

LENNOX INTERNATIONAL INC
Form DEF 14A
April 07, 2017
Table of Contents

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

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

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)

(3) Filing Party:

(4) Date Filed:

Table of Contents

2140 Lake Park Blvd.

Richardson, Texas 75080

April 7, 2017

Dear Stockholders:

It is my pleasure to invite you to the 2017 Annual Meeting of Stockholders of Lennox International Inc. The meeting will be held at 10:30 a.m., local time, on Thursday, May 18, 2017, at the Lennox International Inc. Corporate Headquarters, 2140 Lake Park Blvd., Richardson, Texas 75080.

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 conserving natural resources and lowering the cost of delivery. On or about April 7, 2017, 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 2017 Annual Meeting of Stockholders and fiscal 2016 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 2017 Annual Meeting of Stockholders, we urge you to vote and submit your proxy by Internet, telephone or mail, pursuant to the instructions on your Notice or your proxy card. We encourage you to vote by Internet or telephone. It is convenient and saves the Company postage and other costs. Please use the website or telephone number shown on your Notice or your proxy card to vote by Internet or telephone. If you attend the meeting you will have the right to revoke the proxy and vote your shares in person.

On behalf of management and our Board of Directors, I want to thank you for your continued support and confidence in 2017.

Sincerely,

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

Table of Contents

2140 Lake Park Blvd.

Richardson, Texas 75080

April 7, 2017

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 18, 2017

The 2017 Annual Meeting of Stockholders of Lennox International Inc. will be held on Thursday, May 18, 2017 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 I directors to hold office for a three-year term expiring at the 2020 Annual Meeting of Stockholders;

ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2017 fiscal year;

conduct an advisory vote to approve the compensation of our named executive officers (NEOs) as disclosed in this Proxy Statement;

conduct an advisory vote on the frequency of future advisory votes on the compensation of our NEOs; 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, 2017 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 18, 2017. This Proxy Statement and the Annual Report to Stockholders are available on our website at <http://www.lennoxinternational.com/financialrep.html>

and also at the website appearing on your Notice or 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, 2016, accompany this Notice.

Most stockholders have a choice of voting on the Internet, by telephone or by mail. Please refer to your Notice, 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 Internet or telephone, 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

Table of Contents

TABLE OF CONTENTS

	Page
<u>GENERAL INFORMATION REGARDING THE 2017 ANNUAL MEETING OF STOCKHOLDERS</u>	1
<u>PROPOSAL 1: ELECTION OF DIRECTORS</u>	4
<u>PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE 2017 FISCAL YEAR</u>	10
<u>AUDIT COMMITTEE REPORT</u>	12
<u>CORPORATE GOVERNANCE</u>	13
<u>PROPOSAL 3: ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS</u>	19
<u>PROPOSAL 4: ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS</u>	20
<u>EXECUTIVE COMPENSATION</u>	21
<u>DIRECTOR COMPENSATION</u>	52
<u>EQUITY COMPENSATION PLAN INFORMATION</u>	55
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	56
<u>OWNERSHIP OF COMMON STOCK</u>	57
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	59
<u>OTHER INFORMATION</u>	59

Table of Contents

GENERAL INFORMATION REGARDING THE 2017

ANNUAL MEETING OF STOCKHOLDERS

Meeting Date and Location

The 2017 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 18, 2017 at 10:30 a.m., local time, at the Company's Corporate Headquarters, 2140 Lake Park Blvd., Richardson, Texas 75080. We began mailing or making available 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 7, 2017 for the purpose of soliciting proxies on behalf of our Board of Directors (Board).

Matters to be Voted On

At the meeting, you will be asked to vote on four proposals. Our Board recommends you vote for each of the director nominees (Proposal 1), for Proposals 2 and 3 and for one year on Proposal 4. The proposals to be voted on at the Annual Meeting are:

Proposal 1: To elect four Class I directors to hold office for a three-year term expiring at the 2020 Annual Meeting of Stockholders;

Proposal 2: To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2017 fiscal year;

Proposal 3: To conduct an advisory vote to approve the compensation of our named executive officers (NEOs) as disclosed in this Proxy Statement; and

Proposal 4: To conduct an advisory vote on the frequency of future advisory votes on the compensation of our NEOs.

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

You are entitled to vote at the Annual Meeting if you were a stockholder of record at the close of business on March 22, 2017, our Annual Meeting record date. At the close of business on the record date, there were 42,430,906 shares of our common stock outstanding and entitled to vote. Each share of common stock is entitled to one vote.

Quorum Requirement

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 of common stock 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.

Table of Contents

If a quorum is not present at the Annual Meeting, we expect the Annual Meeting will be adjourned or postponed to solicit additional proxies. In such event, the Chairman or stockholders representing a majority of the outstanding shares entitled to vote at the Annual Meeting and present in person or by proxy at the meeting may adjourn the Annual Meeting.

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, the broker or bank only has discretion to vote on routine matters (referred to as broker non-votes) but does not have discretion to vote on non-routine matters.

Pursuant to New York Stock Exchange (NYSE) rules, Proposal 1 (election of directors), Proposal 3 (advisory vote on the compensation of our NEOs) and Proposal 4 (advisory vote on the frequency of future advisory votes on the compensation of our NEOs) 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. Proposal 2 (ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the 2017 fiscal year) 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 are a beneficial owner of shares held in street name, it is critical that you cast your vote in order for it to be counted on Proposals 1, 3 and 4.

Broker non-votes will not be counted as votes for or withheld for Proposal 1 or for or against Proposal 3 and will not be counted as votes for one year, two years or three years for Proposal 4. Abstentions will be counted as votes against Proposals 2 and 3 but will not be counted as votes for or withheld for Proposal 1 or for one year, two years or three years for Proposal 4.

