				
Basic	43,756	46,380	44,563	46,475
Diluted	44,864	47,598	45,730	47,720
Cash dividends declared per common share	$0.22	$0.19	$0.63	$0.54

The accompanying Notes are an integral part of the Consolidated Financial Statements.

POOL CORPORATION
Consolidated Statements of Comprehensive Income
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$34,958	$32,332	$113,009	$102,305
Other comprehensive income (loss):				
Foreign currency translation adjustments	(2,216)	(128)	(2,671)	(361)
Change in unrealized gains and losses on interest rate swaps, net of tax of $(399), $187, $(260) and $(582)	625	(291)	407	913
Total other comprehensive income (loss)	(1,591)	(419)	(2,264)	552
Comprehensive income	33,367	31,913	110,745	102,857
Less: comprehensive income attributable to noncontrolling interest	(13)	—	(13)	—
Comprehensive income attributable to Pool Corporation	$33,354	$31,913	$110,732	$102,857

The accompanying Notes are an integral part of the Consolidated Financial Statements.

POOL CORPORATION
Consolidated Balance Sheets
(In thousands, except share data)

	September 30, 2014 (Unaudited)	September 30, 2013 (Unaudited)	December 31, 2013 [1]
Assets			
Current assets:			
Cash and cash equivalents	$ 14,455	$ 24,222	$ 8,006
Receivables, net	69,847	180,898	45,138
Receivables pledged under receivables facility	137,318	—	80,149
Product inventories, net	414,331	365,596	429,197
Prepaid expenses and other current assets	10,561	9,474	9,802
Deferred income taxes	5,378	3,742	5,457
Total current assets	651,890	583,932	577,749
Property and equipment, net	57,260	51,537	52,328
Goodwill	174,607	169,983	171,974
Other intangible assets, net	12,433	10,390	10,196
Equity interest investments	1,289	1,112	1,243
Other assets, net	11,757	9,920	10,271
Total assets	$ 909,236	$ 826,874	$ 823,761
Liabilities, redeemable noncontrolling interest and stockholders' equity			
Current liabilities:			
Accounts payable	$ 154,511	$ 142,777	$ 214,596
Accrued expenses and other current liabilities	75,222	64,737	49,301
Current portion of long-term debt and other long-term liabilities	2,618	15	9
Total current liabilities	232,351	207,529	263,906
Deferred income taxes	19,934	15,463	19,108
Long-term debt	391,120	260,432	246,418
Other long-term liabilities	10,027	7,619	8,147
Total liabilities	653,432	491,043	537,579
Redeemable noncontrolling interest	3,144	—	—
Stockholders' equity:			
Common stock, $0.001 par value; 100,000,000 shares authorized; 43,352,818, 46,068,927 and 45,378,785 shares issued and outstanding at September 30, 2014, September 30, 2013 and December 31, 2013, respectively	43	46	45
Additional paid-in capital	329,588	305,831	310,503
Retained (deficit) earnings	(77,619)	29,536	(27,278)
Accumulated other comprehensive income	648	418	2,912
Total stockholders' equity	252,660	335,831	286,182
	$ 909,236	$ 826,874	$ 823,761

Total liabilities, redeemable noncontrolling interest and stockholders' equity

(1) Derived from audited financial statements.

The accompanying Notes are an integral part of the Consolidated Financial Statements.

POOL CORPORATION
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended September 30, 2014	2013
Operating activities		
Net income	$ 113,009	$ 102,305
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,749	9,716
Amortization	1,075	922
Share-based compensation	6,854	6,090
Excess tax benefits from share-based compensation	(4,141)	(4,367)
Equity earnings in unconsolidated investments	(209)	(52)
Other	(727)	(194)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables	(79,891)	(65,638)
Product inventories	19,262	34,709
Prepaid expenses and other assets	(1,212)	1,063
Accounts payable	(61,544)	(57,641)
Accrued expenses and other current liabilities	33,995	26,933
Net cash provided by operating activities	37,220	53,846
Investing activities		
Acquisition of businesses, net of cash acquired	(9,381)	(1,244)
Purchase of property and equipment, net of sale proceeds	(14,687)	(14,407)
Other investments, net	133	76
Net cash used in investing activities	(23,935)	(15,575)
Financing activities		
Proceeds from revolving line of credit	658,720	596,642
Payments on revolving line of credit	(542,018)	(567,092)
Proceeds from asset-backed financing	121,600	—
Payments on asset-backed financing	(93,600)	—
Proceeds from long-term debt and other long-term liabilities	1,621	—
Payments on long-term debt and other long-term liabilities	—	(10)
Payments of deferred financing costs	(7)	(754)
Excess tax benefits from share-based compensation	4,141	4,367
Proceeds from stock issued under share-based compensation plans	8,090	19,040
Payments of cash dividends	(28,075)	(25,120)
Purchases of treasury stock	(135,155)	(53,027)
Net cash used in financing activities	(4,683)	(25,954)
Effect of exchange rate changes on cash and cash equivalents	(2,153)	(558)
Change in cash and cash equivalents	6,449	11,759
Cash and cash equivalents at beginning of period	8,006	12,463
Cash and cash equivalents at end of period	$ 14,455	$ 24,222

The accompanying Notes are an integral part of the Consolidated Financial Statements.

POOL CORPORATION
Notes to Consolidated Financial Statements
(Unaudited)
Note 1 – Summary of Significant Accounting Policies

Pool Corporation (the Company, which may be referred to as we, us or our) prepared the unaudited interim Consolidated Financial Statements following U.S. generally accepted accounting principles (GAAP) and the requirements of the Securities and Exchange Commission (SEC) for interim financial information. As permitted under those rules, we have condensed or omitted certain footnotes and other financial information required for complete financial statements.

