LKQ CORP
Form 10-Q
May 02, 2019

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2019
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to
Commission File Number: 000-50404

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

DELAWARE	36-4215970
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 WEST MADISON STREET, SUITE 2800, CHICAGO, IL	60661
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (312) 621-1950

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $.01 per share	LKQ	NASDAQ Global Select Market

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨

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

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

At April 22, 2019, the registrant had outstanding an aggregate of 313,994,156 shares of Common Stock.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements
LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Income
(In thousands, except per share data)

	Three Months Ended March 31,	
	2019	2018
Revenue	$3,100,303	$2,720,764
Cost of goods sold	1,892,039	1,666,793
Gross margin	1,208,264	1,053,971
Selling, general and administrative expenses	896,532	766,891
Restructuring and acquisition related expenses	3,307	4,054
Impairment of net assets held for sale	15,023	—
Depreciation and amortization	71,002	56,458
Operating income	222,400	226,568
Other expense (income):		
Interest expense, net of interest income	36,089	28,515
Other income, net	(3,851)	(2,882)
Total other expense, net	32,238	25,633
Income before provision for income taxes	190,162	200,935
Provision for income taxes	51,550	49,584
Equity in (losses) earnings of unconsolidated subsidiaries	(39,549)	1,412
Net income	99,063	152,763
Less: net income (loss) attributable to noncontrolling interest	1,015	(197)
Net income attributable to LKQ stockholders	$98,048	$152,960
Basic earnings per share: [1]		
Net income	$0.31	$0.49
Less: net income (loss) attributable to noncontrolling interest	0.00	(0.00)
Net income attributable to LKQ stockholders	$0.31	$0.49
Diluted earnings per share: [1]		
Net income	$0.31	$0.49
Less: net income (loss) attributable to noncontrolling interest	0.00	(0.00)
Net income attributable to LKQ stockholders	$0.31	$0.49

[1] The sum of the individual earnings per share amounts may not equal the total due to rounding.

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.
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LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Comprehensive Income
(In thousands)

	Three Months Ended March 31,	
	2019	2018
Net income	$99,063	$152,763
Less: net income (loss) attributable to noncontrolling interest	1,015	(197)
Net income attributable to LKQ stockholders	98,048	152,960
Other comprehensive income (loss):		
Foreign currency translation, net of tax	(9,895)	48,485
Net change in unrealized gains/losses on cash flow hedges, net of tax	(2,737)	3,254
Net change in unrealized gains/losses on pension plans, net of tax	191	(621)
Net change in other comprehensive loss from unconsolidated subsidiaries	(3,463)	(605)
Other comprehensive (loss) income	(15,904)	50,513
Comprehensive income	83,159	203,276
Less: comprehensive income (loss) attributable to noncontrolling interest	1,015	(197)
Comprehensive income attributable to LKQ stockholders	$82,144	$203,473

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$316,066	$331,761
Receivables, net	1,353,491	1,154,083
Inventories	2,692,006	2,836,075
Prepaid expenses and other current assets	283,207	199,030
Total current assets	4,644,770	4,520,949
Property, plant and equipment, net	1,206,342	1,220,162
Operating lease assets, net	1,279,576	—
Intangible assets:		
Goodwill	4,354,306	4,381,458
Other intangibles, net	889,609	928,752
Equity method investments	134,234	179,169
Other assets	157,073	162,912
Total assets	$12,665,910	$11,393,402
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$952,688	$942,398
Accrued expenses:		
Accrued payroll-related liabilities	143,026	172,005
Other accrued expenses	317,826	288,425
Refund liability	105,435	104,585
Other current liabilities	100,058	61,109
Current portion of operating lease liabilities	216,172	—
Current portion of long-term obligations	136,283	121,826
Total current liabilities	1,971,488	1,690,348
Long-term operating lease liabilities, excluding current portion	1,109,814	—
Long-term obligations, excluding current portion	4,092,766	4,188,674
Deferred income taxes	305,770	311,434
Other noncurrent liabilities	329,298	364,194
Commitments and contingencies		
Stockholders’ equity:		
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 318,888,569 shares issued and 313,973,538 shares outstanding at March 31, 2019; 318,417,821 shares issued and 316,146,114 shares outstanding at December 31, 2018	3,189	3,184
Additional paid-in capital	1,420,685	1,415,188
Retained earnings	3,696,924	3,598,876
Accumulated other comprehensive loss	(190,854)	(174,950)
Treasury stock, at cost; 4,915,031 shares at March 31, 2019 and 2,271,707 shares at December 31, 2018	(130,462)	(60,000)
Total Company stockholders' equity	4,799,482	4,782,298
Noncontrolling interest	57,292	56,454
Total stockholders' equity	4,856,774	4,838,752