Vote Requirement for each Proposal

If a quorum is present, our Amended and Restated Bylaws (Bylaws) require, for purposes of Proposal 1, that a director nominee receive 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 withheld votes cast for that nominee) to be elected. 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 Board Governance 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 Board Governance 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, Proposal 2 (ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the 2017 fiscal year), and Proposal 3 (advisory vote on the compensation of our NEOs) will require the affirmative vote of a majority of the shares of common stock present in person or represented by proxy at the meeting and entitled to vote thereon.

If a quorum is present, the alternative receiving the greatest number of votes on Proposal 4 (advisory vote on the frequency of future advisory votes on the compensation of our NEOs) will be deemed the frequency selected by our stockholders.

Voting Procedures

Registered holders may vote in person at the Annual Meeting, by 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

Table of Contents

instructions from a bank, broker, nominee or other holder of record that you must follow in order for your shares to be voted. If you have not received voting instructions from your bank, broker, or other holder of record, please contact them as soon as possible.

A representative of IVS Associates, Inc. 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, to 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 Internet or telephone before 11:59 p.m., Eastern Time, on May 17, 2017; or

attending the Annual Meeting and voting in person.

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, you may 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, the Chairman or stockholders representing a majority of the votes present in person or by proxy at the meeting may adjourn the meeting.

Table of Contents

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 at 10 members, divided into three classes, with each class currently serving a three-year term.

Upon the recommendation of the Board Governance Committee, the Board has nominated four Class I directors for re-election to our Board to hold office for a three-year term expiring at the 2020 Annual Meeting of Stockholders. All Class II and III directors will continue in office until the expiration of their terms at the 2018 and 2019 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* section of this Proxy Statement.

We provide biographical information for each Class I director nominee and for each other director below. For each director and director nominee, the information presented includes the positions held, principal occupation, and business experience as of March 20, 2017. 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 to vote your shares for any particular nominee, you may withhold your vote for that particular nominee. If any Class I director nominee becomes unavailable to serve, the persons named in the accompanying Proxy Card may vote for any alternate designated by the incumbent Board, or the number of directors constituting the Board may be reduced.

Table of Contents

The Board has nominated the following directors for re-election as Class I directors for three-year terms expiring at the 2020 Annual Meeting of Stockholders:

Janet K. Cooper, 63, 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 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 Resonant Inc., a technology company creating RF filters for mobile devices.

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, 59, 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 partner and 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 and from 2006 to 2007 as Program Officer for the Northern Forest Center. 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 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.

Karen H. Quintos, 53, has served as a director of our company since 2014. She is a member of the Compensation and Human Resources Committee and the Public Policy Committee.

Ms. Quintos is the Executive Vice President and Chief Customer Officer (CCO) of Dell Technologies Inc., leading a global organization devoted to customer advocacy. Under Ms. Quintos' leadership, the CCO organization defines and develops Dell's customer experience strategy and programs, with the goals of maximizing customer satisfaction,

acquisition, retention and profitability. Ms. Quintos is also responsible for Dell's strategy and programs for Diversity & Inclusion and Corporate Social Responsibility business imperatives she is passionate about and that matter to Dell's customers and team members around the world.

Table of Contents

Previously at Dell, Ms. Quintos served as senior vice president and Chief Marketing Officer since September 2010 and vice president of Public Sector Marketing and North America Commercial from 2008 to 2010. She previously also held executive roles in services, support and supply chain management. Ms. Quintos joined Dell from Citigroup, where she was vice president of Global Operations and Technology. She also held a variety of marketing, operations, planning and supply chain management roles at Merck & Co.

Ms. Quintos earned a master's degree in marketing and international business from New York University, and a Bachelor of Science in supply chain management from Pennsylvania State University.

Ms. Quintos is also on the board of Susan G. Komen for the Cure and Penn State's Smeal College of Business, and was a 2014 recipient of the Smeal College of Business' highest honor, the Distinguished Alumni Award. She also is founder and executive sponsor of Dell's employee resource group dedicated to women.

Ms. Quintos contributes a broad knowledge of marketing, communications, brand strategy, operations and supply chain management in her service as a director.

Paul W. Schmidt, 72, has served as a director of our Company since 2005. He is a member of the Audit Committee and the Public Policy 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' 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 BOARD RECOMMENDS A VOTE FOR

EACH OF THE ABOVE NOMINEES

The following Class II directors' terms will continue until the 2018 Annual Meeting of Stockholders:

John E. Major, 71, 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, investment 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.

Table of Contents

Mr. Major currently serves as the Chairman of the Board of Resonant Inc., a technology company creating RF filters for mobile devices, and on the Boards of Directors of Littelfuse, Inc., a manufacturer of circuit protection devices, and ORBCOMM Inc., a satellite communications service provider.

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

Gregory T. Swinton, 67, has served as a director of our Company since 2010. He is the Chair of the Audit Committee and a member of the Board Governance Committee.

Mr. Swinton was an adviser to Ryder System, Inc., a supplier of transportation, logistics and supply chain management solutions from May 2013 until May 2015. He previously was Executive Chairman of Ryder System, Inc., from January 2013 to May 2013, after having been Chairman of Ryder System, Inc. since May 2002 and Chief Executive Officer since November 2000. Mr. Swinton joined Ryder as President and Chief Operating Officer in June 1999. Before joining Ryder, Mr. Swinton 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 BNSF in June 1994 as Executive Vice President-Intermodal Business Unit. Prior to joining BNSF, Mr. Swinton 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. Swinton was Regional Vice President of DHL Airways, Inc. in the United States. From 1971 to 1982, Mr. Swinton 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 Harris Corporation, a supplier of communications and information technology products.

Mr. Swinton 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, 52, has served as a director of our company since 2011 and as Lead Director since May, 2015. He is the Chair of the Board Governance Committee and a member of the Compensation and Human Resources Committee.

Since 2010, Mr. Teske has served as 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 its 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 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.