On July 31, 2014, we completed the purchase of a 60% interest in Pool Systems Pty. Ltd. (PSL), an Australian company. We accounted for this acquisition using the acquisition method of accounting. The purchase constitutes a controlling interest in the acquired company, which requires us to consolidate PSL's financial position and results of operations from the date of acquisition.

The Consolidated Financial Statements include all normal and recurring adjustments that are necessary for a fair presentation of our financial position and operating results. All significant intercompany accounts and intercompany transactions have been eliminated.

A description of our significant accounting policies is included in our 2013 Annual Report on Form 10-K. You should read the interim Consolidated Financial Statements in conjunction with the Consolidated Financial Statements and accompanying notes in our Annual Report. The results for our three and nine month periods ended September 30, 2014 are not necessarily indicative of the expected results for our fiscal year ending December 31, 2014.

Retained Deficit

We account for the retirement of treasury shares as a reduction of retained earnings (deficit). As of September 30, 2014, the Retained deficit on our Consolidated Balance Sheets reflects cumulative net income, the cumulative impact of adjustments for changes in accounting pronouncements, treasury share retirements since the inception of our share repurchase programs of $814.3 million and cumulative dividends of $265.4 million.

Note 2 – Earnings Per Share

We calculate basic earnings per share (EPS) by dividing Net income attributable to Pool Corporation by the weighted average number of common shares outstanding. We include outstanding unvested restricted stock awards of our common stock in the basic weighted average share calculation. Diluted EPS includes the dilutive effects of other share-based awards. Stock options with exercise prices that are higher than the average market prices of our common stock for the periods presented are excluded from the diluted EPS calculation because their effect is anti-dilutive.

The table below presents the computation of EPS, including the reconciliation of basic and diluted weighted average shares outstanding (in thousands, except EPS):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$34,958	$32,332	$113,009	$102,305
Less: net income attributable to noncontrolling interest	(122)	—	(122)	—
Net income attributable to Pool Corporation	$34,836	$32,332	$112,887	$102,305
Weighted average shares outstanding:				
Basic	43,756	46,380	44,563	46,475
Effect of dilutive securities:				
Stock options and employee stock purchase plan	1,108	1,218	1,167	1,245
Diluted	44,864	47,598	45,730	47,720
Earnings per share:				
Basic	$0.80	$0.70	$2.53	$2.20
Diluted	$0.78	$0.68	$2.47	$2.14
Anti-dilutive stock options excluded from diluted earnings per share computations	169	—	169	—

Note 3 – Acquisitions

In July 2014, we purchased a 60% controlling interest in PSL, a distributor of swimming pool and spa equipment, accessories and leisure products, with one sales center located in Brisbane, Australia. As part of this transaction, PSL acquired Niagara Pool Supplies (Niagara), a distributor of pool products, with two sales centers in New South Wales, Australia. In addition to the cash consideration paid, we recorded contingent consideration related to a potential future payout (based on PSL's fiscal 2015 earnings), which is included in Accrued expenses and other current liabilities on our Consolidated Balance Sheets.

In February 2014, we acquired certain distribution assets of Atlantic Chemical & Aquatics Inc., a regional swimming pool products distributor based in Nova Scotia with two sales center locations serving the Maritime Provinces of Canada. In March 2014, we acquired certain distribution assets of DFW Stone Supply, LLC, a distributor of natural stone and rock products and masonry supplies with two sales center locations in the Dallas, Texas metropolitan area.

We completed our preliminary acquisition accounting for these acquisitions, subject to adjustments in accordance with the terms of the purchase agreements during the respective one year measurement periods. These acquisitions did not have a material impact on our financial position or results of operations.

In March 2013, we acquired certain distribution assets of Swimming Pool Supply Center, Inc., a local swimming pool products distributor with one sales center location in Los Angeles, California. This sales center operates as a satellite location to more efficiently serve our west Los Angeles customers. In May 2013, we acquired certain distribution assets of B. Shapiro Supply, LLC, a swimming pool and hardscape products distributor with one sales center location in Warminster, Pennsylvania.

We completed our acquisition accounting for these acquisitions. These acquisitions did not have a material impact on our financial position or results of operations.

6

Note 4 – Fair Value Measurements and Interest Rate Swaps

Our assets and liabilities that are measured at fair value on a recurring basis include the unrealized gains or losses on our interest rate swap contracts and contingent consideration related to our recent acquisition.

Level 2

For determining the fair value of our interest rate swap contracts, we use significant other observable market data or assumptions (Level 2 inputs as defined in the accounting guidance) that we believe market participants would use in pricing similar assets or liabilities, including assumptions about counterparty risk. Our fair value estimates reflect an income approach based on the terms of the interest rate swap contracts and inputs corroborated by observable market data including interest rate curves.

We have five interest rate swap contracts in place to reduce our exposure to fluctuations in interest rates on our unsecured syndicated senior credit facility (the Credit Facility). These swaps convert the variable interest rate to a fixed interest rate on borrowings under the Credit Facility. Each of these swap contracts terminates on October 19, 2016. The following table provides additional details related to each of these swap contracts:

Derivative	Effective Date	Notional Amount (in millions)	Fixed Interest Rate
Interest rate swap 1	November 21, 2011	$25.0	1.185%
Interest rate swap 2	November 21, 2011	$25.0	1.185%
Interest rate swap 3	December 21, 2011	$50.0	1.100%
Interest rate swap 4	January 17, 2012	$25.0	1.050%
Interest rate swap 5	January 19, 2012	$25.0	0.990%