Total liabilities and stockholders' equity	$12,665,910	$11,393,402

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	Three Months Ended March 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$99,063	$152,763
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76,207	61,066
Impairment of Mekonomen equity method investment	39,551	—
Impairment of net assets held for sale	15,023	—
Stock-based compensation expense	5,673	5,982
Other	(310)	(3,134)
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Receivables, net	(205,029)	(130,520)
Inventories	71,811	5,016
Prepaid income taxes/income taxes payable	42,917	37,362
Accounts payable	23,291	23,924
Other operating assets and liabilities	9,028	(7,296)
Net cash provided by operating activities	177,225	145,163
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(53,016)	(62,189)
Acquisitions, net of cash acquired	(4,785)	(2,966)
Other investing activities, net	17	534
Net cash used in investing activities	(57,784)	(64,621)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,334	2,255
Taxes paid related to net share settlements of stock-based compensation awards	(1,505)	(3,292)
Purchase of treasury stock	(70,462)	—
Borrowings under revolving credit facilities	284,641	201,669
Repayments under revolving credit facilities	(312,339)	(321,525)
Repayments under term loans	(2,188)	(4,405)
Borrowings under receivables securitization facility	6,600	—
Repayments under receivables securitization facility	(36,910)	—
(Repayments) borrowings of other debt, net	(625)	4,409
Other financing activities, net	(1,277)	3,383
Net cash used in financing activities	(132,731)	(117,506)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,513)	2,877
Net decrease in cash, cash equivalents and restricted cash	(15,803)	(34,087)
Cash, cash equivalents and restricted cash, beginning of period	337,250	279,766
Cash, cash equivalents and restricted cash, end of period	$321,447	$245,679
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	$316,066	$245,679
Restricted cash included in Other assets	5,381	—
Cash, cash equivalents and restricted cash, end of period	$321,447	$245,679
Supplemental disclosure of cash paid for:		

Income taxes, net of refunds	$11,775	$15,464
Interest	14,462	13,975
Supplemental disclosure of noncash investing and financing activities:		
Noncash property, plant and equipment additions	9,054	4,199
Other financing obligations, including debt assumed in connection with business acquisitions	8,424	—
Contingent consideration liabilities	—	34

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.
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LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Stockholders’ Equity
(In thousands)

	LKQ Stockholders								
	Common Stock		Treasury Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Stockholders' Equity
BALANCE, January 1, 2019	318,418	$3,184	(2,272)	$(60,000)	$1,415,188	$3,598,876	$(174,950)	$56,454	$4,838,752
Net income	—	—	—	—	—	98,048	—	1,015	99,063
Other comprehensive loss	—	—	—	—	—	—	(15,904)	—	(15,904)
Purchase of treasury stock	—	—	(2,643)	(70,462)	—	—	—	—	(70,462)
Vesting of restricted stock units, net of shares withheld for employee tax	303	3	—	—	(1,080)	—	—	—	(1,077)
Stock-based compensation expense	—	—	—	—	5,673	—	—	—	5,673
Exercise of stock options	183	2	—	—	1,332	—	—	—	1,334
Tax withholdings related to net share settlements of stock-based compensation awards	(15)	—	—	—	(428)	—	—	—	(428)
Dividends declared to noncontrolling interest shareholder	—	—	—	—	—	—	—	(177)	(177)
BALANCE, March 31, 2019	318,889	$3,189	(4,915)	$(130,462)	$1,420,685	$3,696,924	$(190,854)	$57,292	$4,856,774

LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Stockholders’ Equity
(In thousands)

LKQ Stockholders

	Common Stock						
	Shares Issued	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Stockholders' Equity
BALANCE, January 1, 2018	309,127	$ 3,091	$ 1,141,451	$ 3,124,103	$ (70,476)	$ 8,484	$ 4,206,653
Net income	—	—	—	152,960	—	(197)	152,763
Other comprehensive income	—	—	—	—	50,513	—	50,513
Vesting of restricted stock units, net of shares withheld for employee tax	300	3	(2,399)	—	—	—	(2,396)
Stock-based compensation expense	—	—	5,982	—	—	—	5,982
Exercise of stock options	226	2	2,253	—	—	—	2,255
Shares withheld for net share settlement of stock option awards	(22)	—	(896)	—	—	—	(896)
Adoption of ASU 2018-02 (see Note 8)	—	—	—	(5,345)	5,345	—	—
Capital contributions from noncontrolling interest shareholder	—	—	—	—	—	4,107	4,107
BALANCE, March 31, 2018	309,631	$ 3,096	$ 1,146,391	$ 3,271,718	$ (14,618)	$ 12,394	$ 4,418,981

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

LKQ CORPORATION AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Interim Financial Statements
The accompanying unaudited condensed consolidated financial statements represent the consolidation of LKQ Corporation, a Delaware corporation, and its subsidiaries. LKQ Corporation is a holding company and all operations are conducted by subsidiaries. When the terms "LKQ," "the Company," "we," "us," or "our" are used in this document, those terms refer to LKQ Corporation and its consolidated subsidiaries.
We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial statements. Accordingly, certain information related to our significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normally recurring adjustments) necessary to fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented.
Operating results for interim periods are not necessarily indicative of the results that can be expected for any subsequent interim period or for a full year. These interim financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on March 1, 2019 ("2018 Form 10-K").