Table of Contents

The following Class III directors terms will continue until the 2019 Annual Meeting of Stockholders:

Todd M. Bluedorn, 53, became Chief Executive Officer and was elected as a director of our Company in April 2007. He was appointed as Chairman of the Board in May, 2012. Prior to joining the Company, Mr. Bluedorn served in numerous senior management positions for United Technologies Corporation 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 M.B.A. from Harvard University School of Business in 1992.

Mr. Bluedorn also serves on the Board of Directors of Eaton Corporation, a diversified industrial manufacturer, Texas Instruments Incorporated, a global designer and manufacturer of semiconductors and the Washington University in St. Louis Board of Trustees.

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.

Max H. Mitchell, 53, has served as a director of our company since 2016. He is a member of the Audit Committee and the Board Governance Committee. Mr. Mitchell is the President, Chief Executive Officer and a Director of Crane Co., a diversified manufacturer of highly engineered industrial products. Before being elected President and Chief Executive Officer of Crane Co. in 2014, he served as the President and Chief Operating Officer of Crane Co. from 2013 to 2014, Executive Vice President and Chief Operating Officer of Crane Co. from 2011 to 2013, and Group President, Fluid Handling segment of Crane Co. from 2005 to 2012. Mr. Mitchell also served as an executive of Pentair Corporation and Danaher Corporation and served in finance and operational roles at Ford Motor Company.

Mr. Mitchell has a M.B.A. in finance and strategic planning from the University of Pittsburgh and a B.A. from Tulane University.

As an experienced executive in large manufacturing companies, Mr. Mitchell contributes extensive knowledge of the operations, supply chain, distribution and customer service functions in manufacturing companies and of the design and implementation of manufacturing, supply chain and customer service strategies, improvements and efficiencies.

Table of Contents

Kim K.W. Rucker, 50, has served as a director of our Company since 2015. She is a member of the Board Governance Committee and the Compensation and Human Resources Committee.

Ms. Rucker has served as Executive Vice President, General Counsel and Secretary at Tesoro Corporation and Executive Vice President and General Counsel for Tesoro Logistics GP, LLC since March 2016, and previously was Executive Vice President, Corporate & Legal Affairs, General Counsel and Corporate Secretary at Kraft Foods Group, Inc., a global manufacturer and distributor of food products and beverages until July 2015. Prior to joining Kraft in 2012, Ms. Rucker served as the Senior Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer at Avon Products, Inc., a global manufacturer of beauty and related products, since 2008. Before joining Avon, Ms. Rucker was Senior Vice President, Corporate Secretary and Chief Governance Officer for Energy Future Holdings, Corp., an energy company, since 2004. She began her legal career at Sidley Austin LLP in its Chicago, Illinois office.

Ms. Rucker has a B.B.A. in Economics from the University of Iowa, a J.D. from Harvard Law School and a Master in Public Policy from the John F. Kennedy School of Government at Harvard University.

Ms. Rucker contributes a broad knowledge of law, corporate governance, internal and external communications, community involvement activities and government affairs in her service as a director.

Table of Contents**PROPOSAL 2:****RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM FOR THE 2017 FISCAL YEAR**

The Audit Committee of the Board has appointed KPMG LLP to continue as our independent registered public accounting firm for the 2017 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 this 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 2017 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
2017 FISCAL YEAR.*****Audit and Non-Audit Fees***

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

	2016	2015
Audit Fees(1)	\$ 2,671	\$ 2,882
Audit-Related Fees(2)	477	4
Tax Fees(3)	265	246
All Other Fees(4)	5	0
TOTAL	\$ 3,418	\$ 3,132

(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 consultative related services. Such services in 2016 consisted primarily of services related to the review of various income tax restructuring activities and the issuance of a comfort letter in connection with the issuance of debt. Such services in 2015 consisted primarily of providing an English translation of a Lennox foreign subsidiary's year-end Financial Statements.
- (3) Represents fees billed for tax compliance, including review of tax returns, tax advice, and tax planning.
- (4) Represents the registration fees for a Company employee to attend the KPMG Executive Leadership Institute for Women.

Table of Contents

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 that prohibits our independent registered public accountants from providing services specifically prohibited by the Securities and Exchange Commission (SEC). 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 2015 and 2016 were pre-approved by the Audit Committee.

Table of Contents

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 U.S. 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 has (1) reviewed and discussed the Company's audited consolidated financial statements for the year ended December 31, 2016 with the Company's management and with the Independent Accountants; (2) discussed with the Independent Accountants the matters required to be discussed by Auditing Standard No. 1301, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board; and (3) 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 the 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 fiscal year ended December 31, 2016.

Submitted by the Audit Committee of the Board:

Gregory T. Swienton (Chairperson)
Max H. Mitchell

Janet K. Cooper
Paul W. Schmidt

Table of Contents

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 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 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 under Board Committees).

In making its determination as to the independence of our directors, the Board Governance Committee and the Board considered that Ms. Quintos serves as Chief Customer Officer of Dell, Inc., which provides computer equipment and related items 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 allows him to be a liaison 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.

Mr. Terry D. Stinson, a director of the Company since 1998, was required to retire immediately after the 2017 Annual Meeting of Stockholders, in accordance with the mandatory age-based retirement provisions of our Corporate Governance Guidelines, and instead decided to retire immediately after the March 2017 Board meetings. The Company and the Board thank him for his many years of valuable service.

Our Corporate Governance Guidelines provide for a Lead Director position, and the Board elected Todd J. Teske as Lead Director in 2015. 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 stockholders, is available for consultation and direct communication.

The Board met seven times in 2016. 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 2016 Annual Meeting of Stockholders attended our 2016 Annual Meeting of Stockholders.

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

Table of Contents

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.

The Board has 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, the Board has not identified any risks arising from the compensation policies and practices that are reasonably likely to have a material adverse effect on the Company. The Company incorporates short-term and long-term incentive programs for cash and equity awards that are designed to reward successful execution of its business strategy and achievement of desired business results. Additionally, the Company has stock ownership requirements and clawback provisions to align the interests of its executive officers with the interests of its stockholders. For non-executive employees, the Company uses a variety of incentive compensation programs to motivate its employees to attain individual goals and support the financial performance of the Company. All of the Company's material 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, current copies of 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 all members of our Board committees are independent directors.