In May 2014, we entered into four forward-starting interest rate swap contracts to reduce our exposure to future fluctuations in interest rates on our Credit Facility. These swaps will convert the variable interest rate to a fixed interest rate on borrowings under the Credit Facility. Each of these forward starting swap contracts becomes effective on October 19, 2016 and terminates on September 20, 2018. The following table provides additional details related to each of these new swap contracts:

Derivative	Inception Date	Notional Amount (in millions)	Fixed Interest Rate
Forward-starting interest rate swap 1	May 8, 2014	$25.0	2.520%
Forward-starting interest rate swap 2	May 14, 2014	$50.0	2.450%
Forward-starting interest rate swap 3	May 19, 2014	$50.0	2.339%
Forward-starting interest rate swap 4	May 28, 2014	$25.0	2.256%

We recognize any differences between the variable interest rate payments and the fixed interest rate settlements from our swap counterparties as an adjustment to interest expense over the life of the swaps. We have designated these swaps as cash flow hedges and we record the changes in the estimated fair value of the swaps to Accumulated other comprehensive income (loss) on our Consolidated Balance Sheets. If our interest rate swaps became ineffective, we would immediately recognize the changes in the estimated fair value of our swaps in earnings. Since inception, we have not recognized any gains or losses on these swaps through income and there has been no effect on income from hedge ineffectiveness.

For our five interest rate swap contracts currently in effect, a portion of the change in the estimated fair value between periods relates to future interest expense. Recognition of the change in fair value between periods attributable to accrued interest is reclassified from Accumulated other comprehensive income (loss) to Interest expense, net on the Consolidated Statements of Income. These amounts were not material in the first nine months of 2014 and 2013.

The table below presents the estimated fair value of our interest rate swap contracts and our forward-starting interest rate swap contracts (in thousands):

	Fair Value at September 30,	
Level 2	2014	2013
Unrealized Gains on Interest Rate Swaps	$ 196	$ —
Unrealized Losses on Interest Rate Swaps	$ (1,239)	$ (1,909)

We include unrealized losses in Accrued expenses and other current liabilities and unrealized gains in Prepaid expenses and other current assets on the Consolidated Balance Sheets.

Failure of our swap counterparties would result in the loss of any potential benefit to us under our swap contracts. In this case, we would still be obligated to pay the variable interest payments underlying the Credit Facility. Additionally, failure of our swap counterparties would not eliminate our obligation to continue to make payments under our existing swap contracts if we continue to be in a net pay position.

Level 3

As of September 30, 2014, our Consolidated Balance Sheets reflect $0.2 million in Accrued expenses and other current liabilities for contingent consideration related to a potential future payout for the PSL acquisition. In determining this estimate, we applied an income approach using a probability-weighted model of possible outcomes based on our estimates of fiscal 2015 earnings for PSL (Level 3 inputs as defined in the accounting guidance).

The carrying values of cash, receivables, accounts payable and accrued liabilities approximate fair value due to the short maturity of those instruments and the carrying value of long-term debt approximates fair value. Our determination of the estimated fair value of long-term debt reflects a discounted cash flow model using our estimates, primarily those related to assumptions for borrowing rates (Level 3 inputs as defined in the accounting guidance).

Note 5 – Debt

The table below presents the components of our debt at September 30, 2014 and September 30, 2013 (in thousands):

	September 30, 2014	2013
Variable rate debt		
Current portion:		
Australian Seasonal Credit Facility	$ 2,618	$ —
Long-term portion:		
Revolving Credit Facility	311,120	260,432
Receivables Securitization Facility	80,000	—
Total debt	$ 393,738	$ 260,432

PSL utilizes the Australian Seasonal Credit Facility to supplement working capital needs during its peak season, which runs from July to March. The arrangement provides a borrowing capacity of A$3.0 million, and any amounts outstanding must be repaid by April 1.

The Receivables Securitization Facility (the Receivables Facility) provides for the sale of certain of our receivables to a wholly owned subsidiary (the Securitization Subsidiary). The Securitization Subsidiary transfers variable undivided percentage interests in the receivables and related rights to certain third party financial institutions in exchange for cash proceeds, limited to the applicable funding capacities. Upon payment of the receivables by customers, rather than remitting to the financial institutions the amounts collected, we retain such collections as proceeds for the sale of new receivables until payments become due.

We account for the sale of the receivable interests as a secured borrowing on our Consolidated Balance Sheets. The receivables subject to the agreement collateralize the cash proceeds received from the third party financial institutions. We classify the entire outstanding balance as Long-term debt on our Consolidated Balance Sheets as we intend to refinance the obligations on a long term basis. We present the receivables that collateralize the cash proceeds separately as Receivables pledged under receivables facility on our Consolidated Balance Sheets.

Note 6 – Redeemable Noncontrolling Interest

As discussed in Note 3 - Acquisitions, in July 2014, we purchased a controlling interest in PSL. Included in the transaction documents is a put/call option deed that grants us an option to purchase the shares held by the noncontrolling interest, and grants the holder of the noncontrolling interest an option to require us to purchase its shares in one or two transactions. The put/call option deed in this transaction is considered an equity contract and therefore a financial instrument under the accounting guidance. In applying the guidance for this transaction, we have determined that the financial instrument is embedded in the noncontrolling interest. As a public company, we are required to classify the noncontrolling interest and the embedded financial instrument as redeemable noncontrolling interest in a separate section of our Consolidated Balance Sheets, between liabilities and equity.

At the end of each period, we record the portion of comprehensive income or loss attributable to the noncontrolling interest to Redeemable noncontrolling interest to determine the carrying amount. We are required to compare the carrying amount to our estimated redemption value at the end of each reporting period. The redemption value is based on a multiple of a PSL earnings measure for a specified time period. To the extent that the estimated redemption value exceeds the carrying amount, we would record an adjustment to Redeemable noncontrolling interest. We did not record such an adjustment at September 30, 2014.

