

LENNOX INTERNATIONAL INC  
Form DEF 14A  
April 03, 2013

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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

Filed by the Registrant:  x

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))
- x 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):

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- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

**2140 Lake Park Blvd.  
Richardson, Texas 75080**

April 3, 2013

Dear Stockholders:

It is my pleasure to invite you to the 2013 Annual Meeting of Stockholders of Lennox International Inc. The meeting will be held at 10:30 a.m., local time, on Thursday, May 16, 2013, at the Lennox International Inc. Corporate Headquarters, 2140 Lake Park Blvd., Richardson, Texas 75080.

Under the Securities and Exchange Commission rules that allow companies to furnish proxy materials to stockholders over the Internet, Lennox has elected to deliver our proxy materials to the majority of our stockholders over the Internet. This delivery process allows us to provide stockholders with the information they need, while at the same time conserving natural resources and lowering the cost of delivery. On or about April 3, 2013, we mailed to our stockholders a Notice of Internet Availability of Proxy Materials (the "Notice") containing instructions on how to access our proxy statement for our 2013 Annual Meeting of Stockholders and fiscal 2012 annual report to stockholders. The Notice also provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of the proxy materials by mail.

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.

**YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the 2013 Annual Meeting of Stockholders, we urge you to vote and submit your proxy by the Internet, telephone or mail, pursuant to the instructions on your proxy card. We encourage you to vote via the Internet. It is convenient and saves the Company postage and other costs. Please use the website shown on your proxy card to vote through the Internet. If you attend the meeting you will have the right to revoke the proxy and vote your shares in person.**

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 2013.

Sincerely,

Todd M. Bluedorn  
*Chairman of the Board and Chief Executive Officer*

**2140 Lake Park Blvd.  
Richardson, Texas 75080  
April 3, 2013**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 16, 2013**

Notice is hereby given that the 2013 Annual Meeting of Stockholders of Lennox International Inc. will be held on Thursday, May 16, 2013 at 10:30 a.m., local time, at the Lennox International Inc. Corporate Headquarters, 2140 Lake Park Blvd., Richardson, Texas 75080, to:

elect four Class III directors to hold office for a three-year term expiring at the 2016 Annual Meeting of Stockholders; ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2013 fiscal year; conduct an advisory vote to approve the compensation of the named executive officers as disclosed in this Proxy Statement; and

transact any other business that may properly come before the Annual Meeting of Stockholders in accordance with the terms of our Amended and Restated Bylaws.

The Board of Directors has determined that our stockholders of record at the close of business on March 22, 2013 are entitled to notice of, and to vote at, the Annual Meeting of Stockholders.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 16, 2013.** This Proxy Statement and the Annual Report to Stockholders are available on our website at <http://www.lennoxinternational.com/financials/financialreportproxy.htm> and also at the website appearing on your proxy card. 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, 2012, accompany this Notice.

**Your Vote Is Important. Whether or not you plan to attend the Annual Meeting of Stockholders, we urge you to vote and submit your proxy in order to ensure the presence of a quorum.**

Most shareholders have a choice of voting on the Internet, by telephone or by mail. Please refer to the proxy card or other voting instructions included with these proxy materials for information on the voting method(s) available to you. If you vote by telephone or on the Internet, you do not need to return your proxy card. If your shares are held in the name of a brokerage firm, bank or other nominee of record, follow the voting instructions you receive from such holder of record to vote your shares.

By Order of the Board of Directors,

John D. Torres  
*Corporate Secretary*

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## **GENERAL INFORMATION REGARDING THE 2013 ANNUAL MEETING OF STOCKHOLDERS**

### **Meeting Date and Location**

The 2013 Annual Meeting of Stockholders (the “Annual Meeting”) of Lennox International Inc. (also referred to in this Proxy Statement as the “Company,” “us,” “we,” or “our”) will be held on Thursday, May 16, 2013 at 10:30 a.m., local time, at the Company’s Corporate Headquarters, 2140 Lake Park Blvd., Richardson, Texas 75080. 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 3, 2013 for the purpose of soliciting proxies on behalf of our Board of Directors (our “Board”).

### **Matters to be Voted On**

At the meeting, you will be asked to vote on three proposals. Our board recommends you vote “for” each of the director nominees, and “for” proposals 2 and 3, as described below.

**Proposal 1:** Election of four Class III directors to hold office for a three-year term expiring at the 2016 Annual Meeting of Stockholders.

**Proposal 2:** Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the 2013 fiscal year.

**Proposal 3:** Advisory vote to approve the compensation of the named executive officers (“NEOs”) as disclosed in this Proxy Statement.

### **Record Versus Beneficial Ownership of Shares**

If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered, with respect to those shares, the “stockholder of record.” If you are a stockholder of record, we sent our proxy materials 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 proxy materials 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 Annual Meeting is March 22, 2013. If you were a stockholder of record at the close of business on the record date, you may vote. At the close of business on the record date, there were 50,381,941 shares of our common stock outstanding and entitled to vote. Each share of common stock is entitled to one vote for each director nominee and one vote for each other proposal to be voted on.

### **Quorum and Vote Required**

A quorum is required to transact business at the Annual Meeting. To achieve a quorum at the Annual 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 the calculation of a quorum. In the event a quorum is not present at the Annual Meeting, we expect the meeting will be adjourned or postponed to solicit additional proxies.

Our Amended and Restated Bylaws (“Bylaws”) require that a director nominee will be elected only if he or she receives a majority of the votes cast with respect to his or her election in an uncontested election (that is, the number of shares voted “for” a director nominee must exceed the number of votes cast “against” that nominee). Each of our director nominees is currently serving on the Board. If a nominee who is currently serving as a director is not re-elected, Delaware law provides that the director would continue to serve on the Board as a “holdover director.” Under our Bylaws and Corporate Governance Guidelines, each director submits an advance, contingent resignation that the Board may accept if stockholders do not re-elect the director. In that situation, our Corporate Governance and Nominating Committee would make a recommendation to the Board about whether to accept or reject the resignation, or whether to take other action. The Board would act on the Corporate Governance and Nominating Committee’s recommendation, and publicly disclose its decision and the rationale behind it within 90 days from the date that the election results were certified.

If a quorum is present, ratification of our independent registered public accounting firm and approval of the advisory vote on the compensation of our named executive officers require that the votes cast in favor of these proposals exceed the votes cast against proposals.

### **Abstentions and Broker Non-Votes**

If a broker or bank holds shares in “street name” (that is, in the name of a bank, broker, nominee or other holder of record) and the beneficial owner does not provide the broker or bank with specific voting instructions, (referred to as “broker non-votes”), the broker or bank generally has discretion to vote on routine matters but does not have discretion to vote on non-routine matters.

Pursuant to New York Stock Exchange (“NYSE”) rules, Proposal 1 (election of directors) and Proposal 3 (advisory vote on the compensation of named executive officers) will be considered non-routine proposals for which your broker or bank may not exercise voting discretion if it does not receive voting instructions from you, and Proposal 2 (ratification of the appointment of our independent auditor) will be considered a routine proposal for which your broker or bank may exercise voting discretion even if it does not receive voting instructions from you. As a result, if you hold your shares in street name, it is critical that you cast your vote in order for it to be counted on Proposals 1 and 3.

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” Proposals 1 or 3.

### **Voting Procedures**

Registered holders may vote in person at the Annual Meeting, via the Internet, by telephone, or, if they received a printed copy of these proxy materials, by mail. If your shares are held in street name, you will receive instructions from the holder of record that you must follow in order for your shares to be voted.

A representative of Alliance Advisors LLC will tabulate the votes and act as inspector of election at the Annual Meeting.

### **Changing Your Vote**

You can revoke or change your vote on a proposal at any time before the Annual Meeting for any reason by revoking your proxy. For stockholders of record, proxies may be revoked by delivering a written notice of revocation, bearing a later date than your proxy, with our Corporate Secretary at or before the Annual Meeting. Proxies may also be revoked by:

submitting a new written proxy bearing a later date than a proxy you previously submitted prior to or at the Annual Meeting;

voting again by telephone or Internet before 11:59 p.m., Eastern Time, on May 15, 2013; or attending the Annual Meeting 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.



If your shares are held in street name, you must follow the specific voting directions provided to you by your bank, broker, nominee or other holder of record to change or revoke any instructions you have already provided. Alternatively, obtain a proxy from your bank, broker or other holder of record and provide it with your vote at the Annual Meeting.

**Other Business; Adjournments**

We are not aware of any other business to be acted upon at the Annual Meeting. However, if you have voted by proxy and other matters are properly presented at the Annual Meeting for consideration in accordance with our Bylaws, the persons named in the accompanying Proxy Card will have discretion to act on those matters according to their best judgment or the Board's recommendation. 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**

Our Bylaws provide that our Board may be composed of no less than three and no more than 15 members. The size of our Board has been fixed by our Board at 10 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 III directors for re-election to our Board to hold office for a three-year term expiring at the 2016 Annual Meeting of Stockholders. All Class I and Class II directors will continue in office, in accordance with their previous election, until the expiration of the terms of their classes at the 2014 and 2015 Annual Meeting of Stockholders, respectively. The process followed by the Board in nominating directors and the criteria considered for director nominees is described in the “Corporate Governance — Director Nomination Process and Nominee Criteria” section of this Proxy Statement.

We provide below biographical information for each nominee for Class III director and for each current director in the classes continuing in office following the Annual Meeting. For each director and director nominee, the information presented includes the positions held, principal occupation, and business experience as of April 3, 2013. The biographical description below for each director and director nominee also includes the specific experience, qualifications, attributes and skills that led to the Board’s conclusion that such person should serve as a director of the Company at this time, in light of our business and structure.

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 III director becomes unavailable to serve, the persons named in the accompanying Proxy Card may vote for any alternate designated by the incumbent Board, upon the recommendation of the Board Governance Committee, or the number of directors constituting the Board may be reduced.

## Nominees

**The Board has nominated the following individuals for re-election as Class III directors for a three-year term expiring at the 2016 Annual Meeting of Stockholders:**

**Todd M. Bluedorn**, 49, became Chief Executive Officer (“CEO”) and was elected as a director of our Company in April 2007. He was appointed as Chairman of the Board on May 10, 2012. Prior to joining the Company, Mr. Bluedorn served in numerous senior management positions for United Technologies since 1995, including President, Americas — Otis Elevator Company; President, North America — Commercial Heating, Ventilation and Air Conditioning for Carrier Corporation; and President, Hamilton Sundstrand Industrial. He began his professional career with McKinsey & Company in 1992. A graduate of West Point with a B.S. in electrical engineering, Mr. Bluedorn served in the United States Army as a combat engineer officer and United States Army Ranger from 1985 to 1990. He received his MBA from Harvard University School of Business in 1992.

Mr. Bluedorn serves on the Board of Directors of Eaton Corporation, a diversified industrial manufacturer.

Mr. Bluedorn possesses considerable industry knowledge and executive leadership experience. Mr. Bluedorn’s extensive knowledge of our Company and its business, combined with his drive for excellence and innovation, position him well to serve as CEO and a director of our Company.

**C.L. (Jerry) Henry**, 71, has served as a director of our Company since 2000. He is the Chairman of the Board Governance Committee and a member of the Audit Committee. 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 CFO 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 MWH Global, Inc., a firm providing water, wastewater, energy, natural resource, program management, consulting, and construction services to clients around the world.

As a former CEO and CFO, Mr. Henry contributes a broad knowledge of financial matters, strategy development, risk management, and mergers and acquisitions in his service as a director.

**Terry D. Stinson**, 71, has served as a director of our Company since 1998. He is a member of the Board Governance Committee and the Compensation and Human Resources Committee. 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 CEO 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 CEO of Xelus, Inc., a collaborative enterprise service management solution company. From 1998 to 2001, Mr. Stinson was Chairman and CEO 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.

Mr. Stinson previously served on the Board of Directors of Triumph Group, Inc., a company engaged in the manufacturing and repair of aircraft components, subassemblies and systems, from September 2003 to March 2008.

As a former senior executive of two Fortune 500 companies, Mr. Stinson contributes extensive general management experience in technology-driven businesses, and a thorough knowledge of corporate governance, director recruitment and development, talent management, and strategy development in his service as a director.

**Richard L. Thompson**, 73, has served as a director of our Company since 1993 and Lead Director since May 2012. He is a member of the Board Governance Committee and Compensation and Human Resources Committee. He served as Vice Chairman of the Board from February 2005 to July 2006 and as Chairman of the Board from July 2006 to May 2012. 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.

As a former senior executive at a Fortune 50 company, Mr. Thompson contributes extensive experience leading international business units, engineering and product development, and a substantial knowledge of marketing and channel management, in his service as a director.

**THE BOARD RECOMMENDS A VOTE “FOR”  
EACH OF THE ABOVE NOMINEES**

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## Continuing Directors

### The following Class I directors' terms will continue until the 2014 Annual Meeting of Stockholders:

**Janet K. Cooper**, 59, has served as a director of our Company since 1999. She is a member of the Audit Committee and the Public Policy Committee. 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 ("CFO") 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 Global, Inc., a firm providing water, wastewater, energy, natural resource, program management, consulting, and construction services to clients around the world.

Ms. Cooper contributes a substantial financial background and extensive experience in capital markets, tax, accounting matters, and pension plan investments in her service as a director.

**John W. Norris, III**, 55, has served as a director of our Company since 2001. He is the Chairman of the Public Policy committee and a member of the Compensation and Human Resources Committee. Mr. Norris is a co-founder of Maine Network Partners and is the founding Chairman 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.

Mr. Norris contributes substantial experience and knowledge on environmental issues, non-governmental organizations, and organizational development in his service as a director.

**Paul W. Schmidt**, 68, has served as a director of our Company since 2005. He is the Chairman of the Audit Committee and a member of the Board Governance Committee. 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.

Mr. Schmidt contributes a thorough knowledge of U.S. GAAP and extensive experience in financial statement preparation, accounting matters, and risk management, as well as manufacturing expertise, in his service as a director.

**The following Class II directors' terms will continue until the 2015 Annual Meeting of Stockholders:**

**John E. Major**, 67, has served as a director of our Company since 1993. He is the Chairman of the Compensation and Human Resources Committee and a member of the Board Governance Committee. 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 CEO 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 CEO 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 lead independent director of the Board of Directors of Broadcom Corporation, a semiconductor manufacturing company; and on the Board of Directors of Littelfuse, Inc., a manufacturer of circuit protection devices, and ORBCOMM Inc., a satellite communications service provider.

Mr. Major previously served on the Board of Directors of Verilink Corporation, a manufacturer of microwave communications products, from June 1996 to January 2007.

Mr. Major contributes substantial experience in product innovation, compensation programs, and mergers and acquisitions in his service as a director.