The following table provides current membership information for each of the Board committees and indicates which directors our Board determined are independent, as defined by the NYSE.

Name	Independent	Audit	Board Governance	Compensation and Human Resources	Public Policy
Todd M. Bluedorn					
Janet K. Cooper	X	X			X
John E. Major	X		X	X*	
Max H. Mitchell	X	X	X		
John W. Norris, III	X			X	X*
Karen H. Quintos	X			X	X
Kim K.W. Rucker	X		X	X	
Paul W. Schmidt	X	X			X
	X	X*	X		

Gregory T.
Swienton
Todd J.
Teske

X

X*

X

* Committee Chairperson
Audit Committee

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 is defined for audit committee members by the SEC and the NYSE, is financially literate as defined by the NYSE and has

Table of Contents

accounting or related financial management expertise. The Board has determined that Mr. Swinton is an audit committee financial expert as defined by the SEC. The Audit Committee met ten times in 2016. All members of the Audit Committee attended in excess of 75% of the Audit Committee meetings held when they were Committee members in 2016.

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 any changes to the Corporate Governance Guidelines and Code of Business Conduct applicable to our Company, developing our Company's director education programs, and overseeing the evaluation of our Board. The Board Governance Committee also conducts an individual peer review for any directors who are scheduled to be re-nominated. The Board has determined that each member of the Board Governance Committee is independent as independence is defined by the NYSE. The Board Governance Committee met three times in 2016. All members of the Board Governance Committee attended in excess of 75% of the Board Governance Committee meetings held when they were Committee members in 2016.

Compensation and Human Resources Committee

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

Although the Committee seeks input from the CEO on various elements of executive compensation, the Committee determines and approves the final compensation elements and amounts to be provided to the Company's NEOs. The independent members of the Board (rather than the Committee) have direct responsibility for approving CEO and Board compensation. The Committee reviews and recommends proposed changes to CEO and Board compensation to the independent members of the Board for approval. 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 defined for compensation committee members 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, along with each of the independent directors, is an outside director for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). The Committee met five times in 2016. All members of the Compensation and Human Resources Committee attended in excess of 75% of the Compensation and Human Resources Committee meetings held when they were Committee members in 2016.

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. (FW Cook) as its executive compensation consultant to provide objective analysis, advice and recommendations regarding the compensation of our executives and non-employee directors. FW Cook does not 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 FW Cook. The Committee has concluded that FW Cook's work raises no conflicts of interest that require disclosure under

Item 407(e)(3)(iv) of Regulation S-K.

Table of Contents

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 significant public issues that affect our stockholders. The Board has determined that each Public Policy Committee member is independent as defined by the NYSE. The Public Policy Committee met twice in 2016.

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 the Board nor the 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 candidates, 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.

Table of Contents

The full text of our Board of Directors 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, a majority of the directors then in office may fill the vacancy, or the vacancy may remain open or the size of the Board may be reduced. The Board Governance Committee evaluates and recommends to the Board nominees for election to the Board.

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 (Nominating Stockholder) 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. The Nominating Stockholder must be a holder of record of stock of the Company entitled to vote at the annual meeting of stockholders and must appear at the annual meeting of stockholders to nominate such person. The Nominating Stockholder must include a written consent of its proposed director nominee. The proposed director nominee must also represent and agree that he or she (1) has not and will not give any assurance or commitment not disclosed to the Company on how he or she would vote on any issue or question, (2) has not and will not become party to any agreement not disclosed to the Company regarding direct or indirect compensation (other than from the Company) for his or her service as a director, and (3) if elected, will comply with all applicable policies and guidelines of the Company. 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 date of the annual meeting of stockholders, the notice of nomination must be received within 10 days following the date on which notice of the date of the annual meeting of stockholders was mailed or such public disclosure was made to our stockholders.

Pursuant to our Bylaws, the notice for the proposed director nominee must contain certain information about the nominee, the Nominating Stockholder and any person acting in concert with the Nominating Stockholder, including descriptions of any arrangements or understanding related to the nomination, the information that would be required if such person was making a stockholder proposal (as described under [Stockholder Proposals for the 2018 Annual Meeting of Stockholders](#) [Proposals Not for Inclusion in the Proxy Statement to be Offered at the 2018 Annual Meeting](#)) and other 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 director 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. Nominating Stockholders 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, 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 Lead Director.

Table of Contents

Other Corporate Governance Policies and Practices

Code of Business Conduct

The Company has adopted a Code of Business Conduct that applies to all its directors and employees, including its senior financial and principal executive officers. The Code of Business Conduct covers a variety of matters, such as acting with integrity and compliance with laws, including anti-corruption laws. Amendments to and waivers, if any, of the Code of Business Conduct as it pertains to the executive officers will be disclosed on our website. The Code of Business Conduct is available on the Company's website at <http://www.lennoxinternational.com> by following the links About Us Our Core Values Code of Conduct.

Corporate Governance Guidelines

The Company has adopted Corporate Governance Guidelines that are available on the Company's 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. The Company's Code of Business Conduct prohibits retaliation against employees who report violations or suspected violations of the Code of Business Conduct.

Table of Contents

PROPOSAL 3:

ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

In accordance with Section 14A of the Securities Exchange Act of 1934, we are asking our stockholders to vote to approve the compensation of our Company's named executive officers, or NEOs (the "Say-on-Pay vote"), as disclosed in this Proxy Statement. The Say-on-Pay vote is an advisory vote on the resolution below and is not binding on the Company or the Board. Although the vote is non-binding, the directors 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 designed its market competitive NEO compensation program to reward successful execution of its business strategy and achievement of desired business results, with a focus on creating alignment with the interests of our stockholders. The program seeks to achieve these goals on an annual and long-term basis through an appropriate combination of base pay, annual incentives and long-term incentives.