The table below presents the changes in Redeemable noncontrolling interest (in thousands):

	September 30, 2014
Redeemable noncontrolling interest, beginning of period	$—
Acquisition date value of noncontrolling interest	3,131
Net income attributable to noncontrolling interest	122
Other comprehensive loss attributable to noncontrolling interest	(109)
Redeemable noncontrolling interest, end of period	$3,144

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

You should read the following discussion in conjunction with Management's Discussion and Analysis included in our 2013 Annual Report on Form 10-K.

For a discussion of our base business calculations, see the RESULTS OF OPERATIONS section below.

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

Our disclosure and analysis in this report contains forward-looking information that involves risks and uncertainties. Our forward looking statements express our current expectations or forecasts of possible future results or events, including projections of future performance, statements of management's plans and objectives, future contracts, and forecasts of trends and other matters. Forward-looking statements speak only as of the date of this filing, and we undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur. You can identify these statements by the fact that they do not relate strictly to historic or current facts and often use words such as "anticipate," "estimate," "expect," "believe," "will likely result," "outlook, "project," "should" and other words and expressions of similar meaning.

No assurance can be given that the results in any forward-looking statements will be achieved and actual results may differ materially due to one or more factors, including the sensitivity of our business to weather conditions, changes in the economy and the housing market, our ability to maintain favorable relationships with suppliers and manufacturers, competition from other leisure product alternatives and mass merchants and other risks detailed in our 2013 Annual Report on Form 10-K. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act.

OVERVIEW

Financial Results

We finished the third quarter with record results. Our sales benefited from the continuing demand for discretionary products that create and enhance outdoor living areas. Building materials, tile and lighting showed double-digit sales growth again this quarter. As we wrap up the 2014 season, our solid results reflect the depth of our product offerings backed by our knowledge and our ability to provide exceptional service - a critical factor for our customers.

Net sales for the quarter ended September 30, 2014 increased 6% compared to the third quarter of 2013, with base business sales up 5% for the period. Consistent with the first half of the year, replacement and remodel activity continued to drive sales growth.

Gross profit for the third quarter of 2014 increased 8% versus the same period in 2013. Gross profit as a percentage of net sales (gross margin) improved 50 basis points to 28.6% in the third quarter of 2014, reflecting our initiatives to spur margin improvements.

Selling and administrative expenses (operating expenses) increased 8% in the third quarter of 2014 compared to the same period in 2013, with base business operating expenses up 6% for the period. This increase includes higher performance-based incentive compensation expense in 2014 due to comparatively better results versus performance targets this year compared to last, greater employee insurance expense, increased freight costs and continued increases in infrastructure investments such as additional personnel and expenses related to equipment and technology to support sales growth.

Operating income for the quarter increased 10% compared to the same period in 2013. Operating income as a percentage of net sales (operating margin) was 9.5% for the third quarter of 2014 compared to 9.2% for the same period in 2013.

Net income attributable to Pool Corporation increased 8% to $34.8 million in the third quarter of 2014 compared to the same period last year. Earnings per share increased by $0.10, or 15%, to $0.78 per diluted share for the three months ended September 30, 2014.

Financial Position and Liquidity

Total net receivables, including pledged receivables, increased 15% from September 30, 2013. Excluding recent acquisitions, total net receivables increased 12%, reflecting an extra day in our September billing cycle compared to last year, as well as third quarter 2014 sales growth. Our receivables quality remains high, with days sales outstanding (DSO), as calculated on a trailing twelve month basis, of 28.5 days at September 30, 2014 compared to 28.3 days at September 30, 2013. Our allowance for doubtful accounts balance was $4.3 million at September 30, 2014 compared to $4.5 million at September 30, 2013.

Net inventory levels increased 13% to $414.3 million at September 30, 2014. Excluding recent acquisitions, net inventory levels increased 12% compared to September 30, 2013. This increase reflects greater levels of opportunistic buying in the third quarter, as well as differences in the timing of inventory receipts last year. The inventory reserve was $8.3 million at September 30, 2014 and $8.7 million at September 30, 2013. Our inventory turns, as calculated on a trailing twelve month basis, were 3.4 times at both September 30, 2014 and September 30, 2013.

Total debt outstanding of $393.7 million at September 30, 2014 increased 51% compared to September 30, 2013 primarily to fund greater share repurchases in 2014 versus 2013 and also due to timing differences in the inventory purchase and payment cycle.

Current Trends and Outlook

For a detailed discussion of trends through 2013, see the Current Trends and Outlook section of Management's Discussion and Analysis included in Item 7 of our 2013 Annual Report on Form 10-K.

As we enter our seasonally slow fourth quarter, we remain on target with our earnings projections determined at the onset of the year. For 2014, we expect sales and gross profit growth rates in the mid- to upper-single digits and sales of refurbishment and replacement related products to continue to grow at higher rates than sales of maintenance and other non-discretionary products. We project slight gross margin improvement for the full year 2014 compared to 2013.

We expect moderate base business operating expense growth in the fourth quarter. Although we anticipate overall 2014 performance-based compensation expense will be higher than 2013, we believe fourth quarter 2014 performance-based compensation expense will be lower compared to the same period last year. This expectation is based on the seasonality of our earnings and last year's strong fourth quarter results relative to the rest of 2013.

For the full year 2014, we project our effective income tax rate will approximate 38.5% to 39.0%. Our effective tax rate is dependent upon our results of operations and may change if actual results are different from our current expectations, particularly any significant changes in our geographic mix. The fourth quarter effective income tax rate is typically slightly above the full year rate.