**Gregory T. Swienton**, 63, has served as a director of our Company since 2010. He is a member of the Compensation and Human Resources Committee and the Public Policy Committee. Mr. Swienton was appointed Executive Chairman of Ryder System, Inc., a supplier of transportation, logistics and supply chain management, in January, 2013 after having been Chairman of Ryder System, Inc. since May 2002 and Chief Executive Officer since November 2000. Mr. Swienton joined Ryder as President and Chief Operating Officer in June 1999. Before joining Ryder, Mr. Swienton was Senior Vice President-Growth Initiatives of Burlington Northern Santa Fe Corporation (BNSF). Prior to that he was BNSF's Senior Vice President-Coal and Agricultural Commodities Business Unit, and previously had been Senior Vice President of its Industrial and Consumer Units. He joined the former Burlington Northern Railroad in June 1994 as Executive Vice President-Intermodal Business Unit. Prior to joining Burlington Northern, Mr. Swienton was Executive Director-Europe and Africa of DHL Worldwide Express in Brussels, Belgium from 1991 to 1994, and prior to that, he was DHL's Managing Director-Western and Eastern Europe from 1988 to 1990, also located in Brussels. For the five years prior to these assignments, Mr. Swienton was Regional Vice President of DHL Airways, Inc. in the United States. From 1971 to 1982, Mr. Swienton held various national account, sales and marketing positions with AT&T and Illinois Bell Telephone Company.

Mr. Swinton serves on the Board of Directors of Ryder System, Inc and Harris Corporation, an international communications and information technology company. He also serves on the Board of Trustees of St. Thomas University in Miami.

Mr. Swinton's contributes extensive international business experience, deep expertise in global distribution and supply chain innovations, as well as experience in growth initiatives, in his service as a director.

**Todd J. Teske**, 48, has served as a director of our company since 2011. He is a member of the Audit Committee and the Public Policy Committee. In 2010, Mr. Teske became the Chairman, President and Chief Executive Officer of Briggs & Stratton Corporation, a world leader in gasoline engines for outdoor power equipment, portable generators, and lawn and garden powered equipment and related accessories. Before becoming CEO of Briggs & Stratton in January 2010, he served as the company's President and Chief Operating Officer, President of its power products business, head of corporate development and Controller.

Mr. Teske serves as the Chairman of the Board of Briggs & Stratton. He also serves on the Board of Directors and as a member of the Audit and Compliance Committee and the Compensation and Corporate Governance Committee of Badger Meter, Inc., a leading innovator, manufacturer and marketer of flow measurement and control products.

As an active CEO and former corporate controller, Mr. Teske contributes extensive expertise in the areas of management, finance, accounting, manufacturing, and corporate governance in his service as a director.

**PROPOSAL 2:  
RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM**

The Audit Committee of the Board has appointed KPMG LLP to continue as our independent registered public accounting firm for the 2013 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 the reasons for such rejection and whether it should select a different firm; however, it is not required to do so. 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 the Company and our stockholders.

A representative of KPMG LLP will be present at the 2013 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 RECOMMENDS A VOTE “FOR” THE RATIFICATION OF  
KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE  
2013 FISCAL YEAR.**

*Audit and Non-Audit Fees*

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

	<b>2012</b>	<b>2011</b>
Audit Fees(1)	\$3,007	\$3,166
Audit-Related Fees(2)	78	45
Tax Fees(3)	259	196
All Other Fees	0	0
<b>TOTAL</b>	<b>\$3,344</b>	<b>\$3,407</b>

(1) Represents fees billed for the audit of our financial statements included in our Annual Report 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 provided by KPMG LLP in connection with statutory regulatory filings or engagements.

(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 2012 and 2011 consisted of due diligence work relating to potential business acquisition.

(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 (“SEC”) 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 Chairman. In addition, the Audit Committee has approved annual maximum amounts for tax advisory and tax return services. No engagements are commenced until the Audit Committee Chairman'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 2012 were pre-approved by the Audit Committee.

## AUDIT COMMITTEE REPORT

The Audit Committee maintains effective working relationships with the Board, management, the Company's internal auditors and KPMG, LLP, the Company's independent registered public accounting firm (the "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 our Company's consolidated financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable rules and regulations. The Independent Accountants are responsible for auditing the Company's consolidated financial statements and expressing an opinion as to their conformity with U.S. generally accepted accounting principles and on the Company's internal control over financial reporting.

The Audit Committee (1) has reviewed and discussed the Company's audited consolidated financial statements for the year ended December 31, 2012 with the Company's management and with the Independent Accountants; (2) has discussed with the Independent Accountants the matters required to be discussed by the Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and (3) has 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 the Audit Committee has discussed with the 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 Independent 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 consolidated financial statements have been carried out in accordance with generally accepted auditing standards, that the consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles or that the Company's Independent Accountants are in fact "independent."

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 that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Submitted by the Audit Committee of the Board:

Paul W. Schmidt (Chairperson) Janet K. Cooper  
C. L. (Jerry) Henry Todd J. Teske

## **CORPORATE GOVERNANCE**

### **Director Independence**

Our Corporate Governance Guidelines require that a majority of our directors be “independent,” and that the Compensation & Human Resources, Board Governance and Audit Committees consist exclusively of independent directors as independence is defined under the NYSE listing standards, the Securities and Exchange Act of 1934 and any other applicable laws or regulations regarding independence. No director qualifies as “independent” unless the Board of Directors affirmatively determines that the director has no material relationship with the Company.

Applying these standards, the Board has determined that a majority of our Board is independent and that all of the members of the Board’s standing committees consist exclusively of independent directors (see table below).

In making its determination as to the independence of our directors, the Board Governance Committee and the Board considered the following relationship:

Mr. Swinton served as the Chairman and Chief Executive Officer of Ryder System Inc., which provides transportation and logistics services to the Company in the ordinary course of business.

### **Board Meetings and Leadership Structure**

The Board currently is comprised of 10 members, including 9 independent directors. Mr. Bluedorn serves as the Chairman of the Board and Chief Executive Officer (“CEO”). The Board has determined that Mr. Bluedorn’s position as Chairman aligns well with the role he serves between management and the Board of Directors, providing the Board with the benefit of management’s perspective on our business strategy and all other aspects of the business as the Board performs its oversight role. In March 2012, the Board amended our Corporate Governance Guidelines to create a Lead Director position, and elected Richard L. Thompson, the past Chairman, as Lead Director effective at the conclusion of the 2012 Annual Meeting. The Board believes the Lead Director position provides helpful guidance to the independent directors in their oversight of management. The Lead Director, among other things, presides at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors, serves as liaison between the Chairman and the independent directors, assists the Chairman in planning agendas for Board meetings and advises on the quality of the information provided to the Board. The Lead Director also has the authority to call meetings of the independent directors, and, if requested by major shareholders, is available for consultation and direct communication.

The Board met six times in 2012. 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. Our Corporate Governance Guidelines include a policy that Board members are expected to attend the annual meeting of stockholders. All of the individuals serving as directors at the time of our 2012 Annual Meeting of Stockholders attended the meeting, including each of the four Class III director nominees.

### **Risk Oversight and Compensation Risk Analysis**

The Board oversees the Company’s processes to manage risk at the Board and senior management levels. The Audit Committee oversees the guidelines and policies that govern the Company’s processes to assess and manage significant enterprise risk exposure. While the Board and Audit Committee oversee the Company’s risk management, our management is responsible for the development, implementation, and maintenance of our risk management processes. Management provides periodic reports to the Board and Board committees, as appropriate, on its assessment of strategic, operational, legal and compliance, and financial reporting risks to the Company. The Board and Board committees, as appropriate, review and consider the management reports provided on the Company’s enterprise risk and risk management strategy.



We have reviewed the Company's compensation policies and practices to determine if risks arising from those policies and practices are reasonably likely to have a material adverse effect on the Company. Based on such review, we have not identified any risks arising from our compensation policies and practices that are reasonably likely to have a material adverse effect on the Company. For our executive compensation programs, we incorporate short-term and long-term incentive programs for cash and equity awards that are designed to reward successful execution of our business strategy and achievement of desired business results. Additionally, we have stock ownership requirements and clawback provisions to align the interests of our executive officers with the interests of our stockholders. For non-executive employees, we use a variety of incentive compensation programs to motivate our employees to attain individual goals and support the financial performance of the Company. All of our incentive compensation plans are reviewed at least annually by senior management.

### Board Committees

The standing committees of the Board are as follows: Audit, Board Governance, Compensation and Human Resources, 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." Each of these Board committees is led by a different independent director and the members of each Board committee are all independent directors.

The following table provides current membership information for each of the Board committees and indicates which directors (who served during 2012) our Board determined are independent, as independence for directors is defined by the NYSE.

Name	Independent	Audit	Board Governance	Compensation and Human Resources	Public Policy
Richard L. Thompson	X	—	X	X	—
Todd M. Bluedorn	—	—	—	—	—
Janet K. Cooper	X	X	—	—	X
C.L. (Jerry) Henry	X	X	X*	—	—
John E. Major	X	—	X	X*	—
John W. Norris, III	X	—	—	X	X*
Paul W. Schmidt	X	X*	X	—	—
Terry D. Stinson	X	—	X	X	—
Gregory T. Swienton	X	—	—	X	X
Todd J. Teske	X	X	—	—	X

\*

Committee Chairperson

### Audit Committee

The Audit Committee acts pursuant to its written charter adopted by our Board. The Audit Committee assists the Board in fulfilling its oversight responsibilities relating to the integrity of our financial statements and related systems of internal controls, 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 Accountants.

The Board has determined that each Audit Committee member is independent, as independence for audit committee members is defined by the SEC and the NYSE, is “financially literate” as defined by the NYSE and has accounting or related financial management expertise. The Board has determined that Mr. Schmidt, Chairperson of the Audit Committee, is an audit committee financial expert as defined by the SEC. The Audit Committee met nine times in 2012.

***Board Governance Committee***

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 code of conduct applicable to our Company, developing our Company’s director education programs, and overseeing the evaluation of our Board. The Board has determined that each member of the Board Governance Committee is independent as independence for directors is defined by the NYSE. The Board Governance Committee met four times in 2012.

### ***Compensation and Human Resources Committee***

The Compensation and Human Resources Committee determines our compensation philosophy and oversees our compensation programs for our executive officers and the non-employee members of our Board. The Committee's responsibilities include oversight of our short- and long-term incentive plans and our senior management succession plans. The Committee also reviews the funding requirements and investment policies for our defined benefit and defined contribution retirement plans, and the performance of investment funds, investment advisors and investment managers under those plans.

The Committee reports to the full Board on a regular basis and seeks Board approval for actions relating to Board compensation and independent director approval for the compensation of our CEO. Our CEO makes recommendations to the Committee with respect to various elements of executive compensation. See "Executive Compensation — Compensation Discussion and Analysis" for information concerning the Committee's philosophy and objectives in overseeing executive compensation. The Board has affirmatively determined that each member of the Committee is independent as independence for compensation committee members is defined by the NYSE. The Board has also determined that each member of the Committee is a "non-employee director" for purposes of Section 16b-3 of the Exchange Act and is an "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The Committee met six times in 2012.

The Committee's charter authorizes the Committee to retain third-party compensation consultants and to obtain advice and assistance from internal or external legal, accounting or other advisors. The Committee retains Frederic W. Cook & Co., Inc. ("Frederic W. Cook") as its executive compensation consultant to provide objective analysis, advice and recommendations regarding the compensation of our executives and non-employee directors. Frederic W. Cook does not otherwise provide any other services for the Company. See "Executive Compensation — Compensation Discussion and Analysis" for further information regarding our executive compensation programs and the scope of services provided by Frederic W. Cook. The Committee has concluded that Frederic W. Cook's work raises no conflicts of interest that require disclosure under Item 407(e)(3)(iv) of Regulation S-K.

### ***Public Policy Committee***

The Public Policy Committee is responsible for overseeing our Company's environmental, health and safety issues, and our position on corporate social responsibility and public issues of significance that affect our stakeholders. The Board has determined that each Public Policy Committee member is independent, as independence for directors is defined by the NYSE. The Public Policy Committee met twice in 2012.

### ***Director Nomination Process and Nominee Criteria***

The Board is responsible for approving candidates for Board membership. The Board has delegated the director 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, experience and skills being sought as a complement to the existing Board composition at the time of any vacancy.

Neither our Board nor our Board Governance Committee has a formal diversity policy. However, our Corporate Governance Guidelines provide that, when nominating new members to the Board, the Board will seek the best qualified candidates with consideration for diversity. This consideration may include diversity of experience, functional expertise and industry knowledge. Our Board of Director Qualification Guidelines further provide that the

Board Governance Committee consider a candidate's diversity of viewpoints in determining the particular qualifications desired for any new Board member.



According to our Board of Director Qualification Guidelines, the Board Governance Committee considers the following factors in evaluating directors, in addition to such other factors that the Board Governance Committee deems relevant:

**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 and experience in international markets and strategic planning;

**Independence:** independence based on the standards established by the NYSE, the SEC and any other applicable laws or regulations;

**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:** availability 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 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 at our Annual Meeting.

### **Stockholder Nominations for Director**

The Board Governance Committee considers nominees for election to the Board recommended by stockholders in the same manner as other candidates. 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 in accordance with the terms of our Bylaws. 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 date, the notice of nomination must be received within 10 days following the date on which notice of the date of the Annual Meeting was mailed or such public disclosure was made to our 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 email to [directors@lennoxintl.com](mailto:directors@lennoxintl.com), or by regular mail to 2140 Lake Park Blvd., Richardson, Texas 75080, Attention: Board of Directors, c/o Corporate Secretary.

Stockholder communications received by the Corporate Secretary will be delivered to one or more members of the Board or management, as determined by the Corporate Secretary. Any allegations of accounting, internal controls or auditing-related complaints or concerns will be directed to the Chairman of the Audit Committee.

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 and Practices**

### ***Code of 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, of 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.”

### ***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.”

### ***Executive Session Meetings***

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

### ***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.

### ***Sustainability Report***

The Company issued its first Sustainability Report this year.

**PROPOSAL 3:  
ADVISORY VOTE TO APPROVE THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS**

The Company's stockholders are entitled to vote at the Annual Meeting to approve the compensation of the Company's named executive officers, or NEOs ("Say-on-Pay"), as disclosed in this Proxy Statement. The Say-on-Pay vote is a vote on the advisory resolution below, and it is not binding on the Company or the Board. Although the vote is non-binding, the Compensation and Human Resources Committee and the Board value the opinions of the stockholders and will consider the outcome of the vote when making future compensation decisions.

As described more fully in the Compensation Discussion and Analysis section of this Proxy Statement, the Company has designed its NEO compensation program to reward successful execution of our business strategy and achievement of desired business results, with a focus on creating alignment with the interests of our stockholders. Our program seeks to achieve these goals on an annual and long-term basis through a balanced combination of base pay, annual incentives and long-term incentives.

The annual incentive payout is based on Company financial performance metrics, and for NEOs that are business segment leaders, a combination of Company and business segment metrics. In addition, long-term incentives currently include: (i) stock appreciation rights (SARs), which are designed to incentivize NEOs to grow our business and deliver increased returns to our stockholders, (ii) restricted stock units (RSUs), which are designed to support our retention efforts, and (iii) performance shares units (PSUs), which are designed to link compensation to the Company's financial performance as measured by Return on Invested Capital (a three-year weighted average) and Net Income (three-year compound annual growth rate).

The Company also has several governance programs in place to align executive compensation with stockholder interests and mitigate risks in its plans. These programs include: stock ownership guidelines, prohibition of employee hedging of Company stock, and a clawback policy. These programs are discussed in detail in the Compensation Discussion and Analysis section of this Proxy Statement.