For our NEOs, the majority of compensation is both stock-based and contingent on performance. The annual incentive payout is based on Company financial performance metrics of core net income and free cash flow, and for NEOs that are business segment leaders, a combination of Company and business segment performance. Our long-term incentives currently include: (1) performance shares units, which are designed to link compensation to the Company's three-year financial performance as measured by return on invested capital and core net income growth; (2) stock appreciation rights, which are designed to incentivize NEOs to grow our business and deliver increased returns to our stockholders and (3) restricted stock units, which are designed to support our retention efforts.

The Company also has several governance policies in place to align executive compensation with stockholder interests and mitigate risk. These policies include: stock ownership guidelines, a prohibition on hedging and pledging of Company stock, a clawback policy and post-employment non-competition and non-solicitation restrictions. These policies are discussed in detail in the "Compensation Discussion and Analysis" section of this Proxy Statement.

In 2016, the Company continued to drive business performance, and create stockholder value through its focus on innovation, productivity and efficient use of cash. Highlights of our 2016 performance include the following:

Net sales up 5% from 2015 to approximately \$3.6 billion;

Record total segment profit margin of 12.9%, up 200 basis points from 2015;

One-year total stockholder return of 24%, three-year total stockholder return of 87% and five-year total stockholder return of 384%;

Record cash generated from operations of \$355 million, up 7.3% from \$331 million in 2015; and

Increased dividend 19% and returned additional cash to shareholders through stock repurchases paid \$69 million in dividends and \$300 million for stock repurchase programs.

Financial results, including those from prior periods, are described in more detail in our Form 10-K for the fiscal year ending December 31, 2016. For further detail and a comparison of Segment Profit to Operating Income, see Note 18 in the Notes to the Consolidated Financial Statements in our Form 10-K for the fiscal year ended December 31, 2016. All total stockholder return calculations assume reinvestment of dividends.

Table of Contents

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 the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby APPROVED.

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

PROPOSAL 4:

**ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON THE COMPENSATION
OF OUR NAMED EXECUTIVE OFFICERS**

Under the Dodd-Frank Act and SEC regulations, the stockholders are entitled to vote on how frequently we should seek an advisory vote on the compensation of the named executive officers (NEOs). By voting on this proposal, stockholders may indicate whether they prefer to vote on NEO compensation every one, two or three years. Pursuant to the Dodd-Frank Act, this stockholder vote on the frequency of the stockholder vote is an advisory vote only, 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 determining the frequency of the stockholder vote on NEO compensation.

The Board has determined that continuing the practice of an annual advisory stockholder vote on NEO compensation is the most appropriate approach for the Company and its stockholders. In formulating its recommendation, our Board considered that an annual advisory vote on NEO compensation will allow our stockholders to provide us with direct and timely input on our compensation principles, policies and practices.

If no voting specification is made on a properly returned or voted proxy card, the proxies named on the proxy card will vote FOR ONE YEAR for the frequency of the future advisory stockholder votes on NEO compensation. The alternative receiving the greatest number of votes ONE YEAR, TWO YEARS or THREE YEARS will be the frequency that stockholders approve.

**THE BOARD RECOMMENDS A VOTE FOR ONE YEAR ON PROPOSAL 4 REGARDING THE
FREQUENCY OF FUTURE STOCKHOLDER VOTES ON THE COMPENSATION OF THE NEOS.**

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

The Company'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 by maintaining a strong alignment between pay and performance. Highlights of our 2016 financial performance and a description of the linkage between executive compensation and financial performance are set forth below.

Financial Highlights

In 2016, the Company continued to drive business performance and create stockholder value through its focus on innovation, productivity and efficient use of cash. Highlights of our 2016 performance include the following:

One-year total stockholder return of 24%, three-year total stockholder return of 87% and five-year total stockholder return of 384%;

Record cash generated from operations of \$355 million, up 7.3% from \$331 million in 2015; and

Increased dividend 19% and returned additional cash to stockholders through stock repurchases paid \$69 million in dividends and \$300 million for stock repurchase programs.

Financial results, including those from prior periods, are described in more detail in our Form 10-K for the fiscal year ending December 31, 2016. For further detail and a comparison of Segment Profit to Operating Income, see Note 18 in the Notes to the Consolidated Financial Statements in our Form 10-K for the fiscal year ended December 31, 2016. All total stockholder return calculations assume reinvestment of dividends.

Pay-for-Performance Linkage

Pay-for-performance is the philosophical foundation for our annual short-term and long-term incentive programs. Highlights of our incentive compensation programs and how they are linked to our pay-for-performance philosophy include:

85% of our CEO's compensation is variable tied to annual short-term and long-term incentives;

70% of our NEOs' long-term incentive compensation is performance-based, with the remainder provided as restricted stock units for retention purposes;

Table of Contents

CEO compensation in 2016 (as shown in the Summary Compensation Table) was up 31%, excluding the change in pension value, while our one-year total stockholder return increased 24%; and

Actual payouts under our performance share unit program averaged 195% of target over the last three completed performance cycles (each spanning three years and overlapping with each other), while total stockholder return over that same five-year period was 384%.

Overview

This Compensation Discussion and Analysis (CD&A) describes the philosophy and objectives of the compensation program for our NEOs. The Compensation and Human Resources Committee of the Board (the Committee) establishes and administers our executive compensation program, 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 program in an effort to most effectively drive the achievement of the Company s business objectives.

Stockholder Input

The Committee considers input from stockholders, including the result of the annual Say-on-Pay vote, in determining compensation policies and decisions. At our 2016 Annual Meeting, over 98% of votes cast on the Say-on-Pay resolution approved the compensation program described in our 2016 Proxy Statement. In an effort to maintain this strong support from stockholders, management has continued to review proxy advisor and investor concerns regarding executive compensation and governance and has selectively communicated with stockholders. The Say-on-Pay vote result was one of many factors the Committee considered in deciding to not implement any major changes to the executive compensation program in 2016.