Note 2. Business Combinations
During the three months ended March 31, 2019, we completed two acquisitions of wholesale businesses in Europe. These acquisitions were not material to our results of operations or financial position as of and for the three months ended March 31, 2019. Total acquisition date fair value of the consideration for these acquisitions was $7 million, of which $5 million was cash paid (net of cash acquired). In addition, we assumed $7 million of existing debt as of the acquisition dates.
On May 30, 2018, we acquired Stahlgruber GmbH ("Stahlgruber"), a leading European wholesale distributor of aftermarket spare parts for passenger cars, tools, capital equipment and accessories with operations in Germany, Austria, Italy, Slovenia, and Croatia, with further sales to Switzerland. Total acquisition date fair value of the consideration for our Stahlgruber acquisition was €1.2 billion ($1.4 billion), composed of €1.0 billion ($1.1 billion) of cash paid (net of cash acquired), and €215 million ($251 million) of newly issued shares of LKQ common stock. We financed the acquisition with the proceeds from €1.0 billion ($1.2 billion) of senior notes, the direct issuance to Stahlgruber's owner of 8,055,569 newly issued shares of LKQ common stock, and borrowings under our existing revolving credit facility. We recorded $913 million ($908 million in 2018 and $5 million of adjustments in the three months ended March 31, 2019) of goodwill related to our acquisition of Stahlgruber.
On May 3, 2018, the European Commission cleared the acquisition for the entire European Union, except with respect to the wholesale automotive parts business in the Czech Republic. The acquisition of the Czech Republic wholesale business has been referred to the Czech Republic competition authority for review. The Czech Republic wholesale business represents an immaterial portion of Stahlgruber's revenue and profitability.
In addition to our acquisition of Stahlgruber, during the year ended December 31, 2018, we completed acquisitions of four wholesale businesses in North America and nine wholesale businesses in Europe. Total acquisition date fair value of the consideration for these acquisitions was $99 million, composed of $85 million of cash paid (net of cash and restricted cash acquired), $11 million of notes payable, and $3 million for the estimated value of contingent payments to former owners (with maximum potential payments totaling $5 million). During the year ended December 31, 2018, we recorded $68 million of goodwill related to these acquisitions.
Our acquisitions are accounted for under the purchase method of accounting and are included in our consolidated financial statements from the dates of acquisition. The purchase prices were allocated to the net assets acquired based upon estimated fair values at the dates of acquisition. The purchase price allocations for the acquisitions made during

the three months ended March 31, 2019 and the last nine months of the year ended December 31, 2018 are preliminary as we are in the process of determining the following: 1) valuation amounts for certain receivables, inventories and fixed assets acquired; 2) valuation amounts for certain intangible assets acquired; 3) the acquisition date fair value of certain liabilities assumed; and 4) the tax basis of the entities acquired. We have recorded preliminary estimates for certain of the items noted above and will record adjustments, if any, to the preliminary amounts upon finalization of the valuations.

During the first quarter of 2019, the measurement period adjustments recorded for acquisitions completed in prior periods were not material. The income statement effect of these measurement period adjustments that would have been recorded in previous reporting periods if the adjustments had been recognized as of the acquisition dates was immaterial.

The purchase price allocations for the acquisitions completed during the year ended December 31, 2018 are as follows (in thousands):

	Year Ended December 31, 2018		
	Stahlgruber	Other Acquisitions (1)	Total
Receivables	$144,826	$ 19,171	$163,997
Receivable reserves	(2,818)	(918)	(3,736)
Inventories	380,238	14,021	394,259
Prepaid expenses and other current assets	10,970	1,851	12,821
Property, plant and equipment	271,292	5,711	277,003
Goodwill	908,253	64,637	972,890
Other intangibles	285,255	35,159	320,414
Other assets	16,625	37	16,662
Deferred income taxes	(78,130)	(5,285)	(83,415)
Current liabilities assumed	(346,788)	(20,116)	(366,904)
Debt assumed	(79,925)	(4,875)	(84,800)
Other noncurrent liabilities assumed (2)	(80,824)	(10,306)	(91,130)
Noncontrolling interest	(44,110)	—	(44,110)
Contingent consideration liabilities	—	(3,107)	(3,107)
Other purchase price obligations	(6,084)	3,623	(2,461)
Stock issued	(251,334)	—	(251,334)
Notes issued	—	(11,347)	(11,347)
Gains on bargain purchases (3)	—	(2,418)	(2,418)
Settlement of other purchase price obligations (non-interest bearing)	—	1,711	1,711
Cash used in acquisitions, net of cash and restricted cash acquired	$1,127,446	$ 87,549	$1,214,995

(1) The amounts recorded during the year ended December 31, 2018 include a $5 million adjustment to increase other intangibles related to our acquisition of Warn Industries, Inc. ("Warn") in 2017 and $4 million of adjustments to reduce other purchase price obligations related to other 2017 acquisitions.

(2) The amount recorded for our acquisition of Stahlgruber includes a $79 million liability for certain pension obligations.

(3) The amounts recorded during the year ended December 31, 2018 are due to the gains on bargain purchases related to (i) an acquisition in Europe completed in the second quarter of 2017 as a result of changes in the acquisition date fair value of the consideration, and (ii) three acquisitions in Europe completed during 2018 as a result of changes to our estimates of the fair values of the net assets acquired.