In 2012, the Company continued to drive performance and stockholder value through its focus on innovation, productivity and disciplined use of cash. In this regard, some highlights of our 2012 performance are outlined below and are described in more detail in our Form 10-K under the Securities Exchange Act of 1934 for the fiscal year ending December 31, 2012. These results have been adjusted for discontinued operations related to the divestiture of the Hearth business and the planned divestiture of the Service Experts business.

Diluted GAAP EPS from continuing operations of \$2.63, up 26% from 2011; and  
One-year stockholder return of 58% and three-year total stockholder return of 41% (in both cases, assuming reinvestment of dividends).

We are asking stockholders to approve the following advisory resolution at the Annual Meeting:

RESOLVED, that the compensation of the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby APPROVED.

The Say-on-Pay vote shall be approved if the votes cast in favor of the proposal exceed the votes cast against the proposal. Abstentions will not be counted as either votes cast for or against the proposal. If no voting specification is made on a properly returned or voted proxy card, the proxies named on the proxy card will vote FOR the approval of the compensation of the NEOs.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE  
COMPENSATION OF THE NEOS AS DISCLOSED IN THIS PROXY STATEMENT.**



## **EXECUTIVE COMPENSATION**

### **Compensation Discussion And Analysis**

#### **Executive Summary**

LII's executive compensation program is designed to attract, retain and motivate leadership talent, align executive compensation with short- and long-term business goals, maintain market competitiveness and drive increased stockholder value. Set forth below are highlights of our 2012 financial performance and how our executive compensation program is linked directly to our performance.

#### ***2012 Financial Highlights***

In 2012, the Company continued to drive performance and shareholder value through its focus on innovation, productivity and a disciplined use of cash. These results have been adjusted for discontinued operations related to the divestiture of the Hearth business and the planned divestiture of the Service Experts business as described in more detail in our Form 10-K for the year ending December 31, 2012.

Net sales up 4% from 2011 to approximately \$2.95 billion

Diluted GAAP EPS from continuing operations of \$2.63, up 26% from 2011

One-year stockholder return of 58% and three-year total stockholder return of 41% (in each case, assuming reinvestment of dividends)

Cash generated from operations of \$221 million, up from \$76 million in 2011

#### ***Pay for Performance Linkage***

LII's pay for performance linkage is demonstrated through both our annual incentive compensation program and our long-term incentive program. As such, we did not implement any major changes to our executive compensation program in 2012. Highlights of our short-term and long-term incentive programs and how they are linked to our pay-for-performance philosophy include:

85% of our CEO's compensation is designed as variable – either tied to annual or long-term incentive compensation  
70% of our NEOs' long-term incentive compensation is performance-based, with the remainder provided as RSUs for retention purposes

CEO compensation (as shown in the Summary Compensation Table) was up approximately 39% in 2012, following an 18% decrease in 2011. The 2012 compensation increase was driven mostly by higher variable compensation – and is supported by our one-year stockholder return of 58% and our three-year stockholder return of 41%

Actual payouts under our Performance Share Unit ("PSU") Program have ranged from 0% to 86.9% of target over the last three completed performance cycles (each spanning three years) while stockholder return over that same five-year period has increased almost 38% (assuming reinvestment of dividends)

#### **Overview**

This Compensation Discussion and Analysis ("CD&A") describes the philosophy and objectives of the compensation programs for our NEOs. The Compensation and Human Resources Committee of the Board (the "Committee") establishes and administers our executive compensation programs, practices and policies. The Committee receives input from management and its executive compensation consultant, and considers competitive practices, our business objectives, stockholder interests, regulatory requirements and other relevant factors to develop our executive compensation programs. The Committee reviews, modifies and approves, as appropriate, our executive compensation programs in an effort to provide market-competitive compensation for our executive officers.

The Committee also monitors the results of the Say-on-Pay vote and considers those results in determining compensation policies and decisions. At our 2012 Annual Meeting, over 80% of votes cast on the Say-on-Pay resolution approved the compensation program described in our 2012 proxy statement. Our Say-on-Pay approval declined slightly from the prior year's results, and management responded by initiating discussions with proxy advisors and investors to better understand investors' issues and views concerning executive compensation.

## **Executive Compensation Philosophy and Key Objectives**

### ***Pay-for-Performance***

We maintain a pay-for-performance compensation philosophy designed to reward successful execution of our business strategy and achievement of desired business results, with a focus on aligning compensation with the interests of our stockholders. When our financial results exceed expected performance, monetary rewards to our executive officers generally pay out at higher levels. When our financial results fall below expected performance, monetary awards to our executive officers generally pay out at lower levels.

Recent payouts under our short-term incentive program demonstrate the strong link between Company performance and actual payments made to our executive officers. In 2012, overall Company performance exceeded expectations and, as a result, our NEOs experienced above target annual incentive compensation payouts. In 2011, when the Company performed below expectations, annual incentive compensation payouts were less than 15% of those in 2012. These results are consistent with our pay-for-performance approach, which we believe motivates the type of results-oriented culture we strive to achieve at the Company. The graph below further depicts our adherence to a pay-for-performance philosophy by showing changes in annual CEO compensation (using Summary Compensation Table totals) versus changes in total shareholder return ("TSR") over the last several years.

*\$ amounts are in thousands. TSR represents the change in a \$100 investment from the end of fiscal year 2007, assuming reinvestment of dividends.*

### ***Key Strategic Objectives***

The strategic objectives of our executive compensation programs are to:

- attract, retain and motivate top executive talent;
- align with the achievement of short-term and long-term business goals;
- maintain market-competitive executive compensation programs; and
- drive increased stockholder value by maintaining a strong alignment between pay and performance.

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

<b>Executive Compensation Elements</b>	<b>Attract Top Talent</b>	<b>Retain &amp; Motivate Top Talent</b>	<b>Achieve Short- Term Goals</b>	<b>Achieve Long- Term Goals</b>	<b>Maintain Market Competitiveness</b>	<b>Pay for Performance</b>
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	
<b>Competitive Compensation</b>						

**Market Analysis**

To maintain a market-competitive program, the Committee uses benchmarking data when establishing executive compensation. Benchmarking against a representative peer group assists us in assessing the competitiveness of our executive compensation programs.

Our Company’s compensation peer group, as reviewed and approved by the Committee, includes the following 15 companies and is unchanged from the prior year (the “Compensation Peer Group”):

- |                                  |                       |                           |
|----------------------------------|-----------------------|---------------------------|
| A. O. Smith Corporation          | Flowserve Corporation | Rockwell Automation, Inc. |
| Acuity Brands, Inc.              | Gardner Denver, Inc.  | Snap-On Incorporated      |
| Armstrong World Industries, Inc. | Kennametal Inc.       | SPX Corporation           |
| Briggs & Stratton Corporation    | Owens Corning         | The Timken Company        |
| Dover Corporation                | Pentair, Inc.         | USG Corporation           |

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

- industry—building products, electrical components/equipment, household appliances and industrial machinery;
- revenues of approximately 0.5 to 2.0 times our revenues;
- business and product mix similar to ours; and
- international presence and operations.

Although other potential peer companies fit these selection criteria, the Committee has a strong preference for year-over-year consistency, when possible, for our Compensation Peer Group.

In addition to comparing our executive officer compensation to the compensation provided by our Compensation Peer Group, we also reference published compensation data from compensation databases and other studies of compensation trends and practices (with all such data and practices, including our Compensation Peer Group, collectively referred to as the “Market”).

**Pay Positioning and Compensation Mix**

For 2012, the Committee targeted base salary for our NEOs at the 50<sup>th</sup> percentile of the Market. The Committee set short-term incentive opportunities and long-term incentive planning values between the 50<sup>th</sup> – 6<sup>th</sup> 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 granted a majority of total compensation to our NEOs in the form of non-cash long-term incentive awards. The graphs below illustrate the 2012 target compensation mix for the CEO and the average target compensation mix for the other NEOs.

### **CEO - Target Compensation Mix    Other NEOs - Target Compensation Mix**

We apply similar methodologies in setting compensation and determining the compensation mix for our CEO as we apply for our other NEOs, but our CEO's target compensation mix has a slightly greater percentage of "at-risk" performance-based incentive compensation, largely due to his broad influence on Company performance.

### **Process for Determining Named Executive Officer Compensation**

#### ***Role of Management***

The Committee obtains input from various members of management when making executive compensation decisions. The CEO makes recommendations to the Committee with respect to all of the elements of compensation to be offered to each of the other executive officers. Recommendations are developed in consultation with the Chief Human Resources Officer and the Committee's compensation consultant, and are considered with relevant Market data. The Committee then determines and approves the final compensation elements and amounts to be provided to the Company's executive officers. The CEO does not make any recommendations regarding his own compensation.

In March 2012, the Board changed the process for approving CEO compensation. As a result of this change, the independent members of the Board (rather than the Committee) have direct responsibility for approving CEO compensation. The Committee reviews and recommends proposed changes to CEO compensation to the independent members of the Board for approval.

#### ***Role of the Executive Compensation Consultant***

In 2012, the Committee engaged Frederic W. Cook to provide analysis, advice and recommendations on executive compensation to the Committee. Frederic W. Cook does not otherwise provide any other services for our Company. At the Committee's request, Frederic W. Cook performed the following services for the Committee in 2012:

- reviewed and opined on our executive compensation philosophy;
- reviewed and opined on our Compensation Peer Group;
- provided and analyzed data for various elements of executive compensation;
- reviewed and opined on our executive and Board compensation programs; and
- presented executive compensation trends and regulatory updates to the Committee.

The Committee analyzed and considered the information provided by management and Frederic W. Cook to determine the appropriate program design and the level and mix of each compensation element for the NEOs.

## Components and Analysis of 2012 Executive Compensation

### Base Salary

In establishing each NEO's annual base salary, the Committee considered salary data for the Market, each individual's experience and responsibilities, our annual merit budget, achievement of performance objectives, internal equity and recommendations provided by the CEO for his direct reports.

The following table provides detail regarding 2012 and 2013 base salaries for each NEO:

Name	Title	2012 Annualized Base Salary	Increase Effective April 1, 2013	2013 Annualized Base Salary
Todd M. Bluedorn	Chairman and Chief Executive Officer	\$ 980,000	2.0 %	\$ 1,000,000
Joseph Reitmeier	EVP, Chief Financial Officer	370,000	4.1	385,000
Douglas L. Young	EVP, President and Chief Operating Officer, Residential Heating and Cooling	430,000	11.6	480,000
David W. Moon	EVP, President and Chief Operating Officer, Worldwide Refrigeration	395,000	13.9	450,000
Daniel M. Sessa	EVP, Chief Human Resources Officer	420,000	3.6	435,000

In setting NEO base salaries, the Committee used the 50<sup>th</sup> percentile of the Market as a guideline. The base salary was set within a reasonable range of this guideline for each NEO.

Mr. Moon's and Mr. Young's base salaries were increased more than the other NEOs 1) in an effort to better align with the Market, and 2) in recognition of the scope and complexity of their roles.

### Short-Term Incentive Program

Our short-term incentive program is an annual cash-based program for our executive officers designed to reward the successful performance of our Company, our business units and each individual. Early each year, the CEO proposes to the Committee, for review and approval, the financial metrics and performance goals that must be achieved for any payouts to be made under our short-term incentive program. The 2012 short-term incentive program is funded based on performance against the financial goals, which follow. The 2012 short-term incentive awards were based 75% on financial performance and 25% on each NEO's individual performance.

Financial Performance. The following table summarizes the performance goals and payout opportunities under our 2012 short-term incentive program, along with the actual Company and business unit performance for each metric.

### 2012 Short-Term Incentive Program Summary — Financial Performance (\$ in millions)

Name(1)	Metric	Weight	Threshold	Target	Maximum	Actual
All	Company Core Net Income(2)	60%	\$ 96,239	\$ 120,299	\$ 138,344	\$ 121,102
	Free Cash Flow(3)	40%	72,100	103,000	133,900	171,200
	Payout Opportunity as a % of Target		50 %	<b>100</b> %	<b>225</b> %	
Mr. Young	Segment Profit(4)	70%	\$ 78,065	\$ 93,157	\$ 98,982	\$ 108,998

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Segment Controllable Cash Flow(5)	30%	65,368		81,710		98,052		106,461
Payout Opportunity as a % of Target		50	%	<b>100</b>	%	<b>225</b>	%	
Mr. Moon Segment Profit(4)	70%	\$ 83,173		\$95,908		\$ 105,459		\$83,877
Segment Controllable Cash Flow(5)	30%	68,504		85,630		102,756		72,476
Payout Opportunity as a % of Target		50	%	100	%	<b>225</b>	%	

All NEOs except Mr. Young and Mr. Moon were measured 100% on overall Company financial performance, which earned a 153% of target payout factor. Because Mr. Young is the President of our Residential Heating and Cooling segment, his award was measured 50% on Residential Heating and Cooling's financial performance and 50% on overall Company financial performance. Residential Heating and Cooling's financial performance resulted (1) in a 225% payout, which when blended with our Company financial performance of 153% resulted in a payout as a percentage of target of 189%. Because Mr. Moon is the President of our Refrigeration segment, his award is measured 50% on Refrigeration's financial performance and 50% on overall Company financial performance. Refrigeration's financial performance resulted in a 55% payout, which when blended with our Company financial performance of 153% resulted in a payout as a percentage of target of 104%.

We calculate Company core net income, which is a non-GAAP financial measure used only for incentive compensation purposes, as income from continuing operations, adjusted for 2012 restructuring charges, certain (2) product quality adjustments, certain legal contingency adjustments, unrealized gains on open futures contracts, and certain other items. The operating losses attributable to the planned Service Experts business divestiture were included in Company core net income.

(3) We calculate free cash flow, which is a non-GAAP financial measure used only for incentive compensation purposes, as net cash provided by operating activities less purchases of property, plant and equipment.

(4) We calculate segment profit, which is a non-GAAP financial measure used only for incentive compensation purposes, as earnings from continuing operations for the applicable segment before interest expense, other expenses, net and income taxes, adjusted for 2012 restructuring charges, certain product quality adjustments, certain legal contingency adjustments, unrealized gains on open futures contracts, and certain other items.

(5) We calculate controllable cash flow, which is a non-GAAP financial measure used only for incentive compensation purposes, as segment profit, defined above, less purchases of property, plant and equipment, plus or minus changes in accounts receivable, inventory and accounts payable.

***Individual Performance.*** The Committee considers individual performance in addition to financial performance in order to further align pay with performance. After an NEO's short-term incentive payout is calculated, based on Company and segment financial performance as described above, that result may be decreased by as much as 25%, or increased by up to 56.25% to account for individual performance. The individual performance component is measured against specific financial, operational, strategic, and leadership objectives established for each NEO in advance of the performance measurement period as part of our performance management process. After the end of the fiscal year, the CEO reviews with the Committee the extent of achievement of these objectives by each NEO. The Committee then determines and approves the individual performance component for each executive officer. Based on the Committee's review of the CEO's performance, the Committee recommended to the independent members of the Board and the Board approved an increase in Mr. Bluedorn's short-term incentive payout to 170% of target. Mr. Moon and Mr. Sessa also received payout adjustments based on their individual performance, resulting in an actual payout for Mr. Moon of 148% and Mr. Sessa of 170%.

***Targets and Payouts.*** Under the short-term incentive program, target payout opportunities are determined as a percentage of base salary. The target payout opportunities are based on Market data using the 50<sup>th</sup> – 65<sup>th</sup> percentiles as a guideline. Each NEO's target percentage fits within this guideline.