We have tightened our 2014 earnings guidance to a range of $2.38 to $2.43 per diluted share from the $2.35 to $2.45 per diluted share guidance range provided at the beginning of the year. We expect cash provided by operations will be in line with net income for the full year 2014.

RESULTS OF OPERATIONS

As of September 30, 2014, we conducted operations through 329 sales centers in North America, Europe, South America and Australia.

The following table presents information derived from the Consolidated Statements of Income expressed as a percentage of net sales:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of sales	71.4		71.9		71.3		71.5	
Gross profit	28.6		28.1		28.7		28.5	
Operating expenses	19.1		18.9		18.6		18.6	
Operating income	9.5		9.2		10.1		9.9	
Interest expense, net	0.3		0.3		0.3		0.3	
Income before income taxes and equity earnings (loss)	9.2	%	9.0	%	9.8	%	9.6	%

Note: Due to rounding, percentages may not add up to operating income or income before income taxes and equity earnings (loss).

We have included the results of operations from acquisitions in 2014 and 2013 in our consolidated results since the respective acquisition dates.

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

The following table breaks out our consolidated results into the base business component and the excluded component (sales centers excluded from base business):

(Unaudited)	Base Business				Excluded				Total			
(in thousands)	Three Months Ended September 30,				Three Months Ended September 30,				Three Months Ended September 30,			
	2014		2013		2014		2013		2014		2013	
Net sales	$607,469		$577,731		$8,067		$426		$615,536		$578,157	
Gross profit	173,461		162,440		2,783		117		176,244		162,557	
Gross margin	28.6	%	28.1	%	34.5	%	27.5	%	28.6	%	28.1	%
Operating expenses	115,175		109,019		2,612		163		117,787		109,182	
Expenses as a % of net sales	19.0	%	18.9	**2008**								
Net cash provided by operating activities	$ 213.3		$ 139.8									
Net cash provided by (used in) investing activities	1.5		(44.5)									
Net cash used in financing activities	(235.1)		(134.9)									

Net Cash Provided by Operating Activities

The cash generation experienced during the first three quarters of 2009 in operating activities was primarily due to working capital improvements. The cash flow impact of changes in accounts receivable improved by $59.4 million from a year ago primarily due to lower revenues and positive cash collection experience. The cash flow impact from changes in inventory improved $55.2 million due to the continued focus on our investment in inventory and also due to lower production volumes. These favorable operating cash flow impacts were partially offset by changes in accounts payable of $31.5 million due to lower inventory purchases than a year ago.

During the first three quarters of 2009, we received cash of $37.9 million from collateral previously posted related to commodity hedge derivative loss positions in the last half of 2008.

Net Cash Provided by (Used in) Investing Activities

Capital expenditures in the first three quarters of 2009 were $33.9 million, which was slightly lower compared to capital expenditures of $38.3 million incurred in the first three quarters of 2008. Capital expenditures for the first three quarters of 2009 were principally driven by:

- Purchases of production equipment in our Residential Heating & Cooling and Commercial Heating & Cooling segments,
- Purchases of systems and software to support our regional distribution center initiative as well as the overall enterprise,
- Expenditures for plant consolidations, and
- Spending for our Saltillo, Mexico facility.

Net cash received of $33.3 million in investing activities for the first three quarters of 2009 was due to liquidation of short-term investments into cash compared to a net investment of $6.7 million in the same period of 2008.

Net Cash Used in Financing Activities

Due to our strong working capital position, we repaid, on a net basis, $219.8 million of debt during the first three quarters of 2009. This compares to a net borrowing in the first three quarters of 2008 of $176.9 million, which was primarily used to repurchase $307.6 million of our common stock. Also, both the proceeds from the exercise of stock options and the related tax benefits declined, in total, $17.2 million due to lower volumes of stock option exercises and as the result of lower common stock price. We paid a total of $23.2 million in dividends on our common stock in the first three quarters of 2009 as compared to $32.4 million in the same period of 2008. The decrease in cash dividends is due to a change in the timing of payment and the reduction in outstanding shares due to the repurchase of common stock under our share repurchase program.

Debt Position and Financial Leverage

Our debt-to-total capital ratio decreased to 26% as of September 30, 2009 from 48% as of December 31, 2008 due to lower outstanding debt and increased equity.

The following tables summarize our outstanding debt obligations and the classification in the accompanying Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008 (in millions):

Description of Obligation As of September 30, 2009	**Short-Term Debt**	**Current Maturities**	**Long-Term Maturities**	**Total**
Domestic promissory notes [1]	$	$ 35.0	$	$ 35.0
Domestic revolving credit facility			142.5	142.5
Capital lease obligations		0.5	17.1	17.6
Foreign obligations	5.6	0.1	0.3	6.0
Total Debt	$ 5.6	$ 35.6	$ 159.9	$ 201.1

Description of Obligation As of December 31, 2008	**Short-Term Debt**	**Current Maturities**	**Long-Term Maturities**	**Total**
Domestic promissory notes [1]	$	$	$ 35.0	$ 35.0

Domestic revolving credit facility						359.8		359.8
Capital lease obligations				0.3		18.6		18.9
Foreign obligations		6.1		0.3		0.3		6.7
Total Debt	$	6.1	$	0.6	$	413.7	$	420.4

(1) Domestic promissory notes bear interest at 8.00% and mature in 2010.

37

Table of Contents

As of September 30, 2009, we had outstanding borrowings of $142.5 million, and an additional $95.9 million committed to standby letters of credit under the $650.0 million domestic revolving credit facility. All of the remaining $411.6 million was available for future borrowing. The facility matures in October 2012.

Our domestic revolving credit facility includes a subfacility for swingline loans of up to $50.0 million and provides for the issuance of letters of credit for the full amount available under our domestic revolving credit facility. Our weighted average borrowing rate on our domestic revolving credit facility was 0.94% and 2.26% as of September 30, 2009 and December 31, 2008, respectively.