The fair value of our intangible assets is based on a number of inputs, including projections of future cash flows, discount rates, assumed royalty rates and customer attrition rates, all of which are Level 3 inputs. We used the relief-from-royalty method to value trade names, trademarks, software and other technology assets, and we used the multi-period excess earnings method to value customer relationships. The relief-from-royalty method assumes that the intangible asset has value to the extent that its owner is relieved of the obligation to pay royalties for the benefits received from the intangible asset. The multi-period excess earnings method is based on the present value of the incremental after-tax cash flows attributable only to the customer relationship after deducting contributory asset charges. The fair value of our property, plant and equipment is determined using inputs such as market comparables and current replacement or reproduction costs of the asset, adjusted for physical, functional and economic factors;

these adjustments to arrive at fair value use unobservable inputs in which little or no market data exists, and therefore, these inputs are considered to be Level 3 inputs. See Note 11, "Fair Value Measurements" for further information regarding the tiers in the fair value hierarchy.

The acquisition of Stahlgruber expanded LKQ's geographic presence in continental Europe and serves as an additional strategic hub for our European operations. In addition, the acquisition of Stahlgruber allows for continued improvement in procurement, logistics and infrastructure optimization. The primary objectives of our other acquisitions made during the three months ended March 31, 2019 and the year ended December 31, 2018 were to create economic value for our stockholders by enhancing our position as a leading source for alternative collision and mechanical repair products and to expand into other product lines and businesses that may benefit from our operating strengths.

When we identify potential acquisitions, we attempt to target companies with a leading market presence, an experienced management team and workforce that provides a fit with our existing operations, and strong cash flows. For certain of our acquisitions, we have identified cost savings and synergies as a result of integrating the company with our existing business that provide additional value to the combined entity. In many cases, acquiring companies with these characteristics will result in purchase prices that include a significant amount of goodwill.

The following pro forma summary presents the effect of the businesses acquired during the three months ended March 31, 2019 as though the businesses had been acquired as of January 1, 2018, and the businesses acquired during the year ended December 31, 2018 as though they had been acquired as of January 1, 2017. The pro forma adjustments are based upon unaudited financial information of the acquired entities (in thousands, except per share data):

	Three Months Ended March 31,	
	2019	2018
Revenue, as reported	$3,100,303	$2,720,764
Revenue of purchased businesses for the period prior to acquisition:		
Stahlgruber	—	489,534
Other acquisitions	5,980	43,005
Pro forma revenue	$3,106,283	$3,253,303
Net income, as reported	$99,063	$152,763
Net income of purchased businesses for the period prior to acquisition, and pro forma purchase accounting adjustments:		
Stahlgruber	3,074	1,273
Other acquisitions	330	334
Acquisition related expenses, net of tax (1)	224	1,526
Pro forma net income	102,691	155,896
Less: Net income (loss) attributable to noncontrolling interest, as reported	1,015	(197)
Less: Pro forma net income attributable to noncontrolling interest	—	528
Pro forma net income attributable to LKQ stockholders	$101,676	$155,565

(1) Includes expenses related to acquisitions closed in the period and excludes expenses for acquisitions not yet completed.

Unaudited pro forma supplemental information is based upon accounting estimates and judgments that we believe are reasonable. The unaudited pro forma supplemental information includes the effect of purchase accounting adjustments, such as the adjustment of inventory acquired to fair value, adjustments to depreciation on acquired property, plant and equipment, adjustments to rent expense for above or below market leases, adjustments to amortization on acquired intangible assets, adjustments to interest expense, and the related tax effects. The pro forma impact of our acquisitions also reflects the elimination of acquisition related expenses, net of tax. Refer to Note 5, "Restructuring and Acquisition Related Expenses," for further information regarding our acquisition related expenses. These pro forma results are not necessarily indicative of what would have occurred if the acquisitions had been in effect for the periods presented or of future results.

Note 3. Financial Statement Information

Allowance for Doubtful Accounts

We have a reserve for uncollectible accounts, which was approximately $55 million and $57 million at March 31, 2019 and December 31, 2018, respectively.

Inventories

Inventories consist of the following (in thousands):

	March 31, 2019	December 31, 2018
Aftermarket and refurbished products	$2,229,681	$2,309,458
Salvage and remanufactured products	437,463	503,199
Manufactured products	24,862	23,418
Total inventories [(1)]	$2,692,006	$2,836,075

(1) During the first quarter of 2019, $62 million of inventory was classified as held for sale. Refer to the "Net Assets Held for Sale" section for further information.

Aftermarket and refurbished products and salvage and remanufactured products are primarily composed of finished goods. As of March 31, 2019, manufactured products inventory was composed of $17 million of raw materials, $2 million of work in process, and $6 million of finished goods. As of December 31, 2018, manufactured products inventory was composed of $17 million of raw materials, $2 million of work in process, and $4 million of finished goods.