Based on analysis of the Market data and internal equity considerations, the Committee set the following short-term incentive targets for 2012. Based on actual financial and individual performance, the Committee approved the following 2012 payouts for each NEO:

### 2012 Short-Term Incentive Targets and Payouts

Name	2012 STI Target as a % of Base Salary	2012 STI Target	2012 STI Payout	2012 STI Payout as a % of Target
Mr. Bluedorn	125 %	\$ 1,202,582	\$ 2,044,039	170 %
Mr. Reitmeier (1)	40 / 70	168,130	286,143	170
Mr. Young	70	298,725	565,098	189
Mr. Moon	70	272,125	404,017	148
Mr. Sessa	70	291,375	495,337	170

(1)

Mr. Reitmeier was promoted to CFO in July 2012 and previously served as the finance leader for our Commercial Heating and Cooling segment. His 2012 STI payout was pro-rated to reflect the two roles he held in 2012.

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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 2012.

We include the short-term incentive payments made to the NEOs for 2012, which were approved by the Committee on February 28, 2013 and paid on March 15, 2013, in the Summary Compensation Table under “Non-Equity Incentive Plan Compensation.”

### ***Long-Term Incentive Program***

We have a long-term incentive program designed to incent those employees who have principal responsibility for our long-term profitability. We believe participation in our long-term incentive program helps align the interests of our NEOs with the interests of our stockholders.

We use a mix of PSUs, restricted stock units (“RSUs”) and stock appreciation rights (“SARs”) in our long-term incentive program. PSUs and SARs reward performance, as measured by achievement of specified financial objectives for PSUs and stock price growth for SARs. RSUs help us to retain key members of management because of their time-based vesting. The Committee allocated the mix of elements in our long-term incentive program in a manner designed to drive Company performance, retain key talent, and provide competitive compensation.

For 2012, the long-term incentive allocations for our NEOs were as follows:

### **Award Vehicle Performance vs. Time-Based Allocation**

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, no out-of-cycle grants were made to any NEO in 2012. The Committee does not coordinate the grant date for any award with the release of material non-public information. The Committee sets the exercise price of our SARs at 100% of fair market value, which is defined as the average of the high and low NYSE trading prices of our common stock on the date of grant.

The target planning values under our long-term incentive program are based on publicly available Market data for similar executive officer positions using the 50<sup>th</sup> – 65<sup>th</sup> percentiles as a guideline. In December 2012, the Committee established the target planning values between the 50<sup>th</sup> – 65<sup>th</sup> percentiles of the Market, which reflected an increase of approximately 10% from prior year planning values – the first program increase since 2005. When determining the actual award sizes for each NEO, the Committee considered the NEO’s time in position, individual performance and potential, the NEO’s impact on the financial performance of our Company, internal equity, and the number of shares available for grant under the Lennox International Inc. 2010 Incentive Plan, as amended and restated (the “LII Incentive Plan”).

Once the Committee determined the actual long-term incentive planning value for each NEO for the 2012 grants, 50% of the value was provided as PSUs, 30% as RSUs and 20% as SARs.

The following table summarizes the planning values and number of awards granted for each NEO:

Name	December 2012 Planning Value				Number of Awards Granted			
	PSUs	RSUs	SARs	Total	PSUs(1)	RSUs(1)	SARs(2)	Total
Mr. Bluedorn	\$2,037,500	\$1,222,500	\$815,000	\$4,075,000	39,995	23,997	56,014	120,006
Mr. Reitmeier (3)	350,000	210,000	140,000	700,000	6,870	4,122	9,621	20,613
Mr. Young	550,000	330,000	220,000	1,100,000	10,796	6,477	15,120	32,393
Mr. Moon	550,000	330,000	220,000	1,100,000	10,796	6,477	15,120	32,393
Mr. Sessa	500,000	300,000	200,000	1,000,000	9,814	5,888	13,745	29,447

The specific number of PSUs and RSUs granted were determined by dividing the corresponding planning value by (1) the fair market value of our common stock on the NYSE averaged over the 30 calendar days ending on November 28, 2012 (\$50.944).

The specific number of SARs granted was determined by dividing the corresponding planning value by the (2) Black-Scholes value of our common stock based on the 30 calendar day average of our common stock as of November 28, 2012 (\$14.550).

(3) Mr. Reitmeier's planning value and number of awards granted reflect his recent promotion to CFO in July 2012. PSUs. To maintain our strong focus on long-term Company performance, we granted 50% of the December 2012 long-term incentive award in the form of PSUs. PSUs generally vest at the end of a three-year performance period. If the threshold performance level has been achieved at the end of the performance period, the PSUs, to the extent earned, are distributed in the form of Company common stock. Dividends are not earned or paid on PSU awards during the three-year performance period. The Committee determines the measurement criteria annually, in consultation with the CEO, and in consideration of 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 following the end of the performance period and the Company distributes any earned shares. We believe that the degree of difficulty in achieving these metrics is challenging.

The following table summarizes the key attributes of the PSUs granted in December 2009, which vested on December 31, 2012, and sets out the financial performance goals and payout opportunities versus actual performance.

#### December 2009 PSU Grant

(for the January 1, 2010 — December 31, 2012 Performance Period)

Metric (1)	Weight	Measurement Period	Threshold	Target	Maximum	Actual
Return on Invested Capital ("ROIC")	50%	3-year weighted average (20% lowest year, 40% other two years)	15 %	19 %	23 %	16.5 %
Company Core Net Income	50%	3-year compound annual growth rate	-10 %	6 %	12 %	6.3 %
<b>Payout as a % of Target Award</b>			<b>50 %</b>	<b>100 %</b>	<b>200 %</b>	<b>86.9 %</b>

(1) We calculate net operating profit after tax (NOPAT), which is a component of ROIC and a non-GAAP financial measure used only for incentive compensation purposes, as income from continuing operations, adjusted for

restructuring charges, certain product quality adjustments, certain legal contingency adjustments, unrealized gains on open futures contracts and certain other items. The operating losses attributable to the Hearth business divestiture and the planned Service Experts divestiture were included in both Company core net income and NOPAT. The earnings and acquisition-related costs attributable to the Kysor/Warren acquisition, which occurred after the performance period began, were excluded from Company core net income and NOPAT.

In 2012, NEOs earned an 86.9% of target payout for the PSUs granted in December 2009. The payout value is reflected in the Fiscal 2012 Option Exercises and Stock Vested Table in the “Stock Awards — Value Realized on Vesting” column.



The following table summarizes the key attributes of the PSUs granted in December 2012. 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 our Company core net income growth performance goals based on historical results, projected outcomes of that measure, and expected market conditions. While specific forward-looking performance goals are not included in the table below in light of competitive sensitivities, the performance standards are similar to those disclosed for prior completed cycles.

### December 2012 PSU Grant

(for the January 1, 2013 — December 31, 2015 Performance Period)

Metric	Weight	Rationale for Selection	Measurement Period	Threshold	Target	Maximum
ROIC	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 ROIC exceeds LII's estimated cost of capital		
Company Core Net Income Growth	50%	Measures profitability; higher Company core net income correlates with higher earnings per share	Three-year compound annual growth rate	Maximum payout requires mid-teens core net income compound annual growth rate		
<b>Payout as a % of Target Award</b>				<b>50%</b>	<b>100%</b>	<b>200%</b>

The PSUs granted to our NEOs in 2012 are included in the Fiscal 2012 Grants of Plan-Based Awards Table in the "Estimated Future Payouts Under Equity Incentive Plan Awards" column.

**RSUs.** To support our retention efforts, the Committee granted the NEOs 30% of the December 2012 long-term incentive award in the form of RSUs. RSUs generally vest and are distributed in shares of our common stock three years following the date of grant if the recipient remains an employee of the Company and all other conditions of the award are met. Dividends are not earned or paid on RSUs during the three-year vesting period. The number of shares underlying RSUs granted to our NEOs in 2012 is included in the Fiscal 2012 Grants of Plan-Based Awards Table in the "All Other Stock Awards: Number of Shares of Stock or Units" column.

**SARs.** To incentivize NEOs to grow our business and deliver increased returns to our stockholders, the Committee granted the NEOs 20% of the December 2012 award in the form of SARs. SARs 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 SAR is exercised is paid in Company common stock. The grant date fair value and the SAR exercise price are determined on the actual date of grant. SARs granted in 2012 expire seven years from the date of grant. The number of SARs granted to our NEOs in 2012 is included in the Fiscal 2012 Grants of Plan-Based Awards Table in the "All Other Option Awards: Number of Securities Underlying Options" column.

### Perquisites

We believe providing reasonable perquisites is a market-competitive practice to attract and retain top executive talent. However, rather than offering individual perquisites, we provide a monthly cash stipend to allow our executive

officers more flexibility and choice. Our executive officers have full discretion on how the cash stipend is spent and it is not tracked by the Company after the money is paid. In addition, we offer the installation of Company products and equipment at each executive officer'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 employees generally. The following table summarizes the additional benefit programs in place during 2012 and the purpose of each program. The aggregate change in the actuarial present value of accumulated pension benefits (as shown in the Summary Compensation Table) that accrued during 2012 under our Supplemental Retirement Plan is mostly due to changes in the valuation discount rate.

**Additional Benefit Programs Offered to NEOs in 2012**

<b>Plan</b>	<b>Type</b>	<b>Purpose</b>
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 the 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.

**Additional Information Regarding Executive Compensation**

Following are descriptions of other agreements and policies that are important to a stockholder's understanding of the Company's overall executive compensation program structure.

***Employment Agreements and Change in Control Agreements***

We have employment agreements and change in control ("CIC") agreements with each NEO that have been reviewed and approved by the Committee. 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 in the event of a possible CIC; (4) preserve stockholder value by providing continuity of management during a transition period; and (5) provide benefit to the Company in the form of restrictive covenants, such as non-competes and non-solicitation provisions.

Since we pay compensation under our CIC agreements only if defined triggering events occur, we evaluate compensation to be provided under these agreements in isolation from the rest of the NEO's compensation package. 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."

***Stock Ownership Guidelines***

The Company has stock ownership guidelines for the CEO and other executive officers. We believe stock ownership by executives helps align the interests of the executives with the interests of our stockholders and motivates the executives to build long-term stockholder value. For purposes of the guidelines, ownership includes shares of Company common stock and RSUs that have not yet vested, but does not include PSUs or SARs.

The following chart sets forth, as of December 31, 2012, for each NEO, the stock ownership requirements as a percentage of base salary, the total number of shares counted toward the stock ownership requirements, the value of the shares counted toward the stock ownership requirements as a percentage of base salary and the deadline for compliance with the stock ownership requirements. All NEOs currently meet our stock ownership guidelines, except for Mr. Reitmeier who was subject to these guidelines for the first time when he was promoted in July 2012.

Name	Ownership Requirement as a % of Base Salary	Current Level of Stock Ownership		Deadline for Compliance with Stock Ownership Guidelines
		Total Number of	Stock Ownership as % of Base Salary (1)	

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			Shares			
Mr. Bluedorn	500	%	214,294	970	%	December 31, 2014
Mr. Reitmeier	300		7,322	88		July 17, 2017
Mr. Young	300		81,789	844		December 31, 2014
Mr. Moon	300		73,970	831		December 31, 2014
Mr. Sessa	300		54,949	581		December 31, 2014

(1) Based on the average daily closing price for 2012 of \$44.38.

The Committee oversees and administers the stock ownership guidelines. In the event an executive officer fails to meet the guidelines by the compliance deadline, the Committee will determine any appropriate action or corrective measures to be taken.

### ***Clawback Policy***

Our Company has a formal incentive compensation clawback policy for the CEO and other executive officers. Under this policy, in the event of any fraud or misconduct that results in a restatement of our Company's financial results within three years of the filing of the original financial results, the Committee has the right to recoup and cancel cash and equity-based incentive compensation of each person involved in such fraud or misconduct.

### ***Prohibition on Hedging Policy***

The Company's Insider Trading Policy prohibits directors, executive officers and all other employees from trading in any interest, security or position relating to the future price of Company securities, such as a put, call, swap, short sale, hedge or any other type of derivative security. It also prohibits directors, executive officers and all other employees from pledging Company securities as collateral for a loan, which would include the purchases of Company securities on margin.

### **Tax and Accounting Implications**

#### ***Section 162(m) Compliance***

The Committee carefully considers the income tax consequences to our Company when analyzing our executive compensation programs. Section 162(m) of the Code 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. The Committee has designed several elements of our executive compensation programs to qualify for the "performance-based" exemption. For example, our short-term incentive program, PSUs and SARs are performance-based and exempt from the limitations imposed by Section 162(m) of the Code. If granting awards or providing other executive compensation is consistent with Market data, our compensation philosophy or our strategic business goals, the Committee may provide executive compensation that is not fully deductible. For example, our awards of RSUs meet our objective of key talent retention, but do not meet the performance-based exemption.

#### ***Nonqualified Deferred Compensation***

In addition to the non-qualified Supplemental Retirement Plan discussed previously, our Company also maintains a frozen non-qualified Profit Sharing Restoration Plan. Both of these deferred compensation plans are administered in compliance with Section 409A of the Code.

#### ***Accounting for Stock-Based Awards***

When developing each element of NEO compensation, the Committee considered the accounting consequences (in accordance with the requirements of Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation — Stock Compensation ("FASB ASC Topic 718")) of the program design and award levels. The Committee reviewed accounting cost models and structured our executive compensation programs in a manner that considered the cost and benefits of the various program elements.

### **Compensation Committee Report**

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The Compensation and Human Resources Committee has reviewed and discussed the foregoing CD&A with management. Based on this review and discussion, the Committee recommended to the Board that the CD&A be included in this Proxy Statement and incorporated by reference in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was filed with the SEC on February 15, 2013.

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

John E. Major (Chairperson)	John W. Norris, III
Terry D. Stinson	Gregory T. Swinton
	Richard L. Thompson

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**Summary Compensation Table**

The following table provides information regarding the total compensation of each of the Company's NEOs for the fiscal years ended December 31, 2012, 2011 and 2010.