Our domestic revolving credit facility contains financial covenants relating to leverage and interest coverage. Other covenants contained in the domestic revolving credit facility restrict, among other things, mergers, asset dispositions, guarantees, debt, liens, acquisitions, investments, affiliate transactions and our ability to make restricted payments. The financial covenants require us to maintain defined levels of Consolidated Indebtedness to Adjusted EBITDA Ratio and a Cash Flow (defined as EBITDA minus capital expenditures) to Net Interest Expense Ratio. The required ratios as of September 30, 2009 are detailed below:

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

Our domestic revolving credit facility contains customary events of default. These events of default include nonpayment of principal or interest, breach of covenants or other restrictions or requirements, default on any other indebtedness or receivables securitizations (cross default), and bankruptcy. A cross default could occur if:

- we fail to pay any principal or interest when due on any other indebtedness or receivables securitization of at least $40.0 million; or
- we are in default on any other indebtedness or receivables securitization in an aggregate principal amount of at least $40.0 million; and
- such default gives the holders the right to declare such indebtedness due and payable prior to its stated maturity.

If a cross default was to occur it could have a wider impact on our liquidity than might otherwise occur from a default of a single debt instrument or lease commitment.

If any event of default occurs and is continuing, lenders with a majority of the aggregate commitments may require the administrative agent to terminate our right to borrow under our domestic revolving credit facility and accelerate amounts due under our domestic revolving credit facility (except for a bankruptcy event of default, in which case such amounts will automatically become due and payable and the lenders commitments will automatically terminate).

The domestic promissory notes contain the same financial covenant restrictions as our domestic revolving credit facility described above. As of September 30, 2009, we were in compliance with all covenant requirements. Our domestic revolving credit facility and promissory notes are guaranteed by our material subsidiaries.

We have additional borrowing capacity through several foreign facilities governed by agreements between us and various banks. These borrowings are used primarily to finance seasonal borrowing needs of our foreign subsidiaries. Available capacity at September 30, 2009 and December 31, 2008 on foreign facilities were $12.2 million and $11.1 million, respectively.

Table of Contents

Under our ASA, we are eligible to transfer beneficial interests in a portion of our trade accounts receivable to third parties in exchange for cash. Our continued involvement in the transferred assets is limited to servicing. These transfers are accounted for as sales rather than secured borrowings. The fair values assigned to the retained and transferred interests are based primarily on the receivables carrying value given the short term to maturity and low credit risk. The ASA provides for a maximum securitization amount of $125 million or 100% of the net pool balance as defined by the ASA. However, eligibility for securitization is limited based on the amount and quality of the accounts receivable and is calculated monthly. Subsequent to December 31, 2008, the amount eligible for securitization declined primarily due to lower sales and increased cash collections. The credit quality of those accounts receivable was not materially different from that at December 31, 2008. The beneficial interest sold cannot exceed the maximum amount, even if our qualifying accounts receivable is greater than the maximum amount at any point in time. The eligible amounts available were as follows (in millions):

	As of September 30, 2009	As of December 31, 2008
Eligible amount available under the ASA on qualified accounts receivable	$ 85.9	$ 91.0
Beneficial interest sold	(30.0)	(30.0)
Remaining amount available	$ 55.9	$ 61.0

As of September 30, 2009 and December 31, 2008, $13.8 million and $7.1 million, respectively, of cash and cash equivalents were restricted primarily due to routine lockbox collections and letters of credit issued with respect to the operations of our captive insurance subsidiary, which expire on December 31, 2009 and will be renewed upon expiration. These letters of credit can be transferred to our revolving lines of credit as needed.

We periodically review our capital structure, including our domestic revolving credit facility, to ensure that it has adequate liquidity. We believe that cash flows from operations, as well as available borrowings under our domestic revolving credit facility and other existing sources of funding, will be sufficient to fund our ongoing operations and share repurchases during the term of the 2008 Share Repurchase Plan.

As a result of the declines in the securities markets as a whole, which occurred in 2008, we are in an underfunded position which may result in additional pension contributions.

Off-Balance Sheet Arrangements

In addition to the revolving and term loans described above, we utilize the following financing arrangements in the course of funding our operations:

- Transfers of accounts receivable under the ASA are accounted for as sales rather than secured borrowings and are reported as a reduction of Accounts and Notes Receivable, Net in the Consolidated Balance Sheets. As of September 30, 2009 and December 31, 2008, we sold $30.0 million in beneficial interests to third parties.
- We lease real estate and machinery and equipment pursuant to leases that, in accordance with generally accepted accounting principles, are not capitalized on the balance sheet, including high-turnover equipment such as autos and service vehicles and short-lived equipment such as personal computers.

Commitments, Contingencies and Guarantees

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

We use a combination of third-party insurance and self-insurance plans (large deductible or captive) to provide protection against claims relating to contingencies such as workers compensation, general liability, product liability, property damage, aviation liability, directors and officers liability, auto liability, physical damage and other exposures. Of these exposures, we use self-insurance plans for workers compensation/employers liability, general liability, product liability, and auto liability. Prior to the third quarter of 2009, these policies were written through a third-party insurance provider, which was then reinsured by our captive insurance subsidiary. Currently these policies are fronted by a commercial insurance company and we then pay the premium directly into our captive insurance company. We believe that the liability limits retained by the captive are customary for a company of our size and in our industry and are appropriate for our business.

In addition, we use third-party insurance plans for property damage, aviation liability, directors and officers liability, and other exposures. Each of these policies includes per occurrence limits. However, we also carry umbrella or excess liability insurance for all third-party and self-insurance plans, except for directors and officers liability and property insurance. We believe the limit within our excess policy is adequate for companies of our size in our industry.