Net Assets Held for Sale

During the first quarter of 2019, we committed to plans to sell certain businesses in our North America and Europe segments. As a result, these businesses were classified as net assets held for sale and were required to be adjusted to the lower of fair value less cost to sell or carrying value, resulting in total impairment charges of $15 million, which were recorded within Impairment of net assets held for sale in the Unaudited Condensed Consolidated Statement of Income. As of March 31, 2019, there were $88 million of assets held for sale, including $5 million of goodwill that was reclassified as held for sale related to our Europe segment, and $8 million of liabilities held for sale, which are recorded within Prepaid expenses and other current assets and Other current liabilities, respectively, on the Unaudited Condensed Consolidated Balance Sheet. We expect these businesses to be disposed of during the next twelve months. The businesses do not meet the requirements to be considered discontinued operations. These businesses generated annualized revenue of approximately $170 million during the twelve-month period ended March 31, 2019.

We are required to record net assets of our held for sale businesses at the lower of fair value less cost to sell or carrying value. Fair values were based on projected discounted cash flows and/or estimated selling prices. Management's assumptions for our discounted cash flow analysis of the businesses were based on projecting revenues and profits, tax rates, capital expenditures, working capital requirements and discount rates. For businesses for which we utilized estimated selling prices to calculate the fair value, factors included projected market multiples and any legitimate offers. Due to the uncertainties in the estimation process, it is possible that actual results could differ from the estimates used in the Company's historical analysis. The inputs utilized in the fair value estimates are classified as Level 3 within the fair value hierarchy. The fair values of the net assets were measured on a non-recurring basis as of March 31, 2019.

Investments in Unconsolidated Subsidiaries

Our investment in unconsolidated subsidiaries was $134 million and $179 million as of March 31, 2019 and December 31, 2018, respectively. On December 1, 2016, we acquired a 26.5% equity interest in Mekonomen AB ("Mekonomen") for an aggregate purchase price of $181 million. In October 2018, we acquired an additional $48 million of equity in Mekonomen at a discounted share price as part of its rights issue, increasing our equity interest to 26.6%. We are accounting for our interest in Mekonomen using the equity method of accounting, as our investment gives us the ability to exercise significant influence, but not control, over the investee. As of March 31, 2019, our share of the book value of Mekonomen's net assets exceeded the book value of our investment in Mekonomen by $5 million; this difference is primarily related to Mekonomen's Accumulated Other Comprehensive Income balance as of our acquisition date in 2016. We are recording our equity in the net earnings of Mekonomen on a one quarter lag. We recorded an equity loss of $40 million during the three months ended March 31, 2019, compared to equity in earnings of $2 million during the three months ended March 31, 2018 related to our investment in Mekonomen, including adjustments to convert the results to GAAP and to recognize the impact of our purchase accounting adjustments and

the other-than-temporary impairment (three months ended March 31, 2019 only) described below. In May 2018, we received a cash dividend of $8 million (SEK 67 million) related to our investment in Mekonomen. Mekonomen announced in February 2019 that the Mekonomen Board of Directors has proposed no dividend payment in 2019.
We evaluated our investment in Mekonomen for other-than-temporary impairment as of March 31, 2019, and concluded the decline in fair value was other-than-temporary due to a significant stock price decrease since December 31,

2018, the last date at which we recognized an other-than-temporary impairment charge related to our investment. Therefore, we recognized an other-than-temporary impairment of $40 million, which represented the difference in the carrying value and the fair value of our investment in Mekonomen. The fair value of our investment in Mekonomen was determined using the Mekonomen share price of SEK 65 as of March 31, 2019. The impairment charge is recorded in Equity in (losses) earnings of unconsolidated subsidiaries on our Unaudited Condensed Consolidated Statements of Income. Equity in losses and earnings from our investment in Mekonomen are reported in the Europe segment. As a result of the impairment charge, the Level 1 fair value of our equity investment in the publicly traded Mekonomen common stock at March 31, 2019 approximated the carrying value of $110 million.

Warranty Reserve

Some of our salvage mechanical products are sold with a standard six month warranty against defects. Additionally, some of our remanufactured engines are sold with a standard three year warranty against defects. We also provide a limited lifetime warranty for certain of our aftermarket products. These assurance-type warranties are not considered a separate performance obligation, and thus no transaction price is allocated to them. We record the warranty costs in Cost of goods sold on our Unaudited Condensed Consolidated Statements of Income. Our warranty reserve is calculated using historical claim information to project future warranty claims activity and is recorded within Other accrued expenses and Other noncurrent liabilities on our Unaudited Condensed Consolidated Balance Sheets based on the expected timing of the related payments.

The changes in the warranty reserve are as follows (in thousands):

Balance as of December 31, 2018	$23,262
Warranty expense	14,202
Warranty claims	(12,499)
Balance as of March 31, 2019	$24,965

Litigation and Related Contingencies

We have certain contingencies resulting from litigation, claims and other commitments and are subject to a variety of environmental and pollution control laws and regulations incident to the ordinary course of business. We currently expect that the resolution of such contingencies will not materially affect our financial position, results of operations or cash flows.