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)</b>	<b>Bonus (\$)</b>	<b>Stock Awards (\$)(1)</b>	<b>Option Awards (\$)(2)</b>	<b>Non-Equity Incentive Plan Compensation (\$)</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(3)</b>	<b>All Other Compensation (\$)(4)</b>	<b>Total Compensation (\$)</b>
Todd M. Bluedorn Chairman and Chief Executive Officer	2012	962,065		3,126,329	808,618	2,044,039	914,960	45,227	7,901,238
	2011	861,700	107,713	2,960,377	781,107	0	917,728	46,335	5,674,960
	2010	867,000		2,873,155	745,475	1,897,065	485,880	47,545	6,916,120
Joseph W. Reitmeier (5) Executive Vice President and Chief Financial Officer	2012	293,137		533,892	137,869	286,143	14,192	38,489	1,303,722
Douglas L. Young Executive Vice President and Chief Operating Officer, Residential H&C	2012	426,750		838,967	216,670	565,098	754,410	47,904	2,849,799
	2011	397,320	27,812	680,091	179,442	0	578,270	46,082	1,909,017
	2010	401,377		649,351	168,478	462,500	463,459	45,407	2,190,573
David W. Moon Executive Vice President, President and Chief Operating Officer, Worldwide Refrigeration	2012	388,750		838,967	216,670	404,017	305,328	45,228	2,198,960
	2011	350,200		680,091	179,442	148,083	394,464	45,316	1,797,597
	2010	416,250		762,662	196,966	495,337	294,238	45,444	2,210,897
Daniel M. Sessa Executive Vice President and Chief Human Resources Officer	2011	385,550	53,977	680,091	179,442	0	256,989	45,380	1,601,430
	2010	388,444		649,351	168,478	495,802	145,711	45,705	1,893,492
	2012	270,417		0	0	0	0	32,500	302,917
Robert W. Hau (6) Former Executive Vice President and Chief Financial Officer	2011	433,050	60,627	680,091	179,442	0	454,977	45,347	1,853,535
	2010	436,250		649,351	168,478	556,821	0	555,450	2,366,350

(1) The amounts shown represent the grant date fair value of the aggregate amount of all stock awards (prior to any assumed forfeitures related to service-based vesting conditions, where applicable) for each year, in accordance with FASB ASC Topic 718, in connection with RSUs and PSUs granted under the LII Incentive Plan. Assumptions used in calculating these amounts are described in Note 14 of the Consolidated Financial Statements for the year ended December 31, 2012, included in our Form 10-K for that year filed with the SEC on February 15, 2013.

Amounts for 2012 PSUs reflect the most probable outcome for the awards at December 31, 2012 valued at the date of grant in accordance with FASB ASC Topic 718. If the PSUs were valued at maximum performance levels, the total PSU value at grant date would equal:

<b>Name</b>	<b>Year</b>	<b>PSU Value at Maximum Performance Levels (\$)</b>
Todd M. Bluedorn	2012	3,907,911
	2011	3,700,495
	2010	3,591,433
Joseph W. Reitmeier	2012	667,366
Douglas L. Young	2012	1,048,745
	2011	850,098
	2010	811,689
David W. Moon	2012	1,048,745
	2011	850,098
Daniel M. Sessa	2012	953,352
	2011	850,098
	2010	811,689
Robert W. Hau	2012	0
	2011	850,098
	2010	811,689

The amounts shown represent the grant date fair value of the aggregate amount of all SAR awards (prior to any assumed forfeitures related to service-based vesting conditions, where applicable) for each year, in accordance with (2)FASB ASC Topic 718, in connection with SARs granted under the LII Incentive Plan. Assumptions used in calculating these amounts are included in Note 14 of the Consolidated Financial Statements for the year ended December 31, 2012, included in our Form 10-K for that year filed with the SEC on February 15, 2013.



(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 frozen Consolidated Pension Plan, each as discussed below, as a result of changes in the valuation discount rate, changes in compensation, and an additional one year of service. No above-market interest on nonqualified deferred compensation was earned.

(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 2012 for each NEO.

Name	Perquisites		Other Compensation			Total
	Cash Stipend	Company Equipment and Installation	Matching Charitable Contributions	Term Life Insurance Premiums	Retirement Contributions	
Todd M. Bluedorn	\$30,000	—	—	\$ 227	\$ 15,000	\$45,227
Joseph W. Reitmeier	22,417	—	\$500	821	14,751	38,489
Douglas L. Young	30,000	\$2,746	—	158	15,000	47,904
David W. Moon	30,000	—	—	228	15,000	45,228
Daniel M. Sessa	30,000	313	—	131	15,000	45,444
Robert W. Hau	17,500	—	—	0	15,000	32,500

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 individual perquisites.

*Company Equipment and Installation* — Company equipment is based on the purchase price of the equipment, adjusted in accordance with our employee rebate program, and installation of such equipment is based on the incremental cost for installation paid by the Company in 2012.

*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 in 2012.

*Term Life Insurance Premiums* — our NEOs participate in the same life insurance programs as our general employee population; however, all 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 in 2012 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.

*Retirement Contributions* — based on Company contributions made under our qualified 401(k) Plan in 2012.

(5) Mr. Reitmeier was appointed Executive Vice President and Chief Financial Officer in July 2012.

(6) Mr. Hau served as Executive Vice President and Chief Financial Officer until he resigned in July 2012. In connection with his resignation, Mr. Hau repaid the Company \$545,000, which represented his cash sign-on bonus and a portion of his relocation payment he received in connection with his employment with the Company. These repayments are not reflected in the Summary Compensation Table.

**Fiscal 2012 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 LII Incentive Plan to our NEOs in 2012.

Name	Grant Date	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 (#) (3)	All Other Option Awards: Number of Securities Underlying Options (#) (4)	Exercise or Base Price of Option Awards (\$/Sh) (5)	Closing Price on Date of Grant (\$/Sh) (6)	Grant Date	Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Max. (\$)	Threshold (#)	Target (#)	Max. (#)						
Todd M.	—	601,291	1,202,582	2,705,808	—	—	—	—	—	—	—	—	—
Bluedorn	12/7/12	—	—	—	19,998	39,995	79,990	—	—	—	—	—	1,953,956
	12/7/12	—	—	—	—	—	—	23,997	—	—	—	—	1,172,373
	12/7/12	—	—	—	—	—	—	—	56,014	51.395	51.08	—	808,618
Joseph W.	—	84,065	168,130	378,292	—	—	—	—	—	—	—	—	—
Reitmeier	12/6/12	—	—	—	3,435	6,870	13,740	—	—	—	—	—	333,683
	12/6/12	—	—	—	—	—	—	4,122	—	—	—	—	200,210
	12/6/12	—	—	—	—	—	—	—	9,621	51.11	51.07	—	137,869
Douglas L.	—	149,363	298,725	672,131	—	—	—	—	—	—	—	—	—
Young	12/6/12	—	—	—	5,398	10,796	21,592	—	—	—	—	—	524,373
	12/6/12	—	—	—	—	—	—	6,477	—	—	—	—	314,594
	12/6/12	—	—	—	—	—	—	—	15,120	51.11	51.07	—	216,670
David W.	—	136,063	272,125	612,281	—	—	—	—	—	—	—	—	—
Moon	12/6/12	—	—	—	5,398	10,796	21,592	—	—	—	—	—	524,373
	12/6/12	—	—	—	—	—	—	6,477	—	—	—	—	314,594
	12/6/12	—	—	—	—	—	—	—	15,120	51.11	51.07	—	216,670
Daniel M.	—	145,688	291,375	655,594	—	—	—	—	—	—	—	—	—
Sessa	12/6/12	—	—	—	4,907	9,814	19,628	—	—	—	—	—	476,676
	12/6/12	—	—	—	—	—	—	5,888	—	—	—	—	285,986
	12/6/12	—	—	—	—	—	—	—	13,745	51.11	51.07	—	196,966

Robert

W. — 94,646 189,292 425,907 N/A N/A N/A N/A N/A N/A N/A N/A

Hau

- (1) The amounts shown represent award opportunities under our short-term incentive program for 2012. The actual awards were paid March 15, 2013 in the amounts included in the Summary Compensation Table.
- (2) The amounts shown represent the number of PSUs granted, which to the extent earned, will vest and be distributed in shares of our common stock at the end of the three-year performance period ending December 31, 2015.
- (3) The amounts shown represent the number of RSUs granted, which vest and will be distributed in shares of our common stock on the third anniversary of the date of grant.
- (4) The amounts shown represent the number of SARs granted, which vest in one-third increments on each anniversary of the date of grant and expire seven years from the date of grant.
- (5) The amounts shown reflect the exercise price of SARs granted, based on the average of the high and low NYSE trading prices of our common stock on the date of grant.
- The amounts shown represent the grant date fair values of PSUs, RSUs and SARs, calculated in accordance with FASB ASC Topic 718. The grant date fair value for SARs was determined using the Black-Scholes valuation model. The grant date fair value for the RSU and PSU awards equals the dividend-discounted value of our common stock on the date of grant. The assumptions used to calculate the grant date fair values of such awards are set forth below.

Grant Date	Award	Assumptions			Risk Free Interest Rate (%)	FMV Based on Average High/Low NYSE Trading Prices on Date of Grant (\$)	Grant Date Fair Value Per Share (\$)
		Volatility (%)	Expected Life (Years)	Dividend Yield (%)			
12/6/2012	RSU	—	—	1.70	—	51.110	48.571
12/6/2012	PSU	—	—	1.70	—	51.110	48.571
12/6/2012	SAR	40.424	14	1.75	0.48	51.110	14.330
12/7/2012	RSU	—	—	1.69	—	51.395	48.855
12/7/2012	PSU	—	—	1.69	—	51.395	48.855
12/7/2012	SAR	40.424	14	1.74	0.50	51.395	14.436

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**Outstanding Equity Awards at Fiscal 2012 Year-End**

The following table provides information regarding all outstanding equity awards held by our NEOs as of December 31, 2012.

Name	Option/SAR Awards(1)				Stock Awards		Equity Incentive Plan Awards: Number of Unearned Shares, Other Rights That Have Not Vested (#)(5)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Other Rights That Have Not Vested (\$)(4)
	Number of Securities Underlying Unexercised Options/SARs (#) Exercisable(1)	Number of Securities Underlying Unexercised Options/SARs (#) Unexercisable(1)	Option/SAR Exercise Price (\$/Sh)(2)	Option/SAR Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(3)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(4)		
Todd M. Bluedorn	48,025	0	35.820	12/08/13	82,958	4,356,954	196,490	10,319,655
	81,437	0	34.520	12/06/14				
	103,976	0	28.240	12/11/15				
	61,096	0	36.935	12/10/16				
	36,141	18,071	46.780	12/09/17				
	27,715	55,431	34.060	12/08/18				
	0	56,014	51.395	12/07/19				
Joseph W. Reitmeier	2,651	0	28.240	12/11/15	6,467	339,647	13,138	690,008
	869	0	36.935	12/10/16				
	1,397	699	46.780	12/09/17				
	1,123	2,248	34.060	12/08/18				
	0	9,621	51.110	12/06/19				
Douglas L. Young	5,009	0	36.935	12/10/16	19,933	1,046,881	46,598	2,447,327
	8,168	4,084	46.780	12/09/17				
	6,367	12,734	34.060	12/08/18				
	0	15,120	51.110	12/06/19				
David W. Moon	17,062	0	30.845	12/08/13	19,933	1,046,881	46,598	2,447,327
	20,359	0	34.520	12/06/14				
	25,994	0	28.240	12/11/15				
	15,027	0	36.935	12/10/16				
	8,168	4,084	46.780	12/09/17				
	6,367	12,734	34.060	12/08/18				
Daniel M. Sessa	0	15,120	51.110	12/06/19	19,344	1,015,947	45,616	2,395,752
	15,027	0	36.935	12/10/16				
	8,168	4,084	46.780	12/09/17				
	6,367	12,734	34.060	12/08/18				

	0	13,745	51.110	12/06/19				
Robert W. Hau	0	0	N/A	N/A	0	0	0	0

- (1) Outstanding SARs vest in one-third increments on each anniversary of the date of grant, with the first anniversary date occurring six years prior to the expiration date for each grant.
- (2) Pursuant to the LII Incentive Plan, the exercise price for all outstanding SARs is based on the grant date fair market value, which is the average of the high and low NYSE trading prices of our common stock on the date of grant.
- (3) The amounts shown represent all outstanding RSUs held by the NEOs. Refer to column (a) of Table 1 which follows for the vesting dates of such awards.
- (4) The amounts shown are based on the NYSE closing price of our common stock on December 31, 2012, which price was \$52.52.
- (5) The amounts shown represent outstanding PSUs held by the NEOs. Refer to column (b) of Table 1 which follows for the vesting dates of such awards and the performance assumptions used to calculate the number of unvested PSUs.

**Table 1**

Name	(a) Shares or Units of Stock That Have Not Vested		(b) Equity Incentive Plan Awards: Unearned Shares, Units or Other Rights That Have Not Vested		
	Number of Awards	Vesting Date	Number of Awards	Vesting Date	Performance Assumption
Todd M. Bluedorn	24,026	12/09/13	40,043	12/31/13	Target
	34,935	12/08/14	116,452	12/31/14	Maximum
	23,997	12/07/15	39,995	12/31/15	Target
Total	82,958		196,490		
Joseph W. Reitmeier	929	12/09/13	1,548	12/31/13	Target
	1,416	12/08/14	4,720	12/31/14	Maximum
	4,122	12/06/15	6,870	12/31/15	Target
Total	6,467		13,138		
Douglas L. Young	5,430	12/09/13	9,050	12/31/13	Target
	8,026	12/08/14	26,752	12/31/14	Maximum
	6,477	12/06/15	10,796	12/31/15	Target
Total	19,933		46,598		
David W. Moon	5,430	12/09/13	9,050	12/31/13	Target
	8,026	12/08/14	26,752	12/31/14	Maximum
	6,477	12/06/15	10,796	12/31/15	Target
Total	19,933		46,598		
Daniel M. Sessa	5,430	12/09/13	9,050	12/31/13	Target
	8,026	12/08/14	26,752	12/31/14	Maximum
	5,888	12/06/15	9,814	12/31/15	Target
Total	19,344		45,616		
Robert W. Hau	0	N/A	0	N/A	N/A

**Fiscal 2012 Option Exercises and Stock Vested**

The following table provides information regarding each exercise of SARs by our NEOs and each distribution of RSUs and PSUs held by our NEOs in 2012.

Name	Options/SAR Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
Todd M. Bluedorn	0	0	RSU 27,280	1,401,101
PSU	39,510	2,503,354		
Joseph W. Reitmeier	2,640	13,897	RSU 1,163	59,732
PSU	1,684	106,698		
Douglas L. Young	77,068	1,480,271	RSU 8,928	437,462
PSU	9,718	615,732		
David W. Moon	2,717	56,704	RSU 7,286	368,727
PSU	9,718	615,732		
Daniel M. Sessa	46,353	906,281	RSU 6,710	344,626
PSU	9,718	615,732		
Robert W. Hau	10,018	74,584	RSU 0	0
PSU	0	0		

(1) The amounts shown for RSUs and PSUs are based on the average of the high and low NYSE trading prices of our common stock on the day of distribution.

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## **Retirement Plans**

### **Qualified Retirement Plans**

#### ***Frozen Consolidated Pension and Profit Sharing Retirement Plans***

Effective January 1, 2009, the Company's Consolidated Pension Plan and Profit Sharing Retirement Plan were frozen. As of that date, benefits under the frozen Pension Plan stopped increasing with additional service and compensation, and additional contributions to the Profit Sharing Plan were discontinued.

The monthly target benefit under the frozen Pension Plan is based on 1.0% of final average annual pay, plus 0.6% of final average annual pay above Social Security covered compensation, multiplied by the number of years of credited service (not to exceed 30 years). The target benefit is reduced by the value of the participant's defined contribution profit sharing account under the frozen Profit Sharing Plan, with the difference, if any, provided by the frozen Pension Plan. Participants become vested in their frozen Pension Plan accrued benefits after five years of service and may commence unreduced benefits at age 65 (normal retirement age) or actuarially reduced benefits at younger ages if age and service requirements are met (generally the attainment of age 62 and 10 years of service or if age plus years of service total 80). Benefits are generally paid in the form of an annuity. We do not grant extra years of service under the Consolidated Pension Plan. Participants in the frozen Profit Sharing Plan are fully vested in the plan after six years of service and the Company directs the investment funds. Distributions may occur at separation from service and are eligible for roll-over into another qualified retirement plan.