Positive Governance Practices

The Committee assesses trends and developments in executive compensation practices and implements those that best fit with the Company s business strategy and our stockholders long-term interests. Below are some of the practices we have incorporated into our compensation program, as described further elsewhere in this Proxy Statement:

Median Compensation Philosophy. Target 50th percentile of the competitive market for NEO compensation

Long-Term Balance. Provide balanced portfolio of long-term incentive awards to drive performance and retention

Independent Advisor. Annual review and engagement of independent compensation consultant reporting directly to the Committee

Risk Assessment. Mitigate undue risk in compensation plans by performing annual risk assessment and applying caps on awards and payouts

Limited Perquisites. Offer limited perquisites consisting predominately of a modest monthly cash stipend

Stock Ownership. Require meaningful share ownership for executive officers and Board members through ownership guidelines

Clawback. Permit Committee to clawback incentive compensation from executive officers

Table of Contents

Repricing. Do not allow repricing or cash buyouts of stock appreciation rights or stock options

Excise Tax. Do not provide 280G tax gross-ups for any change-in-control agreements entered into after 2009

Anti-Hedging / Pledging. Do not allow hedging or pledging of Company stock

Dividends Withheld. Do not pay or accrue dividends on unvested restricted stock units, performance share units, stock appreciation rights or stock options

Non-Competition / Non-Solicitation Restrictions. Require executives to commit to post-employment non-competition and non-solicitation restrictions as part of their equity grants

Executive Compensation Philosophy and Key Objectives

Pay-for-Performance

We maintain a pay-for-performance philosophy designed to reward successful execution of our business strategy and achievement of desired business results, with a focus on aligning compensation opportunities with the interests of our stockholders. When our financial results exceed performance goals, monetary rewards to our NEOs generally pay out at higher levels. When our financial results fall below performance goals, monetary awards to our NEOs generally pay out at lower levels and may not pay out at all.

Recent payouts under our short-term incentive program and our long-term incentive program demonstrate the strong link between Company performance and actual payments made to our NEOs. In 2016, overall Company performance exceeded goals and, as a result, our NEOs received above target levels of payouts under our annual short-term incentive compensation program. Over the last three years, our financial performance resulted in record average return on invested capital of 27.0% and a compound annual growth rate of Company core net income of 17.7%. As a result, our NEOs received an above target performance share unit payout under our long-term incentive plan, consistent with our pay-for-performance approach and results-oriented compensation.

The graph below illustrates the directional alignment of pay and performance by showing changes in CEO annual compensation (using totals from the Summary Compensation Table) versus changes in total stockholder return (TSR) over the last several years. The shaded bars represent the Change in Pension Value, which is impacted by interest rate changes, while the solid bars represent all other Summary Compensation Table pay.

\$ amounts are in thousands. TSR represents the change in a \$100 investment from the end of year 2011 assuming reinvestment of dividends.

Key Strategic Objectives

The strategic objectives of our executive compensation program are to:

attract, retain and motivate top executive talent;

Table of Contents

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

maintain a market-competitive executive compensation program; 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.

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

Process for Determining Named Executive Officer Compensation***Market Competitive Compensation***

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

Our Company's compensation peer group, as reviewed and approved by the Committee, included the following 15 companies (the Compensation Peer Group):

A. O. Smith Corporation	Flowserve Corporation	Regal Beloit Corporation
Acuity Brands, Inc.	Fortune Brands Home & Security, Inc.	Rockwell Automation, Inc.
Armstrong World Industries, Inc.	Kennametal Inc.	Snap-On Incorporated
Briggs & Stratton Corporation	Owens Corning	The Timken Company
Crane Company	Pentair, Inc.	USG Corporation

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

industry building products, electrical components/equipment 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.

Table of Contents

In 2016, the Committee analyzed the Compensation Peer Group on the criteria above, and adjusted the group by replacing SPX Corporation with Fortune Brands Home & Security, Inc. SPX Corporation spun off its largest business segment causing the revenues of the resulting company to fall below the Committee’s revenue criterion. Although other potential peer companies fit these selection criteria, the Committee felt Fortune Brands Home & Security, Inc. was the best choice given its relative size and business mix.

In addition to comparing our NEO compensation to the compensation provided by our Compensation Peer Group, the Committee also referenced published compensation data and other studies of compensation trends and practices (all such data and practices, including our Compensation Peer Group, is collectively referred to as the “Market”).

Pay Positioning and Compensation Mix

For 2016, the Committee targeted all elements of compensation for the Company’s NEOs at the 50th percentile of the Market and granted a majority of total compensation to our NEOs in the form of incentive compensation. The 2016 target compensation mix for the CEO and the average target compensation mix for the other NEOs are shown in the graphs below.

CEO Target Compensation Mix

Other NEOs Target Compensation Mix

The CEO’s target compensation mix, consistent with Market practice, has more at-risk performance-based incentive compensation than the other NEOs due to his broad influence on Company performance.

Compensation Analysis

Beyond traditional market analysis, the Committee utilizes various other compensation analyses to assist with its decision making process. Below are examples of information the Committee reviews and considers, as appropriate, when making compensation decisions:

all in compensation summaries and pay histories for the CEO and executive officers

CEO realized pay analysis

CEO pay vs. performance analysis

Table of Contents

dilution and share utilization analysis, projections and benchmarking

equity compensation expense analysis

short-term and long-term incentive design, metric and vehicle prevalence

short-term and long-term incentive plan performance results

Role of Management

The Committee obtains input from management and the Committee's consultant when making NEO compensation decisions. The CEO makes recommendations to the Committee with respect to all of the elements of compensation for each NEO, excluding himself. The CEO's recommendations on NEO pay are developed in consultation with the Chief Human Resources Officer and the Committee's compensation consultant, and are considered with Market data. The Committee determines and approves the final compensation elements and amounts to be provided to the Company's NEOs.