Treasury Stock

On October 25, 2018, our Board of Directors authorized a stock repurchase program under which we may purchase up to $500 million of our common stock from time to time through October 25, 2021. Repurchases under the program may be made in the open market or in privately negotiated transactions, with the amount and timing of repurchases depending on market conditions and corporate needs. The repurchase program does not obligate us to acquire any specific number of shares and may be suspended or discontinued at any time. Delaware law imposes restrictions on stock repurchases. During the three months ended March 31, 2019, we repurchased 2.6 million shares of common stock for an aggregate price of $70 million. During 2018, we repurchased 2.3 million shares of common stock for an aggregate price of $60 million. As of March 31, 2019, there is $370 million of remaining capacity under our repurchase program. Repurchased shares are accounted for as treasury stock using the cost method.

Recent Accounting Pronouncements

Adoption of New Lease Standard

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-02, "Leases" ("ASU 2016-02"), which represents the FASB Accounting Standard Codification Topic 842 ("ASC 842"), to increase transparency and comparability by recognizing lease assets and lease liabilities on the Unaudited Condensed Consolidated Balance Sheets and disclosing key information about leasing arrangements. The main difference between the prior standard and ASU 2016-02 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under the prior standard.

We adopted the standard in the first quarter of 2019 using the modified retrospective approach and took advantage of the transition package of practical expedients permitted within the new standard, which, among other things, allows us to carryforward the historical lease classification. For leases with a term of 12 months or less, we elected the short-term lease exemption, which allowed us to not recognize right-of-use assets or lease liabilities for qualifying leases existing at transition and new leases we may enter into in the future. Additionally, we adopted the practical expedient to combine lease and non-lease components.

As of January 1, 2019, we recorded both an operating lease asset and operating lease liability of $1.3 billion. The preexisting deferred rent liability balances from the historical straight-line treatment of operating leases was reclassified as a reduction of the lease asset upon adoption. The adoption of the standard did not materially affect our Unaudited Condensed Consolidated Statements of Income or Statements of Cash Flows as operating lease payments will still be an operating cash outflow and capital lease payments will still be a financing cash outflow. The new standard did not have a material impact on our liquidity. The standard will have no impact on our debt covenant compliance under our current agreements as the covenant calculations are based on the prior lease accounting rules.

Other Recently Adopted Accounting Pronouncements

During the first quarter of 2019, we adopted ASU No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"), which amends the hedge accounting recognition and presentation requirements in ASC 815 ("Derivatives and Hedging"). ASU 2017-12 significantly alters the hedge accounting model by making it easier for an entity to achieve and maintain hedge accounting and provides for accounting that better reflects an entity's risk management activities. We adopted the provisions of ASU 2017-12 by applying a modified retrospective approach to existing hedging relationships as of the adoption date. The adoption of ASU 2017-12 did not have a material impact on our unaudited condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-13, "Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"), which removes, modifies, and adds certain disclosure requirements in ASC 820. ASU 2018-13 is effective for fiscal years and interim periods beginning after December 15, 2019; early adoption is permitted. We are in the process of evaluating the impact of this standard on our disclosures but do not believe that it will have a material impact.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), and in November 2018 issued a subsequent amendment, ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses" ("ASU 2018-19"). ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. ASU 2018-19 will affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope of this amendment that represent the contractual right to receive cash. ASU 2016-13 and ASU 2018-19 should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods therein. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

Note 4. Revenue Recognition

The majority of our revenue is derived from the sale of vehicle parts. We recognize revenue when the products are shipped to, delivered to or picked up by customers, which is the point when title has transferred and risk of ownership has passed.

Sources of Revenue

We report our revenue in two categories: (i) parts and services and (ii) other. The following table sets forth our revenue by category, with our parts and services revenue further disaggregated by reportable segment (in thousands):

	Three Months Ended March 31,	
	2019	2018
North America	$1,155,698	$1,172,585
Europe	1,440,841	1,037,046
Specialty	352,556	350,674
Parts and services	2,949,095	2,560,305
Other	151,208	160,459
Total revenue	$3,100,303	$2,720,764

Parts and Services

Our parts revenue is generated from the sale of vehicle products including replacement parts, components and systems used in the repair and maintenance of vehicles and specialty products and accessories to improve the performance, functionality and appearance of vehicles. Services revenue includes additional services that are generally billed concurrently with the related product sales, such as the sale of service-type warranties and fees for admission to our self service yards.

In North America, our vehicle replacement products include sheet metal collision parts such as doors, hoods, and fenders; bumper covers; head and tail lamps; automotive glass products such as windshields; mirrors and grilles; wheels; and large mechanical items such as engines and transmissions. In Europe, our products include a wide variety of small mechanical products such as brake pads, discs and sensors; clutches; electrical products such as spark plugs and batteries; steering and suspension products; filters; and oil and automotive fluids. In our Specialty operations, we serve six product segments: truck and off-road; speed and performance; RV; towing; wheels, tires and performance handling; and miscellaneous accessories.