#### ***401(k) Salaried Retirement Plan***

Salaried employees are eligible to participate in this plan, and contributions can be made on a pre-tax or Roth post-tax basis, subject to limitations for qualified plans under the Code. Participants can contribute up to 75% of their eligible earnings and receive a Company match of 50% on up to 6% of their eligible pay. In addition, all participants (after completing one year of service) receive a base contribution equal to 3% of eligible pay. The match vests after the participant completes two years of service and the base contribution is fully vested.

### **Non-Qualified Retirement Plans**

#### ***Supplemental Retirement Plan***

Our Supplemental Retirement Plan, the purpose of which is to provide market-competitive executive level retirement benefit opportunities, permits income above Code limitations to be considered in determining final average annual pay, doubles the rate of benefit accrual available under the frozen Pension Plan (2.0% of final average annual pay, plus 1.2% of final average annual pay above Social Security covered compensation), limits credited service to 15 years, generally permits early retirement on more favorable terms than the frozen Pension Plan (for example, unreduced benefits at age 62 with 10 years of service or unreduced benefits at age 60 if age plus years of service total 80), and pays benefits in the form of a lump-sum. Any benefits provided under the Supplemental Retirement Plan are reduced by the benefits payable under our Company's frozen Pension Plan (as if such plan had not been frozen), frozen Profit Sharing Plan, and frozen Profit Sharing Restoration Plan. Participants become vested in their Supplemental Retirement Plan benefit after five years of service. Extra years of credited service are not provided to participants except for up to an additional three years of service and age (subject to the 15 year service limit) in the case of a change in control. The incremental effects of additional years of service are reflected in the tables included in "Potential Payments Upon Termination or Change in Control."

#### ***Frozen Profit Sharing Restoration Plan***



We froze the Profit Sharing Restoration Plan and discontinued contributions effective January 1, 2009. Distributions may occur at separation from service and may be paid as a lump-sum or in equal annual installments over either a five- or ten-year period. We direct the investment funds for the frozen Profit Sharing Restoration Plan, which mirror the investments and returns under the frozen Profit Sharing Retirement Plan. The weighted average annual rate of return for the calendar year ended December 31, 2012, was 14.19%.

**Fiscal 2012 Pension Benefits**

The following table provides information regarding the number of years of service credited to each NEO and the present value of accumulated benefits payable to each NEO under our frozen Consolidated Pension Plan and our Supplemental Retirement Plan as of December 31, 2012, as well as payments made to each NEO in 2012 under such plans.

<b>Name</b>	<b>Plan Name</b>	<b>Number of Years Credited Service (#)</b>	<b>Present Value of Accumulated Benefit (\$ (1))</b>	<b>Payments During Last Fiscal Year (\$)</b>
Todd M. Bluedorn	Consolidated Pension Plan (Frozen)	1.9	37,512	0
	Supplemental Retirement Plan	5.9	2,898,091	0
Joseph W. Reitmeier	Consolidated Pension Plan (Frozen)	3.3	51,972	0
	Supplemental Retirement Plan	0.6	0	0
Douglas L. Young	Consolidated Pension Plan (Frozen)	9.6	98,207	0
	Supplemental Retirement Plan	13.6	2,601,205	0
David W. Moon	Consolidated Pension Plan (Frozen)	11.0	102,576	0
	Supplemental Retirement Plan	6.5	769,735	0
Daniel M. Sessa	Consolidated Pension Plan (Frozen)	1.7	31,113	0
	Supplemental Retirement Plan	5.7	849,572	0

The actuarial present value of the lump-sum accumulated benefit payable at December 31, 2012 is equal to the annualized present value factor, multiplied by the monthly benefit. The amounts shown are calculated in accordance with FASB ASC Topic 715, using a 3.46% interest (discount) rate for the Supplemental Retirement Plan and 4.02% for the Consolidated Pension Plan as of December 31, 2012 and the RP-2000 mortality table for (1) males and females without collar adjustment. The calculations assume payments are deferred until age 65 for all participants under our frozen Consolidated Pension Plan and until the earliest unreduced retirement age for each participant under our Supplemental Retirement Plan. Additional assumptions are included in Note 13 to our audited financial statements for the fiscal year ended December 31, 2012 included in our Form 10-K for that year filed with the SEC on February 15, 2013.

**Fiscal 2012 Nonqualified Deferred Compensation**

The following table provides information regarding contributions, earnings, withdrawals and distributions under our frozen Profit Sharing Restoration Plan in 2012 for each NEO, as well as each NEO's aggregate balance in such plan at December 31, 2012.

<b>Name</b>	<b>Executive Contributions in Last Fiscal Year (\$)</b>	<b>Company Contributions in Last Fiscal Year (\$)</b>	<b>Aggregate Earnings in Last Fiscal Year (\$)</b>	<b>Aggregate Withdrawals/ Distributions (\$)</b>	<b>Aggregate Balance at Last Fiscal Year-End (\$)</b>
Todd M. Bluedorn	0	0	7,189	0	57,853
Joseph W. Reitmeier(1)	0	0	0	0	0
Douglas L. Young	0	0	36,670	0	295,085
David W. Moon	0	0	9,401	0	75,652
Daniel M. Sessa	0	0	1,715	0	13,797

(1) Mr. Reitmeier was not eligible to participate in this plan prior to the plan being frozen.

## **Potential Payments Upon Termination or Change in Control**

### **Employment Agreements and Change in Control Agreements**

We are party to employment agreements and CIC agreements with each NEO who is currently employed by us. These agreements serve as the basis for the payments and benefits to which each NEO would be entitled in the event of termination of such individual's employment with our Company under the various circumstances described below.

#### ***Employment Agreements***

The employment agreements with our NEOs establish the basis of compensation and responsibilities for each NEO and contain post-employment covenants, including confidentiality, prohibition against the diversion of employees, vendors and contractors and prohibition against the solicitation of customers, for a period of 24 months following termination of employment. On January 1 of each year, the agreements automatically renew for an additional year, unless either party notifies the other in writing at least 30 days prior to such date of a decision not to renew the agreement. Except as otherwise provided below, the terms and conditions of our employment agreement with each NEO are substantially similar.

#### ***Change in Control Agreements***

Our CIC agreements with our NEOs, the terms and conditions of which are substantially similar except as noted below, provide for certain benefits under specified circumstances if a NEO's employment is terminated in connection with a CIC transaction involving our Company. The agreements require the NEO to maintain the confidentiality of our information and not to induce our employees to terminate their employment with our Company, for a period of 24 months following termination of employment.

No CIC agreement or employment agreement entered into after 2009 includes a 280G Tax Gross-Up provision.

### **Payments Made Upon Voluntary Termination or Upon For Cause Termination**

If a NEO voluntarily terminates his employment with our Company or we terminate a NEO for cause, he will be entitled to receive base salary through the last day of employment and a lump-sum payment equal to unused, accrued vacation days. All of the NEO's outstanding SARs, RSUs and PSUs will terminate on the NEO's last day of employment.

### **Payments Made Upon Retirement**

If a NEO retires, he will be entitled to receive his base salary through the last day of employment, a payment under our short-term incentive program based on actual company performance (prorated through the NEO's last day of employment) and a lump-sum payment equal to unused, accrued vacation days. In addition, with respect to long-term incentive awards:

unvested SARs will terminate on the NEO's last day of employment and vested awards will remain exercisable for the remainder of the term of the award;

for RSUs, the NEO will receive a prorated portion of shares based on the date of retirement at the end of the applicable vesting period; and

for PSUs, the NEO will receive, to the extent earned based on achievement of specific performance measures, a prorated portion of shares based on the date of retirement at the end of the applicable performance period.

**Payments Made Upon Involuntary — Not for Cause Termination**

If we terminate a NEO prior to the expiration of his employment agreement (including non-renewal of the NEO's agreement) for any reason other than for cause, the NEO will generally be entitled to receive "normal severance compensation" or, in the NEO's sole discretion, "enhanced severance benefits." Under both severance packages:

all outstanding SARs that have vested as of the last day of employment will continue to be exercisable for 90 days following the NEO's last day of employment; and

unvested equity awards (SARs, RSUs and PSUs) will generally terminate on the NEO's last day of employment.

**Normal Severance Compensation.** If the NEO elects to receive "normal severance compensation," he will receive monthly payments equal to the greater of (1) his monthly base salary for the remainder of the employment agreement's term, or (2) three months of his monthly base salary in addition to any other compensation or benefits applicable to an employee at the NEO's level, including a lump-sum payment equal to unused, accrued vacation days.

**Enhanced Severance Benefits.** If the NEO agrees to execute a written general release of any and all possible claims against us existing at the time of termination, we will provide the employee with "enhanced severance benefits."

Payments provided under this severance arrangement, which are dependent on years of service with our Company, generally include the following:

<b>Component</b>	<b>Less than Three Years of Service</b>	<b>Three or More Years of Service</b>
Base Salary	One year of base salary	Two years of base salary
Short-Term Incentive	Lump-sum payment equal to all payments under our short-term incentive programs received by the NEO in the previous 12 months	Lump-sum payment equal to all payments under our short-term incentive programs received by the NEO in the previous 24 months
Payment in Lieu of Outplacement Services	Lump-sum payment equal to 10% of base salary	Same
Payment in Lieu of Perquisites	Lump-sum payment equal to 10% of base salary	Same
Post-Employment Health Care Coverage	Payment of COBRA premiums for up to 18 months while the NEO is unemployed and not eligible for other group health coverage and payment of the equivalent of such premium for up to an additional six months, should the NEO remain unemployed	Same
Death Benefit	If the NEO dies during the enhanced severance period, a lump-sum death benefit equal to six months of the NEO's base salary will be paid to the NEO's beneficiary	Same
Accrued Vacation	A lump-sum payment equal to unused, accrued vacation days	Same

### **Payments Made Upon Death or Disability**

Generally, if a NEO dies during the term of his employment agreement, the NEO's beneficiary will be entitled to receive "normal severance compensation," as described above. If a NEO becomes permanently disabled during the agreement term, he will generally be entitled to, at the NEO's option, either "normal severance compensation" or "enhanced severance benefits," as described above. In the case of either death or disability, with respect to long-term incentive awards:

all SARs will vest immediately and remain exercisable for the duration of the term; for RSUs, the NEO, or his beneficiary, will receive a prorated payment based upon the portion of the vesting period the NEO actually served as an employee of our Company payable at the time employment ceases; and for PSUs, the NEO, or his beneficiary, will receive, to the extent earned based on achievement of specific performance measures, a prorated portion of shares based upon the portion of the performance period the NEO actually served as our employee, payable at the time employment ceases.

### **Payments Made to Mr. Bluedorn if he Terminates his Employment for "Good Reason," Upon Involuntary — Not for Cause Termination, or Upon Death or Disability**

Except as described below, Mr. Bluedorn will receive similar severance benefits as the other NEOs. Mr. Bluedorn's employment agreement provides for certain severance benefits in the event he terminates his employment for "good reason." "Good reason" includes:

any change in Mr. Bluedorn's position, authority, duties, or responsibilities inconsistent with the position of CEO (excluding de minimus changes and an isolated, insubstantial and inadvertent action not taken in bad faith and promptly remedied by us after notice);

any failure by us to comply with any of the provisions of Mr. Bluedorn's employment agreement (excluding an isolated, insubstantial and inadvertent action not taken in bad faith and promptly remedied by us after notice);

any requirement for him to be based at any office or location other than our current headquarters in Richardson, Texas;

any purported termination by us of Mr. Bluedorn's employment otherwise than as expressly permitted by his employment agreement; or

any failure by our Board to nominate him for election by the stockholders as a director.

Pursuant to his employment agreement, in the event (1) Mr. Bluedorn terminates his employment for "good reason," (2) we terminate him prior to the expiration of his employment agreement (including non-renewal of his agreement) for any reason other than for cause, or (3) Mr. Bluedorn dies or becomes permanently disabled during the term of his employment agreement, he (or his beneficiary, as applicable) will be entitled to receive "enhanced severance benefits" as described above under "Payments Made Upon Involuntary — Not For Cause Termination," provided he (or his personal representative, as applicable) agrees to execute a written general release of any and all possible claims against us existing at the time of termination.

In the case of either death or permanent disability, Mr. Bluedorn's long-term incentive awards will vest, remain exercisable and be paid or distributed as described above under "Payments Made Upon Death or Disability."

## Payments Made Upon a Change in Control

### *Definition of Change in Control*

A CIC generally includes the occurrence of any of the following events:

- an acquisition by a third party of 35% or more of our voting stock;
- a change in a majority of Board members without majority Board approval;
- stockholder approval of a merger, consolidation or reorganization;
- stockholder approval of the liquidation or dissolution of our Company; or
- stockholder approval of the sale of substantially all corporate assets.

### *Definition of Good Reason*

“Good reason,” under each CIC agreement, includes:

- any change in the NEO’s position, authority, duties, or responsibilities (excluding de minimus changes);
- any failure by us to comply with the NEO’s CIC agreement, including without limitation the provision regarding compensation and benefits;
- a required relocation to any office or location not within 35 miles of the NEO’s current office or location;
- any failure by any successor to adopt and comply with the NEO’s CIC agreement; or
- any failure to reelect to the Board any NEO serving as a member of the Board.

### *CIC Benefits*

If a NEO’s employment is terminated by us without cause or by the NEO for “good reason” either (i) within two years following a CIC, or (ii) within six months prior to a CIC, we will provide the NEO with the following CIC benefits:

<b>Component</b>	<b>CIC Benefit</b>
Base Salary Severance	Lump-sum payment equal to three times the NEO’s annual base salary
Prorated Bonus	Lump-sum payment equal to the NEO’s target bonus, prorated based on the last day of employment
Bonus Severance	Lump-sum payment equal to three times the NEO’s target bonus
Payment in Lieu of Outplacement Services	Lump-sum payment equal to 15% of current base salary
Payment in Lieu of Perquisites	Lump-sum payment equal to 45% of current base salary
Post-Employment Health Care Coverage	Payment of COBRA premiums for up to 36 months while the NEO is unemployed and not eligible for other group health coverage
Supplemental Retirement Plan and Profit Sharing Restoration Plan	Three years added to each of the service and age criteria
280G Tax Gross-up(*)	If CIC payments are subject to the excise tax imposed by Section 4999 of the Code, an additional “gross-up payment”
Accrued Vacation	A lump-sum payment equal to unused, accrued vacation days

(\*) The CIC agreement with Mr. Reitmeier does not include a 280G Tax Gross Up provision. Upon a CIC, all outstanding SARs, RSUs and PSUs held by the NEO will immediately vest and become exercisable, with applicable performance measures for outstanding PSUs deemed to have been satisfied at the highest possible level (200% of target). Further, outstanding SARs may be exercised by the NEO up to 90 days after a NEO’s termination within one year following a CIC.





**Tables Illustrating Potential Payments Upon Termination or Change in Control**

The following tables provide information regarding the benefits to which each NEO would be entitled in the event of termination of such individual's employment with our Company under specified circumstances, including a CIC. Except as otherwise noted, the amounts shown (1) are estimates only and (2) assume that (A) termination was effective as of December 31, 2012, (B) in the case of disability, the NEO elects to receive "enhanced severance benefits," (C) in the case of retirement, the NEO is eligible for retirement and (D) in the case of change in control, the NEO terminates for "good reason" or is involuntarily terminated without cause.