All independent members of the Board (rather than the Committee) have responsibility for approving CEO compensation. The Committee reviewed and recommended proposed changes to CEO compensation to the independent members of the Board for approval.

Role of the Executive Compensation Consultant

In 2016, the Committee engaged FW Cook to provide analysis, advice and recommendations on executive compensation to the Committee. The Committee considered disclosures provided by FW Cook related to its independence from the Company, the Company's NEOs and the members of the Committee, and reviewed FW Cook's independence policy. FW Cook does not provide any other services for our Company.

At the Committee's request, FW Cook performed the following services in 2016:

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, including NEO and Board target compensation;

presented executive compensation trends and regulatory updates to the Committee; and

provided input and perspective on various technical matters pertaining to executive compensation. The Committee analyzed and considered the information provided by management and FW Cook to determine the program design and the level and mix of each compensation element for the NEOs.

Components and Analysis of 2016 Executive Compensation

Base Salary

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

Table of Contents

The following table provides detail regarding 2016 and 2017 base salaries for each NEO:

Name	Title	2016 Annualized Base Salary	Increase Effective April 1, 2017	2017 Annualized Base Salary
Todd M. Bluedorn	Chairman and Chief Executive Officer	\$ 1,092,000	3.0%	\$ 1,125,000
Joseph W. Reitmeier	EVP, Chief Financial Officer	475,000	5.3	500,000
Douglas L. Young	EVP, President and Chief Operating Officer, Residential Heating and Cooling	540,000	3.7	560,000
David W. Moon	EVP, President and Chief Operating Officer, Worldwide Refrigeration	500,000	3.0	515,000
Daniel M. Sessa	EVP, Chief Human Resources Officer	480,000	3.1	495,000

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

Short-Term Incentive Program

Our short-term incentive program (STI Program) as established under the Lennox International Inc. 2010 Incentive Plan, as amended and restated (the LII 2010 Incentive Plan), is an annual cash-based program for our NEOs designed to reward the successful performance of our Company, our business units and each individual NEO. In early 2016, the Committee approved the financial metrics and performance goals that must be achieved for any payouts to be made under our STI Program. The 2016 STI Program was funded based on performance against the financial goals set forth below. The 2016 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 2016 STI Program, along with Company and business unit performance for each metric.

2016 Short-Term Incentive Program Summary Financial Performance

(\$ in thousands)

Name(1)	Metric	Weight	Threshold	Target	Maximum	Performance
All	Company Core Net Income(2)	60%	\$ 225,546	\$ 281,933	\$ 324,223	\$ 306,379
	Company Free Cash Flow(3)	40%	168,000	240,000	312,000	329,183
	Payout Opportunity as a % of Target		50%	100%	225%	
Mr. Young	Segment Profit(4)	70%	\$ 281,450	\$ 334,821	\$ 374,850	\$ 354,514
	Segment Controllable Cash Flow(5)	30%	231,260	298,208	365,156	313,402

Payout Opportunity as a % of Target				50%		100%		225%		
Mr. Moon	Segment Profit(4)	70%	\$	58,918	\$	71,628	\$	84,771	\$	76,252
	Segment Controllable Cash									
	Flow(5)	30%		43,453		56,032		68,611		59,791
Payout Opportunity as a % of Target				50%		100%		225%		

- (1) All NEOs except Mr. Young and Mr. Moon were measured 100% on overall Company financial performance, which resulted in a calculated award of 193% of target. As the President of our Residential Heating and Cooling segment, Mr. Young's 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 in a calculated award of 152% of target, which when blended with the Company's calculated award of 193% of target, resulted in a calculated award for Mr. Young of 172% of target. As the President of our Worldwide Refrigeration segment, Mr. Moon's award was measured 50% on Worldwide Refrigeration's financial performance and 50% on overall Company financial performance. Worldwide Refrigeration's financial performance resulted in a calculated award of 142% of target, which when blended with the Company's calculated award of 193% of target, resulted in a calculated award for Mr. Moon of 168% of target.

Table of Contents

- (2) Company core net income, a non-GAAP financial measure used for incentive compensation purposes, is income from continuing operations, adjusted for 2016 restructuring charges, certain product quality adjustments, certain legal charges and contingency adjustments, unrealized gains and losses on unsettled futures contracts, pension settlement charges and certain other items.
- (3) Company free cash flow, a non-GAAP financial measure used for incentive compensation purposes, is net cash provided by operating activities less purchases and sales of property, plant and equipment. Cash usage attributable to an unusual commercial inventory pre-build due to regulatory changes and a large discretionary U.S. qualified pension plan contribution were excluded. The cash used for the discretionary pension plan contribution was primarily funded through repatriated cash resulting from tax-planning initiatives during 2016.
- (4) Segment profit, a non-GAAP financial measure used for incentive compensation purposes, is earnings from continuing operations for the applicable segment before interest expense, other expenses, and income taxes, adjusted for 2016 restructuring charges, certain product quality adjustments, certain legal charges and contingency adjustments, unrealized gains and losses on unsettled futures contracts, and certain other items.
- (5) Segment controllable cash flow, a non-GAAP financial measure used for incentive compensation purposes, is segment profit, defined above, less purchases and sales of property, plant and equipment, plus or minus changes in accounts receivable, inventory and accounts payable.

Individual Performance. The Committee considered individual performance in addition to financial performance in order to further align pay with performance. The individual performance component comprised 25% of the calculated award and had the same payout range as the STI Program (0% to 225%). The individual performance component was 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 year, the CEO reviewed with the Committee the extent of achievement of these established objectives by each NEO (other than the CEO). The Committee then determined and approved the individual performance component for each NEO (other than the CEO). All independent members of the Board determined and approved the individual performance component for the CEO.