The self-insurance expense and liabilities are actuarially determined based on our historical claims information, as well as industry factors and trends, and because we have a captive insurance company, we are required to maintain specified levels of liquid assets from which we must pay claims. The majority of our self-insured risks (excluding auto liability and physical damage) will be paid over an extended period of time. The self-insurance liabilities recorded in Accrued Expenses in the accompanying Consolidated Balance Sheets were $63.3 million at September 30, 2009 and $63.2 million as of December 31, 2008.

The estimate of our liability for future warranty costs requires us to make significant assumptions about the amount, timing and nature of the costs we will incur in the future. We review the assumptions used to determine the liability periodically and we adjust our assumptions based upon factors such as actual failure rates and cost experience. Numerous factors could affect actual failure rates and cost experience, including the amount and timing of new product introductions, changes in manufacturing techniques or locations, components or suppliers used. In recent years, changes in the warranty liability as the result of the issuance of new warranties and the payments made have remained relatively stable. Should actual warranty costs differ from our estimates, we may be required to record adjustments to accruals and expense in the future. At the end of each accounting period, we evaluate our warranty liabilities and during the second quarter of each year, we perform a complete reevaluation of our warranty liabilities. As a result of our annual evaluation, we recorded in the second quarter of 2009 a reduction to the warranty liability that is the principal amount contained within changes in estimates associated with pre-existing liabilities of $12.8 million. The reduction to our warranty liabilities was principally caused by lower than expected failure rates, reductions to future cost estimates, and new experience data.

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

We also may incur costs related to our products that may not be covered under our warranties and are not covered by insurance, and we may, from time to time, repair or replace installed products experiencing quality issues in order to satisfy our customers and to protect our brand. These product quality issues may be caused by vendor-supplied components that fail to meet required specifications. We have identified a product quality issue in a heating and cooling product line produced during a limited time period that we believe results from a vendor-supplied component that failed to meet required specifications. During the first nine months of 2009, we have recorded an expense of $5.1 million for the portion of the issue that is probable and can be reliably estimated based upon the current data available. The expense for this product quality issue, and the related liability, is not included in the tables related to our estimated warranty liabilities. We are working to determine the scope and nature of the issue. Any additional liability resulting from the product quality issue and any related recovery from the vendor cannot be reasonably estimated at this time.

We estimate the costs to settle pending litigation based on experience involving similar claims and specific facts known. We do not believe that any current or pending or threatened litigation will have a material adverse effect on our financial position. Litigation and arbitration, however, involve uncertainties and it is possible that the eventual outcome of litigation could adversely affect our results of operations for a particular period.

Applicable environmental laws can potentially impose obligations to remediate hazardous substances at our properties, at properties formerly owned or operated by us and at facilities to which we have sent or send waste for treatment or disposal. We are aware of contamination at some facilities; however, we do not presently believe that any future remediation costs at such facilities will be material to our results of operations. There have been no material changes to the reserve balances since our latest fiscal year-end.

On June 22, 2006, we entered into an agreement with a financial institution to lease our corporate headquarters in Richardson, Texas for a term of seven years (the Lake Park Lease). The leased property consists of an office building of approximately 192,000 square feet, land and related improvements. Our obligations under the Lake Park Lease are secured by a pledge of our interest in the leased property and are also guaranteed by us and certain of our subsidiaries. The Lake Park Lease, as amended, contains restrictive covenants that are consistent with those of our domestic revolving credit facility. We are in compliance with these financial covenants as of September 30, 2009.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Commodity Price Risk

We enter into commodity futures contracts to stabilize prices expected to be paid for raw materials and parts containing high copper and aluminum content. These contracts are for quantities equal to or less than quantities expected to be consumed in future production.

Fluctuations in metal commodity prices impact the value of the derivative instruments that we hold. When metal commodity prices rise, the fair value of our futures contracts increases and conversely, when commodity prices fall, the fair value of our futures contracts decreases. During 2008, metal commodity prices decreased considerably in a short time period, which resulted in significant derivative loss positions. As a result of these loss positions, we were required to post collateral of $37.9 million as of December 31, 2008. During the first three quarters of 2009, metal commodity prices remained relatively stable and as a result our commodity contracts that were in loss positions at December 31, 2008 have expired and we were no longer required to post collateral as of September 30, 2009. The collateral posted was treated as a prepaid expense and recorded in Other Assets in the accompanying Consolidated Balance Sheets. We also recorded derivative losses, net of tax, of $21.3 million in AOCL as December 31, 2008. During the first three quarters of 2009, our commodity contracts that were in loss positions at December 31, 2008 have expired and we recorded derivative gains, net of tax, of $3.0 million in AOCL as of September 30, 2009. We believe that this decline in metal prices was an extraordinary event because of its size and its occurrence over a relatively short timeframe.

Information about our exposure to market risks related to metal commodity prices and a sensitivity analysis related to our metal commodity hedges is presented below (in millions):

Notional amount (pounds)		13.6
Carrying amount and fair value of asset	$	5.0
Change in fair value from 10% change in forward prices	$	3.5

Interest Rate Risk

Our results of operations can be affected by changes in interest rates due to variable rates of interest on our revolving credit facilities, cash, cash equivalents and short-term investments. Based on our best estimates of projected cash flows and debt activity, a 100 basis point change in interest rates would impact our results of operations by approximately $1.2 million annually.

In order to partially mitigate interest rate risk, we use a hedging strategy to eliminate the variability of cash flows in the interest payments for the first $100 million of the total variable-rate debt outstanding under the Credit Agreement that is solely due to changes in the benchmark interest rate. This strategy allows us to fix a portion of our interest payments while also taking advantage of historically low interest rates.