**Todd M. Bluedorn**

Component	Voluntary		Involuntary-Not For		Death	Disability	For Cause Termination	Change in Control
	Termination	Retirement	Normal Severance	Enhanced Severance (1)				
Base Salary	\$0	\$0	\$245,000	\$1,960,000	\$1,960,000	\$1,960,000	\$0	\$2,940,000
Prorated Bonus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,225,000
Bonus Payment in Lieu of Outplacement Services	0	0	0	2,004,778	2,004,778	2,004,778	0	3,675,000
Payment in Lieu of Outplacement Services	0	0	0	98,000	98,000	98,000	0	147,000
Payment in Lieu of Perquisites	0	0	0	98,000	98,000	98,000	0	441,000
Post-Employment Health Care Coverage	0	0	0	32,220	18,810	32,220	0	63,261
Long-Term Equity Accelerated Vesting(2)	0	5,133,361	0	0	6,323,360	6,323,360	0	20,070,196
Incremental Payment Under Supplemental Retirement Plan & Frozen Profit Sharing Restoration Plan	0	0	0	0	0	0	0	1,588,720

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280G								
Tax	0	0	0	0	0	0	0	12,055,303
Gross-up Unused, Accrued	94,231	94,231	94,231	94,231	94,231	94,231	94,231	94,231
Vacation(3)								
TOTAL	\$94,231	\$5,227,592	\$339,231	\$4,287,229	\$10,597,179	\$10,610,589	\$94,231	\$42,299,711

- (1) The amounts shown reflect the same severance benefits that would be provided to Mr. Bluedorn if he terminated employment with our Company for “good reason” under his employment agreement as discussed above.
- (2) The amounts shown reflect unvested long-term incentive awards. Such amounts are based on the NYSE closing price of our common stock on December 31, 2012, which was \$52.52.
- (3) The amounts shown represent a lump-sum payment for five weeks of vacation in 2012 (assuming the NEO did not take any vacation days in 2012). Actual payouts may vary depending on the specific circumstances.

**Joseph W. Reitmeier**

Component	Voluntary		Involuntary-Not For Cause Termination		Death	Disability	For Cause Termination	Change in Control
	Termination	Retirement	Normal Severance	Enhanced Severance				
Base Salary	\$0	\$0	\$92,500	\$740,000	\$92,500	\$740,000	\$0	\$1,110,000
Prorated Bonus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	259,000
Bonus	0	0	0	237,444	0	237,444	0	777,000
Payment in Lieu of Outplacement Services	0	0	0	37,000	0	37,000	0	55,500
Payment in Lieu of Perquisites	0	0	0	37,000	0	37,000	0	166,500
Post-Employment Health Care Coverage	0	0	0	32,889	0	0	0	56,115
Long-Term Equity Accelerated Vesting(1)	0	213,812	0	0	272,887	272,887	0	1,530,830
Incremental Payment Under Supplemental Retirement Plan and Frozen Profit Sharing Restoration Plan	0	0	0	0	0	0	0	0
280G Tax Gross-up Unused, Accrued Vacation(2)	0	0	0	0	0	0	0	n/a
	35,577	35,577	35,577	35,577	35,577	35,577	35,577	35,577
<b>TOTAL</b>	<b>\$35,577</b>	<b>\$249,389</b>	<b>\$128,077</b>	<b>\$1,119,910</b>	<b>\$400,964</b>	<b>\$1,359,908</b>	<b>\$35,577</b>	<b>\$3,990,522</b>

(1) The amounts shown reflect unvested long-term incentive awards. Such amounts are based on the NYSE closing price of our common stock on December 31, 2012, which was \$52.52.

(2) The amounts shown represent a lump-sum payment for five weeks of vacation in 2012 (assuming the NEO did not take any vacation days in 2012). Actual payouts may vary depending on the specific circumstances.

**Douglas L. Young**

Component	Voluntary		Involuntary-Not For Cause Termination		Death	Disability	For Cause Termination	Change in Control
	Termination	Retirement	Normal Severance	Enhanced Severance				
Base Salary	\$0	\$0	\$107,500	\$860,000	\$107,500	\$860,000	\$0	\$1,290,000
Prorated Bonus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	301,000
Bonus	0	0	0	490,312	0	490,312	0	903,000
Payment in Lieu of Outplacement	0	0	0	43,000	0	43,000	0	64,500

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Services								
Payment in Lieu of Perquisites	0	0	0	43,000	0	43,000	0	193,500
Post-Employment Health Care Coverage	0	0	0	32,889	0	0	0	56,115
Long-Term Equity Accelerated Vesting(1)	0	1,174,445	0	0	1,454,276	1,454,276	0	4,816,351
Incremental Payment Under Supplemental Retirement Plan and Frozen Profit Sharing Restoration Plan	0	0	0	0	0	0	0	341,753
280G Tax Gross-up Unused, Accrued Vacation(2)	0	0	0	0	0	0	0	2,576,407
	41,346	41,346	41,346	41,346	41,346	41,346	41,346	41,346
TOTAL	\$41,346	\$1,215,791	\$148,846	\$1,510,547	\$1,603,122	\$2,931,934	\$41,346	\$10,583,972

(1) The amounts shown reflect unvested long-term incentive awards. Such amounts are based on the NYSE closing price of our common stock on December 31, 2012, which was \$52.52.

(2) The amounts shown represent a lump-sum payment for five weeks of vacation in 2012 (assuming the NEO did not take any vacation days in 2012). Actual payouts may vary depending on the specific circumstances.

**David W. Moon**

Component	Voluntary Termination	Retirement	Involuntary-Not For Cause Termination		Death	Disability	For Cause Termination	Change in Control
			Normal Severance	Enhanced Severance				
Base Salary	\$0	\$0	\$98,750	\$790,001	\$98,750	\$790,001	\$0	\$1,185,001
Prorated Bonus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	276,500
Bonus	0	0	0	604,711	0	604,711	0	829,501
Payment in Lieu of Outplacement Services	0	0	0	39,500	0	39,500	0	59,250
Payment in Lieu of Perquisites	0	0	0	39,500	0	39,500	0	177,750
Post-Employment Health Care Coverage	0	0	0	35,550	0	0	0	89,463
Long-Term Equity Accelerated Vesting(1)	0	1,174,445	0	0	1,454,276	1,454,276	0	4,816,351
Incremental Payment Under Supplemental Retirement Plan and Frozen Profit Sharing Restoration Plan	0	0	0	0	0	0	0	632,000
280G Tax Gross-up	0	0	0	0	0	0	0	2,937,002
Unused, Accrued Vacation(2)	37,981	37,981	37,981	37,981	37,981	37,981	37,981	37,981
<b>TOTAL</b>	<b>\$37,981</b>	<b>\$1,212,426</b>	<b>\$136,731</b>	<b>\$1,547,243</b>	<b>\$1,591,007</b>	<b>\$2,965,969</b>	<b>\$37,981</b>	<b>\$11,040,799</b>

(1) The amounts shown reflect unvested long-term incentive awards. Such amounts are based on the NYSE closing price of our common stock on December 31, 2012, which was \$52.52.

(2) The amounts shown represent a lump-sum payment for five weeks of vacation in 2012 (assuming the NEO did not take any vacation days in 2012). Actual payouts may vary depending on the specific circumstances.

**Daniel M. Sessa**

Component	Voluntary Termination	Retirement	Involuntary-Not For Cause Termination		Death	Disability	For Cause Termination	Change in Control
			Normal Severance	Enhanced Severance				
Base Salary	\$0	\$0	\$105,000	\$840,000	\$105,000	\$840,000	\$0	\$1,260,000
Prorated Bonus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	294,000

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Bonus	0	0	0	549,779	0	549,779	0	882,000
Payment in Lieu of Outplacement Services	0	0	0	42,000	0	42,000	0	63,000
Payment in Lieu of Perquisites	0	0	0	42,000	0	42,000	0	189,000
Post-Employment Health Care Coverage	0	0	0	32,889	0	0	0	56,115
Long-Term Equity Accelerated Vesting(1)	0	1,172,611	0	0	1,450,504	1,450,504	0	4,680,329
Incremental Payment Under Supplemental Retirement Plan and Frozen Profit Sharing Restoration Plan	0	0	0	0	0	0	0	545,817
280G Tax Gross-up Unused, Accrued Vacation(2)	0	0	0	0	0	0	0	3,193,844
	40,385	40,385	40,385	40,385	40,385	40,385	40,385	40,385
TOTAL	\$40,385	\$1,212,996	\$145,385	\$1,547,053	\$1,595,889	\$2,964,668	\$40,385	\$11,204,490

(1) The amounts shown reflect unvested long-term incentive awards. Such amounts are based on the NYSE closing price of our common stock on December 31, 2012, which was \$52.52.

(2) The amounts shown represent a lump-sum payment for five weeks of vacation in 2012 (assuming the NEO did not take any vacation days in 2012). Actual payouts may vary depending on the specific circumstances.

**DIRECTOR COMPENSATION**

We use a combination of cash, stock and long-term equity awards to compensate members of our Board. Directors who are also employees of our Company do not receive any additional compensation for serving on our Board.

**2012 Annual Retainer**

In 2012, we provided the following retainers to our Board:

	<b>Board Retainer</b>	<b>Lead Director / Committee Chair Retainer</b>
<b>Non-Employee Directors, Other than the Chairman of the Board:</b>	\$90,000, with up to \$70,000 payable in cash and the remainder payable in Company common stock	Lead Director: \$20,000 Audit: \$15,000 Compensation and Human Resources: \$10,000 Board Governance: \$10,000 Public Policy Committee: \$6,000
<b>Chairman of the Board (through May, 2012):</b>	\$180,000, with up to \$140,000 payable in cash and the remainder payable in Company common stock	\$25,000 flat fee

In March 2012, the Board elected Mr. Bluedorn, our CEO, to the role of Chairman of the Board, effective as of the conclusion of our 2012 Annual Meeting in May 2012. The past Chairman of the Board, Richard L. Thompson, then assumed the role of Lead Director. See “Corporate Governance — Board Meetings and Leadership Structure” for further discussion of this topic. In connection with this change, the Board eliminated separate fees for the Chairman of the Board going forward.

We also reimbursed all non-employee directors for their reasonable expenses incurred in connection with attendance at Board or Board committee meetings. We pay directors’ fees on a quarterly basis.

**Non-Employee Directors’ Compensation and Deferral Plan**

Under the Non-Employee Directors’ Compensation and Deferral Plan, non-employee directors may receive all or a portion of their annual retainer for service on the Board in the form of Company common stock. The cash deferral component of the plan is frozen.

**Long-Term Incentive Compensation**

Non-employee directors receive 100% of their long-term incentive in the form of RSUs under the LII Incentive Plan. In 2012, we awarded each non-employee director 2,061 RSUs. Generally, the RSUs vest three years following the date of grant provided that the director remains on our Board throughout the vesting period. In December 2012, the Board of Directors approved a \$10,000 increase in the targeted value of the RSUs received by non-employee directors under the LII Incentive Plan to better align with Market practices – the first increase since 2006 – which was reflected in their 2012 awards.

### **Retirement and Health and Welfare Plans**

We provide a frozen Directors' Retirement Plan for non-employee directors who were active Board members prior to 1998 and allow such directors to participate in our health care programs under the same terms and provisions that we provide to our employees. The frozen Directors' Retirement Plan provides for partial continuation of the cash component of the director's annual retainer at the time of retirement for life. During 2012, Mr. Major and Mr. Thompson were the only active Board members eligible for this plan. Mr. Major is the only active Board member who participates in our health care program.



### **Perquisites and Other Compensation**

We allow our non-employee directors to participate in our employee rebate program, which provides rebates on eligible residential heating and air conditioning equipment, accessories, and supplies.

### **Stock Ownership Guidelines**

Pursuant to our Corporate Governance Guidelines, all directors are required to own shares of our common stock having a value of at least:

three times their annual retainer by the later of January 1, 2013 or three years after their election; and  
four times their annual retainer by the later of January 1, 2015 or five years after their election.

As of December 31, 2012, all non-employee directors currently meet our stock ownership guidelines, except Mr. Teske who joined the Board in July 2011.

**Fiscal 2012 Director Compensation Table**

The following table provides information regarding compensation earned in 2012 by each non-employee member of our Board in 2012.

<b>Name</b>	<b>Fees Earned (\$)(1)</b>	<b>Stock Awards (\$)(2)</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(3)</b>	<b>All Other Compensation (\$)(4)</b>	<b>Total (\$)</b>
Richard L. Thompson	144,190	100,691	33,705	0	278,586
Janet K. Cooper	90,000	100,691	0	0	190,691
C.L. (Jerry) Henry	100,000	100,691	0	0	200,691
John E. Major	100,000	100,691	36,990	0	237,681
John W. Norris, III	96,000	100,691	0	0	196,691
Paul W. Schmidt	105,000	100,691	0	0	205,691
Terry D. Stinson	90,000	100,691	0	0	190,691
Gregory T. Swienton	89,929	100,691	0	0	190,620
Todd J. Teske	90,000	100,691	0	0	190,691

(1) The table below identifies the allocation between cash and stock of the fees earned in 2012 by each non-employee director:

<b>Name</b>	<b>Paid in Stock</b>	<b>Paid in Cash</b>
Richard L. Thompson	\$57,155	\$87,035
Janet K. Cooper	19,957	70,043
C.L. (Jerry) Henry	19,957	80,043
John E. Major	19,957	80,043
John W. Norris, III	19,957	76,043
Paul W. Schmidt	19,957	85,043
Terry D. Stinson	89,929	71
Gregory T. Swienton	89,929	0
Todd J. Teske	19,957	70,043

(2) For the non-employee directors, the amounts shown represent the grant date fair value (prior to any assumed forfeitures related to service-based vesting conditions, where applicable) in accordance with FASB ASC Topic 718, in connection with RSUs granted under the LII Incentive Plan. The grant date fair value of RSUs granted to non-employee directors in 2012, calculated in accordance with FASB ASC Topic 718, is as follows:

<b>Grant Date</b>	<b>RSUs Granted in 2012 (#)</b>	<b>Grant Date Fair Value Per Share \$(a)</b>	<b>Grant Date Fair Value (\$)</b>
All Non-Employee Directors December 7, 2012	2,061	48.8554	100,691

(a) \$48.8554 is the dividend discounted value, based on a dividend rate of 1.69%, of the average of the high and low NYSE trading prices of our common stock on the date of the grant, which was \$51.395.

(3) The amounts shown represent the change in the present value of accumulated pension benefits that accrued during 2012 under our Directors' Retirement Plan, based on a 4.46% discount rate.

(4) The aggregate value of all perquisites provided for each non-employee director was less than \$10,000 for 2012.

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The following table provides information regarding the aggregate number of outstanding RSUs and SARs held by each non-employee director as of December 31, 2012. RSUs generally vest on the third anniversary of the date of grant and all SARs are now fully vested. SARs expire seven years from the date of grant.