Targets and Payouts. Under the STI Program, target payout opportunities are determined as a percentage of base salary. The target payout opportunities are based on Market data using the 50th percentile as a guideline. Each NEO's target percentage fits within this guideline and was unchanged for 2016.

Based on analysis of the Market data and internal equity considerations, the Committee (or with respect to the CEO, the independent Board members) set the following short-term incentive targets for 2016. Based on actual financial and individual performance, the Committee (or with respect to the CEO, the independent Board members) approved the following 2016 payouts for each NEO:

2016 Short-Term Incentive Targets and Payouts

Name	2016 STI Target as a		2016 STI Payout as a	
	% of Base Salary	2016 STI Target	2016 STI Payout	% of Target

Edgar Filing: LENNOX INTERNATIONAL INC - Form DEF 14A

Mr. Bluedorn	125%	\$ 1,355,000	\$ 2,620,028	193%
Mr. Reitmeier	70	328,125	634,463	193
Mr. Young	70	374,500	645,900	172
Mr. Moon	70	347,375	582,444	168
Mr. Sessa	70	333,375	644,614	193

We include the short-term incentive payments made to the NEOs for 2016, which were approved by the Committee on February 27, 2017 and paid on March 15, 2017, in the Summary Compensation Table under Non-Equity Incentive Plan Compensation.

Table of Contents

Long-Term Incentive Program

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

We use a mix of performance share units (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 retain key members of management through 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 2016, the long-term incentive award allocations for our NEOs were as follows:

The Committee determines the grant date for all long-term incentive awards, and has a long-standing practice of granting all awards at its regularly scheduled December meeting. Although awards may also be granted in special circumstances or upon hire for certain executives, no out-of-cycle grants were made to any NEO in 2016. 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 New York Stock Exchange (NYSE) trading prices of our common stock on the date of grant.

The target award values under our long-term incentive program are based on Market data for similar positions using the 50th percentile as a guideline. The number of shares available for grant under the LII 2010 Incentive Plan is also considered. In December 2016, the Committee established the target award values at or near the 50th percentile of the Market for all NEOs. When determining the actual award sizes for each NEO, the Committee and independent Board members considered the NEO s time in position, individual performance and potential, the NEO s impact on the financial performance of the Company, and internal equity.

Once the Committee determined the actual long-term incentive award values for each NEO for the 2016 grants, 50% of the value was provided as PSUs, 30% as RSUs and 20% as SARs.

Table of Contents

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

Name	December 2016 Award Value				Number of Awards Granted				
	PSUs	RSUs	SARs	Total	PSUs(1)	RSUs(1)	SARs(2)	Total	
Mr. Bluedorn	\$ 2,400,000	\$ 1,440,000	\$ 960,000	\$ 4,800,000	16,130	9,678	41,649	67,457	
Mr. Reitmeier	500,000	300,000	200,000	1,000,000	3,360	2,016	8,677	14,053	
Mr. Young	600,000	360,000	240,000	1,200,000	4,032	2,419	10,412	16,863	
Mr. Moon	550,000	330,000	220,000	1,100,000	3,696	2,218	9,544	15,458	
Mr. Sessa	500,000	300,000	200,000	1,000,000	3,360	2,016	8,677	14,053	

(1) The number of PSUs and RSUs was determined by dividing the corresponding target award value by the fair market value of our common stock on the NYSE averaged over the 30 calendar days ending on November 30, 2016 (\$148.795).

(2) The number of SARs granted was determined by dividing the corresponding target award value by the Black-Scholes value of our common stock based on the 30 calendar day average of our common stock as of November 30, 2016 (\$23.05).

PSUs. To maintain our strong focus on long-term Company performance, we granted 50% of the December 2016 long-term incentive award in the form of PSUs. PSUs generally vest at the end of a three-year performance period. If at least the threshold performance level has been achieved at the end of the performance period, the PSUs are distributed in the form of Company common stock based on the actual performance achieved. Dividends are not earned or paid on PSU awards during the three-year performance period. The Committee determines the measurement criteria annually, selecting financial metrics and setting performance goals that will enhance stockholder value. The Committee certifies the financial performance levels following the end of the performance period and the Company distributes any earned shares.

The key attributes of the PSUs granted in December 2013, which vested on December 31, 2016, are summarized in the following table along with the financial performance goals and payout opportunities versus actual performance. In 2016, NEOs earned a payout of 185.9% of target for the PSUs granted in December 2013. The payout value is reflected in the 2016 Option/SAR Exercises and Stock Vested Table in the Stock Awards Value Realized on Vesting column.

December 2013 PSU Grant

(for the January 1, 2014 – December 31, 2016 Performance Period)

Metric	Weight	Measurement Period	Threshold	Target	Maximum	Actual
Return on Invested Capital (ROIC)(1)	50%	3-year weighted average (20% lowest year, 40% other two years)	14%	20%	26%	27.0%
Company Core Net Income	50%	3-year compound annual growth rate	6%	12%	20%	17.7%

Payout as a % of Target Award	50%	100%	200%	185.9%
--------------------------------------	------------	-------------	-------------	---------------

- (1) Net operating profit after tax (NOPAT), a component of ROIC and a non-GAAP financial measure used for incentive compensation purposes, is income from continuing operations, adjusted for 2016 restructuring charges, certain product quality adjustments, certain legal charges and contingency adjustments, unrealized gains and losses on unsettled futures contracts, pension settlement charges and certain other items.

The key attributes of the PSUs granted in December 2016 are summarized in the following table. 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 Company core

Table of Contents

net income growth performance goals based on historical results, projected outcomes of that measure, and expected market conditions. Over the last seven completed performance cycles, including the cycle noted above, the average payout was 126% of target. While specific forward-looking performance goals are not included in the table below in light of competitive sensitivities, the degrees of difficulty required to achieve a payout are included.

December 2016 PSU Grant

(for the January 1, 2017 – December 31, 2019 Performance Period)