On June 12, 2009, we entered into a $100 million pay-fixed, receive-variable interest rate swap with a large financial institution at a fixed interest rate of 2.66%. The variable portion of the interest rate swap is tied to 1-Month LIBOR (the benchmark interest rate). The interest rates under both the interest rate swap and the underlying debt are reset, the swap is settled with the counterparty, and interest is paid, on a monthly basis. The interest rate swap expires October 12, 2012. We account for the interest rate swap as a cash flow hedge.

Information about our exposure to interest rate risk and a sensitivity analysis related to our interest rate swap is presented below (in millions):

Notional amount	$	100.0
Impact of a 100 basis point change in the benchmark interest rate:		
Carrying amount and fair value of asset	$	0.4
Interest expense	$	1.1

Table of Contents

Foreign Currency Exchange Rate Risk

Our results of operations can be affected by changes in exchange rates. Net sales and expenses in foreign currencies are translated into U.S. dollars for financial reporting purposes based on the average exchange rate for the period. Net sales from outside the United States represented 29.0% and 28.9% of total net sales for the quarters ended September 30, 2009 and 2008, respectively. Historically, foreign currency translation gains (losses) have not had a material effect on our overall operations. As of September 30, 2009, the impact to segment profit (loss) of a 10% change in foreign currency exchange rates is estimated to be approximately $0.3 million.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (Exchange Act), we carried out an evaluation, under the supervision and with the participation of our current management, including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2009, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit to the Exchange Act is recorded, processed, summarized and reported to be disclosed within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2009, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

There have been no significant changes concerning our legal proceedings since December 31, 2008. See Note 7 in the Notes to the Consolidated Financial Statements set forth in Part I, Item 1, of this Quarterly Report on Form 10-Q for additional discussion regarding legal proceedings.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or results of operations. There have been no material changes in our risk factors from those disclosed in our 2008 Annual Report on Form 10-K.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on information currently available to management, as well as management s assumptions and beliefs. All statements, other than statements of historical fact, included in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements identified by the words may, will, should, plan, predict, anticipate, believe, inte and expect and similar expressions. Examples of forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to (1) projections of revenues, cost of raw materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, the effect of currency translations, capital structure, and other financial items, (2) statements of our plans and objectives or estimates or predictions of actions by customers, suppliers, competitors or regulating authorities, (3) statements of future economic performance and (4) statements of assumptions, such as the prevailing weather conditions in our market areas, underlying other statements and statements about us or our business.

Such statements reflect our current views with respect to future events, based on what we believe are reasonable assumptions; however, such statements are subject to certain risks and uncertainties that may affect our performance and results of operations, including, but not limited to:

- economic risks due to global general business, economic and market conditions, including the likely duration and severity of the current disruption in financial markets and adverse economic conditions in the U.S. and other countries;
- our ability to obtain new debt or equity financing on acceptable terms or at all, or to access amounts currently available under our domestic revolving credit facility or revolving period asset securitization agreement;
- the conditions of the U.S. construction industry;
- the effect of cooler than normal summers and warmer than normal winters on our sales;
- the effects of price increases or significant supply interruptions on our results of operations;
- costs incurred as a result of warranty and product liability claims and the effect of such costs on our results of operations;
- our ability to compete favorably in the highly competitive HVACR business;
- our ability to effect successful actions to reduce costs and expenses;
- our ability to successfully develop and market new products;
- our ability to successfully integrate and operate businesses that we may acquire;

our ability to address the effect of any production interruptions or labor stoppages;
our ability to successfully manage regulatory, tax and legal matters (including product liability, labor relations and environmental matters);
risks from operating internationally, including risks associated with foreign currency fluctuations and changes in local government regulation;
the effect of any future determination that a significant impairment of the value of our goodwill intangible asset has occurred on our results of operations; and
the specific uncertainties discussed elsewhere in this Quarterly Report on Form 10-Q, the risk factors set forth in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, and those set forth in Part II, Item 1A. Risk Factors of this report, if any.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those in the forward-looking statements. We disclaim any intention or obligation to update or review any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On June 2, 2008, we announced that our Board of Directors approved a new share repurchase plan for $300 million, pursuant to which we are authorized to repurchase shares of our common stock through open market purchases (the 2008 Share Repurchase Plan). The 2008 Share Repurchase Plan has no stated expiration date. In the third quarter of 2009, we repurchased shares of our common stock as follows:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share (including fees)	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (in millions)
July 1 through July 31	3,732	$ 35.06		$ 285.3
August 1 through August 31	6,317	$ 36.76		$ 285.3
September 1 through September 30	217	$ 36.44		$ 285.3
	10,266	$ 36.13		

(1) Since there were no repurchases under the 2008 Share Repurchase Plan in the third quarter of 2009, this column

reflects the surrender to LII of 10,266 shares of common stock to satisfy tax-withholding obligations in connection with the vesting of restricted stock and performance share units.

Item 6. Exhibits.

31.1	Certification of the principal executive officer (filed herewith).
31.2	Certification of the principal financial officer (filed herewith).
32.1	Certification of the principal executive officer and the principal financial officer pursuant to 18 U.S.C. Section 1350 (filed herewith).

44

Table of Contents

SIGNATURE

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

	LENNOX INTERNATIONAL INC.
Date: October 26, 2009	/s/ Robert W. Hau Robert W. Hau Chief Financial Officer (on behalf of registrant and as principal financial officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of the principal executive officer (filed herewith).
31.2	Certification of the principal financial officer (filed herewith).
32.1	Certification of the principal executive officer and the principal financial officer pursuant U.S.C. Section 1350 (filed herewith).

46