Name	Aggregate RSUs Outstanding as of December 31, 2012 (# of shares)	Aggregate Options/SARs Outstanding as of December 31, 2012 (# of shares)
Richard L. Thompson	12,154	0
Janet K. Cooper	7,107	0
C.L. (Jerry) Henry	7,107	0
John E. Major	7,107	0
John W. Norris, III	7,107	4,706
Paul W. Schmidt	7,107	0
Terry D. Stinson	7,107	0
Gregory T. Swienton	7,107	0
Todd J. Teske	5,051	0

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**EQUITY COMPENSATION PLAN INFORMATION**

We currently administer three equity compensation plans: the LII Incentive Plan, the 2012 Employee Stock Purchase Plan, and the Non-Employee Directors' Compensation and Deferral Plan. The following table provides information as of December 31, 2012 regarding shares of our common stock that may be issued under these equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights(2)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(3)
Equity compensation plans approved by security holders			
LII Incentive Plan	3,291,506	\$38.93	3,744,735
2012 Employee Stock Purchase Plan	—	—	2,482,652
Non-Employee Directors' Compensation and Deferral Plan	—	—	257,209
Equity compensation plans not approved by security holders	—	—	—
Total	3,291,506	\$38.93	6,484,596

(1)

Includes the following:

2,209,413 stock appreciation rights granted under the LII Incentive Plan, which, upon exercise, will be net-settled in shares of our common stock;

537,489 shares of our common stock to be issued upon the vesting of restricted stock units outstanding under the LII Incentive Plan; and

544,604 shares of our common stock to be issued, assuming we meet the target performance goals for the applicable three-year performance period, of performance share units granted under the LII Incentive Plan.

The following table illustrates the number of shares of our common stock that may be issued pursuant to outstanding performance share units and the number of shares that may be available for future issuance under our equity compensation plans if our performance falls below or exceeds our target performance goals:

**Performance Level**

	<b>Below Threshold</b>	<b>Threshold</b>	<b>Target</b>	<b>Maximum</b>
Shares to be Issued Pursuant to Outstanding Performance Share Units	0	272,302	544,604	1,089,208
Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans	7,029,200	6,756,898	6,484,596	5,939,992

- (2) Excludes performance share unit and restricted stock unit awards because such awards have no exercise price. Assuming, with respect to outstanding performance share units, we meet target performance goals for the applicable three-year performance period, includes 3,744,735 shares of common stock available for issuance under the LII Incentive Plan, of which 2,900,932 shares are available for awards to employees and independent contractors and 843,803 shares are available for awards to non-employee directors; 2,482,652 shares of common stock available for issuance under the 2012 Employee Stock Purchase Plan, and 257,209 shares of common stock available for issuance under the Non-Employee Directors' Compensation and Deferral Plan.

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## **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

All related party transactions must be approved in accordance with the written Related Party Transactions Policy adopted by our Board. A related party transaction is a transaction or relationship since the beginning of the Company's last fiscal year in which (i) the total amount involved will or may be expected to exceed \$120,000, (ii) the Company or any of its subsidiaries is a participant, and (iii) any related party has or will have a direct or indirect interest (other than solely as a result of being a director or a less than 10 percent beneficial owner of an equity interest in another entity). A related party is any person who is or was since the beginning of the previous fiscal year an executive officer, director or nominee for election as a director; a stockholder owning more than 5% of the Company's voting securities; or an immediate family member of any of these persons.

Our Board has considered certain limited types of transactions with related persons that meet specified criteria and determined that each of them is deemed to be pre-approved under the terms of the Related Party Transaction Policy. These include (i) transactions with companies and charitable contributions to organizations at which a related party's only relationship is as an employee (other than an executive officer), if the amount of the transaction or contribution does not exceed the greater of \$1,000,000 or 1% of that company's total annual revenue; (ii) transactions involving competitive bids, (iii) regulated transactions; and (iv) certain routine banking services.

Our Audit Committee is generally responsible for approving all related party transactions, which must be on terms that are fair to our Company and comparable to those that could be obtained in arm's length dealings with an unrelated third party. In the event a related party transaction involves one or more members of the Audit Committee, the transaction must be approved by an ad hoc committee appointed by the Board and composed entirely of independent and disinterested directors. There were no transactions with related persons in 2012 that require disclosure pursuant to Item 404(a) of Regulation S-K.

### **Compensation Committee Interlocks and Insider Participation**

During 2012, no member of the Compensation and Human Resources Committee was an officer or employee of our Company or any of our subsidiaries. In addition, none of our executive officers served on the board of directors or on the compensation committee of any other entity, for which any executive officers of such other entity served either on our Board or on our Compensation and Human Resources Committee.

**OWNERSHIP OF COMMON STOCK**

The following table provides information regarding the beneficial ownership of our common stock as of February 15, 2013 (unless otherwise noted) by (i) each person known to own beneficially more than 5% of our common stock, (ii) each of our directors, (iii) each of our NEOs, and (iv) all current directors and executive officers as a group.

For purposes of this table, “beneficial ownership” (as defined in Rule 13d-3 of the Securities Exchange Act of 1934)(the “Exchange Act”) takes into account shares as to which the individual has or shares voting or investment power as well as shares that may be acquired within 60 days (such as by exercising vested stock options or SARs, or the vesting of RSUs) and is different from beneficial ownership for purposes of Section 16 of the Exchange Act. As a result, the numbers below may differ from the numbers reported in forms filed pursuant to Section 16 (e.g., Forms 4).

To our knowledge and unless otherwise indicated, each stockholder listed below has sole voting and investment power over the shares listed as beneficially owned by such stockholder. Percentage of ownership is based on 50,258,148 shares of common stock outstanding as of February 8, 2013. Number of shares held by beneficial owners of more than 5% of our common stock are as of the date of the applicable SEC filing made by those owners (unless otherwise noted), however, percentages have been recalculated based on shares outstanding as of February 8, 2013.

Name of Beneficial Owner	Common Stock Held (#)	Common Stock that may be Acquired Within 60 Days(#)	Total Shares Beneficially Held(#)	Percent of Class(%)
<i>5% Stockholders</i>				
Wellington Management Company, LLP (1)	3,859,840		3,859,840	7.7 %
John W. Norris, Jr. (2)	3,181,613		3,181,613	6.3 %
BlackRock, Inc. (3)	3,159,011		3,159,011	6.3 %
T. Rowe Price Associates, Inc. (4)	2,814,290		2,814,290	5.6 %
State Street Corporation (5)	2,700,786		2,700,786	5.4 %
<i>Directors and Executive Officers</i>				
Todd M. Bluedorn	131,336	334,378	465,714	*
Janet Cooper (6)	13,640	0	13,640	*
C. L. (Jerry) Henry	34,559	0	34,559	*
John E. Major (7)	37,710	0	37,710	*
David W. Moon	54,037	92,977	147,014	*
John W. Norris, III (8)	346,410	4,706	351,116	*
Joseph Reitmeier	855	6,040	6,895	*
Paul W. Schmidt (9)	20,749	0	20,749	*
Daniel M. Sessa	35,605	29,562	65,167	*
Terry D. Stinson	29,005	0	29,005	*
Gregory T. Swienton	4,173	0	4,173	*
Todd J. Teske	770	0	770	*
Richard L. Thompson (10)	220,068	0	220,068	*
Douglas L. Young	61,856	19,544	81,400	*
All current executive officers and directors as a group (19 persons)	1,033,967	603,249	1,637,216	3.3 %

\*

Less than 1% of outstanding common stock



As reported by Wellington Management Company, LLP, on Amendment No. 5 to Schedule 13G filed with the Securities and Exchange Commission on February 14, 2013. Wellington Management Company, LLP, 280  
(1) Congress Street, Boston, MA 02210, reported shared dispositive power with respect to 3,859,840 shares and shared voting power with respect to 2,927,018 shares.

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As reported by Mr. Norris, Jr. on Schedule 13D filed with the Securities and Exchange Commission on August 12, 1999, and as updated with information provided by Mr. Norris, Jr. to the Company on March 1, 2013, includes (a) 321,750 shares held by the John W. Norris, Jr. Trust A, for which Mr. Norris, Jr. is a co-trustee (Mr. Norris, Jr. (2) disclaims beneficial ownership of such shares); (b) 2,545,105 shares held by the Norris Family Limited Partnership, of which Mr. Norris, Jr. is General Partner; (c) 214,758 shares held by the Norris Living Trust; and (d) 100,000 shares held by The Cabin Foundation, of which Mr. Norris, Jr. serves as President. Mr. Norris, Jr.'s address is 3831 Turtle Creek Blvd., Dallas, Texas 75219.

As reported by BlackRock, Inc., 40 East 52<sup>nd</sup> Street, New York, NY 10022, on a Schedule 13G filed with the (3) Securities and Exchange Commission on February 4, 2013. BlackRock, Inc. reported sole dispositive and sole voting power with respect to all of these shares.

As reported by T. Rowe Price Associates, Inc. ("Price Associates"), 100 E. Pratt Street, Baltimore, MD 21202, on a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2013. Price Associates reported sole dispositive power with respect to 2,814,290 shares and sole voting power with respect to 290,300 shares. The (4) shares are owned by various individual and institutional investors, including funds, for which Price Associates serves as an investment advisor with power to direct investments and/or sole power to vote the shares. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be the beneficial owner of such shares; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such shares.

As reported by State Street Corporation on a Schedule 13G filed with the Securities and Exchange Commission on (5) February 8, 2013. State Street Corporation, One Lincoln Street, Boston, MA 02111 reported shared dispositive and shared voting power with respect to all of these shares.

Includes (a) 4,237 shares held by a minor son and (b) 815 shares held by another son for whom Ms. Cooper has a (6) power of attorney. Excludes 6,000 shares held by the Janet K. Cooper 2012 Trust (Ms. Cooper disclaims beneficial ownership of such shares).

Includes (a) 11,069 shares held by the John Major Children's Trust dated 12/15/96 FBO John Blackston Major and (7) (b) 12,068 shares held by the John Major Children's Trust dated 12/15/96 FBO Barbara Marie Major. Mr. Major disclaims beneficial ownership of these shares.

Includes (a) 12,225 shares held by the W.H. Norris Trust, 12,225 shares held by the B.W. Norris Trust and 11,301 (8) shares held by the L.C. Norris Trust, for each of which Mr. Norris is a trustee; (b) 15,823 shares held by spouse, Catherine Norris, of which Mr. Norris disclaims beneficial ownership; and (c) 26,694 shares held by Mr. Norris's minor children, including 16,147 in the B.W. Norris Revocable Trust for the benefit of one minor child.

(9) Includes 18,113 shares held by the Mary T. Schmidt Irrevocable Trust U/A/D 10-16-12 of which Mr. Schmidt is a co-trustee and a beneficiary and 2,636 shares held by the Paul W. Schmidt Living Trust.

(10) Includes 220,068 shares held by the R&B Thompson 2005 Family Trust, of which Mr. Thompson is a co-trustee.

#### **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers and persons who beneficially own more than 10% of our common stock to timely file with the SEC and the NYSE initial reports of ownership and reports of changes in their ownership of our common stock. SEC regulations require our directors, executive officers and greater than 10% stockholders to furnish us with copies of these reports. Based solely upon a review of such reports and related information furnished to us, we believe that, during the 2012 fiscal year, all reportable transactions were timely made in accordance with the Section 16(a) filing requirements.

To our knowledge, based solely on a review of the reports we filed on behalf of our directors and executive officers, written representations from these persons that no other reports were required and all Section 16(a) reports provided to us, we believe that during fiscal 2012 our directors, executive officers and holders of more than 10% of our common stock filed the required reports on a timely basis under Section 16(a), except for a late Form 5 filing by Mr. Swinton with respect to 9 shares purchased with dividends paid by the Company in July and October 2011.

## **OTHER INFORMATION**

### **Proxy Solicitation**

We will pay for the cost of this proxy solicitation. In addition to solicitation by mail, our directors, officers and employees may solicit proxies from stockholders by telephone, facsimile, email or in person. They will not be paid for soliciting proxies but may be reimbursed for out-of-pocket expenses related to the proxy solicitation. We have retained Georgeson Inc. to assist in the solicitation of proxies for a fee of \$12,000 plus reimbursement of expenses. We will also make arrangements with brokerage houses and other custodians, nominees and fiduciaries to send the proxy materials to beneficial owners of our common stock. Upon request, we will reimburse the brokerage houses and custodians for their reasonable expenses in so doing.

### **Multiple Stockholders Sharing the Same Address**

We have adopted a procedure approved by the SEC called “householding.” Under this procedure, stockholders who have the same address and last name will receive only one copy of our Notice of Annual Meeting of Stockholders, Proxy Statement, Annual Report to Stockholders and Annual Report on Form 10-K, unless one or more of these stockholders notifies us that they wish to continue receiving individual copies. This procedure helps reduce our printing costs and postage fees.

Stockholders who participate in householding will continue to receive separate Proxy Cards. Also, householding will not in any way affect dividend check mailings.

If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of the Notice of Annual Meeting of Stockholders, Proxy Statement, Annual Report to Stockholders and Annual Report on Form 10-K, or if you hold stock in more than one account, and, in either case, you wish to receive only a single copy of each of these documents for your household, please contact our Investor Relations department by telephone at (972) 497-5000 or in writing at 2140 Lake Park Blvd., Richardson, Texas 75080, Attention: Investor Relations.

If you participate in householding and wish to receive a separate copy of these documents, please contact our Investor Relations department as indicated above.

### ***Form 10-K***

Our Annual Report on Form 10-K (excluding exhibits) is a part of our 2012 Annual Report to Stockholders, which is being sent with this Proxy Statement. If you are entitled to vote at the Annual Meeting of Stockholders, you may obtain a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, including the financial statements required to be filed with the SEC, without charge, by contacting our Investor Relations department by telephone at (972) 497-5000 or in writing at 2140 Lake Park Blvd., Richardson, Texas 75080, Attention: Investor Relations.

### **Stockholder Proposals for the 2014 Annual Meeting of Stockholders**

#### ***Proposals for Inclusion in the Proxy Statement***

If you wish to submit a proposal for possible inclusion in our 2014 Proxy Statement, we must receive your notice, in accordance with the rules of the SEC, on or before December 4, 2013. The proposal should be sent in writing to 2140 Lake Park Blvd., Richardson, Texas 75080, Attention: Corporate Secretary.



***Proposals to be Offered at the 2014 Annual Meeting***

If you wish to introduce a proposal at the 2014 Annual Meeting of Stockholders but do not intend for your proposal to be considered for inclusion in our 2014 proxy materials, our Bylaws, as permitted by the rules of the SEC, require that you follow certain procedures. Specifically, you must give written notice to our Corporate Secretary of your intention to introduce a proposal. We must receive such notice at least 60 days but no more than 90 days prior to the 2014 Annual Meeting of Stockholders, or if we give less than 70 days' notice of the 2014 Annual Meeting of Stockholders date, the notice must be received within 10 days following the date on which notice of the date of the 2014 Annual Meeting of Stockholders was mailed or such public disclosure was made to our stockholders. In the case of a special meeting of stockholders, we must receive notice of your intention to introduce a proposal within 10 days following the date on which notice of such meeting is first given to stockholders. Pursuant to our Bylaws, a stockholder's notice must include certain information regarding the proposal and the stockholder making the proposal. Depending on the nature of the proposal, additional information may be required (see "About Us — Corporate Governance — Stockholder Nominations for Director" at our website at <http://www.lennoxinternational.com>).

By Order of the Board of Directors,

John D. Torres  
Corporate Secretary  
Richardson, Texas  
April 3, 2013