Our service-type warranties typically have service periods ranging from 6 months to 36 months. Under ASC 606, proceeds from these service-type warranties are deferred at contract inception and amortized on a straight-line basis to revenue over the contract period. The changes in deferred service-type warranty revenue are as follows (in thousands):

Balance as of January 1, 2019	$24,006
Additional warranty revenue deferred	10,875
Warranty revenue recognized	(9,370)
Balance as of March 31, 2019	$25,511

Other Revenue

Revenue from other sources includes scrap sales, bulk sales to mechanical manufacturers (including cores) and sales of aluminum ingots and sows from our furnace operations. We derive scrap metal from several sources, including vehicles that have been used in both our wholesale and self service recycling operations and from original equipment manufacturers ("OEMs") and other entities that contract with us for secure disposal of "crush only" vehicles. The sale of hulks in our wholesale and self service recycling operations represents one performance obligation, and revenue is recognized based on a price per weight when the customer (processor) collects the scrap. Some adjustments may occur when the customer weighs the scrap at their location, and revenue is adjusted accordingly.

Revenue by Geographic Area

See Note 15, "Segment and Geographic Information" for information related to our revenue by geographic region.

Variable Consideration

The amount of revenue ultimately received from the customer can vary due to variable consideration which includes returns, discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, or other similar items. The previous revenue guidance required us to estimate the transaction price using a best estimate approach. Under ASC 606 we are required to select the “expected value method” or the “most likely amount” method in order to estimate variable consideration. We utilize both methods in practice depending on the type of variable consideration, with contemplation of any expected reversals in revenue. As of both March 31, 2019 and December 31, 2018, we recorded a refund liability and return asset for expected returns of $105 million and $56 million, respectively. The refund liability is presented separately on the balance sheet within current liabilities while the return asset is presented within prepaid expenses and other current assets. Other types of variable consideration consist primarily of discounts, volume rebates, and other customer sales incentives which are recorded in Receivables, net on the Unaudited Condensed Consolidated Balance Sheets. We recorded a reserve for our variable consideration of $66 million and $103 million as of March 31, 2019 and December 31, 2018, respectively. While other customer incentive programs exist, we characterize them as material rights in the context of our sales transactions. We consider these programs to be immaterial to our unaudited condensed consolidated financial statements.

Note 5. Restructuring and Acquisition Related Expenses

Acquisition Related Expenses

Acquisition related expenses, which include external costs such as legal, accounting and advisory fees, were immaterial for the three months ended March 31, 2019, and were $2 million for the three months ended March 31, 2018. Acquisition related expenses for the three months ended March 31, 2019 consisted of external costs related to completed acquisitions and pending acquisitions as of March 31, 2019.

Acquisition related expenses for the three months ended March 31, 2018 included $1 million of costs related to our acquisition of Stahlgruber. The remaining acquisition related costs for the three months ended March 31, 2018 consisted of external costs related to (i) other completed acquisitions, (ii) acquisitions that were pending as of March 31, 2018, and (iii) potential acquisitions that were terminated.

Acquisition Integration Plans and Restructuring

During the three months ended March 31, 2019 and 2018, we incurred $3 million and $2 million of restructuring expenses, respectively. Restructuring expenses incurred during each of the three months ended March 31, 2019 and 2018 included $2 million related to the integration of our acquisition of Andrew Page Limited ("Andrew Page").

We expect to incur additional expenses related to the integration of certain of our acquisitions into our existing operations. These integration activities are expected to include the closure of duplicate facilities, rationalization of personnel in connection with the consolidation of overlapping facilities with our existing business, and moving expenses. Future expenses to complete these integration plans are expected to be approximately $20 million.

Note 6. Stock-Based Compensation

In order to attract and retain employees, non-employee directors, consultants, and other persons associated with us, we may grant qualified and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units (“RSUs”), performance shares and performance units under the LKQ Corporation 1998 Equity Incentive Plan (the “Equity Incentive Plan”). We have granted RSUs, stock options, and restricted stock under the Equity Incentive Plan. We expect to issue new or treasury shares of common stock to cover past and future equity grants.

RSUs

The RSUs we have issued vest over periods of up to five years, subject to a continued service condition. Currently outstanding RSUs (other than PSUs, which are described below) contain either a time-based vesting condition or a combination of a performance-based vesting condition and a time-based vesting condition, in which case both conditions must be met before any RSUs vest. For most of the RSUs containing a performance-based vesting condition, the Company must report positive diluted earnings per share, subject to certain adjustments, during any fiscal year period within five years following the grant date; we have an immaterial amount of RSUs containing other performance-based vesting conditions. Each RSU converts into one share of LKQ common stock on the applicable vesting date. The grant date fair value of RSUs is based on the market price of LKQ stock on the grant date. Our 2019 annual grant of RSUs occurred on March 1, 2019; in previous years, the annual grant occurred in mid-January. Starting with our 2019 grants, participants who are eligible for retirement (defined as a voluntary separation of service from the Company after the participant has attained at least 60 years of age and completed at least five years of service) will continue to vest in their awards; if retirement occurs during the first year of the vesting period (for RSUs subject to a time-based vesting condition) or the first year of the performance period (for RSUs with a performance-based vesting condition), the

participant vests in a prorated amount of the RSU grant based on the portion of the year employed. For our RSU grants in 2018 and prior, participants forfeit their unvested shares upon retirement.
The fair value of RSUs that vested during the three months ended March 31, 2019 was $9 million; the fair value of RSUs vested is based on the market price of LKQ stock on the date vested.
The following table summarizes activity related to our RSUs under the Equity Incentive Plan for the three months ended March 31, 2019:

	Number Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Unvested as of January 1, 2019	1,475,682	$ 34.94		
Granted	832,974	$ 27.69		
Vested	(343,552)	$ 33.47		
Forfeited / Canceled	(15,499)	$ 34.01		
Unvested as of March 31, 2019	1,949,605	$ 32.11		
Expected to vest after March 31, 2019	1,737,948	$ 32.12	3.1	$ 49,323

(1) The aggregate intrinsic value of expected to vest RSUs represents the total pretax intrinsic value (the fair value of the Company's stock on the last day of each period multiplied by the number of units) that would have been received by the holders had all RSUs vested. This amount changes based on the market price of the Company's common stock.

On March 1, 2019, we granted performance-based three-year RSUs ("PSUs") to certain employees, including our executive officers, as part of our cash incentive plan ("CIP"). As these awards are performance-based, the exact number of shares to be paid out may be up to twice the grant amount, depending on the Company's performance and the achievement of certain performance metrics (adjusted earnings per share, average organic parts and services revenue growth, and average return on invested capital) over the three year period ending December 31, 2021.
The following table summarizes activity related to our PSUs under the Equity Incentive Plan for the three months ended March 31, 2019:

	Number Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Unvested as of January 1, 2019	—	$ —		
Granted (2)	116,094	$ 27.69		
Unvested as of March 31, 2019	116,094	$ 27.69		
Expected to vest after March 31, 2019	116,094	$ 27.69	2.8	$ 3,295

(1) The aggregate intrinsic value of expected to vest PSUs represents the total pretax intrinsic value (the fair value of the Company's stock on the last day of each period multiplied by the number of units at target) that would have been received by the holders had all PSUs vested. This amount changes based on the market price of the Company's common stock and the achievement of the performance metrics relative to the established targets.
(2) Represents the number of PSUs at target payout.

Stock Options

Stock options vest over periods of up to five years, subject to a continued service condition. Stock options expire either six or ten years from the date they are granted. No options were granted during the three months ended March 31, 2019. No options vested during the three months ended March 31, 2019; all of our outstanding options are fully vested.

The following table summarizes activity related to our stock options under the Equity Incentive Plan for the three months ended March 31, 2019:

	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Balance as of January 1, 2019	1,051,494	$ 10.15		
Exercised	(182,541)	$ 7.31		$ 3,274
Canceled	(6,528)	$ 15.21		
Balance as of March 31, 2019	862,425	$ 10.72	0.7	$ 15,362
Exercisable as of March 31, 2019	862,425	$ 10.72	0.7	$ 15,362

(1) The aggregate intrinsic value of outstanding and exercisable options represents the total pretax intrinsic value (the difference between the fair value of the Company's stock on the last day of each period and the exercise price, multiplied by the number of options where the fair value exceeds the exercise price) that would have been received by the option holders had all option holders exercised their options as of the last day of the period indicated. This amount changes based on the market price of the Company’s common stock.

Stock-Based Compensation Expense

Pre-tax stock-based compensation expense for RSUs and PSUs totaled $6 million for each of the three months ended March 31, 2019 and 2018. As of March 31, 2019, unrecognized compensation expense related to unvested RSUs and PSUs was $55 million. Stock-based compensation expense related to these awards will be different to the extent that forfeitures are realized and performance under the PSUs differs from target.

Note 7. Earnings Per Share

The following chart sets forth the computation of earnings per share (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2019	2018
Net income	$ 99,063	$ 152,763
Denominator for basic earnings per share—Weighted-average shares outstanding	315,046	309,517
Effect of dilutive securities:		
RSUs	414	619
PSUs	—	—
Stock options	558	1,211
Denominator for diluted earnings per share—Adjusted weighted-average shares outstanding	316,018	311,347
Earnings per share, basic	$ 0.31	$ 0.49
Earnings per share, diluted	$ 0.31	$ 0.49

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The following table sets forth the number of employee stock-based compensation awards outstanding but not included in the computation of diluted earnings per share because their effect would have been antidilutive for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
Antidilutive securities:		
RSUs	599	—
Stock options	32	—

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Note 8. Accumulated Other Comprehensive Income (Loss)

The components of Accumulated Other Comprehensive Income (Loss) are as follows (in thousands):

Three Months Ended March 31, 2019	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized (Loss) Gain on Pension Plans	Other Comprehensive Loss from Unconsolidated Subsidiaries	Accumulated Other Comprehensive (Loss) Income
Beginning balance	$(177,597)	$ 14,374	$ (8,075)	$ (3,652)	$ (174,950)
Pretax (loss) income	(9,895)	15,593	—	—	5,698
Income tax effect	—	(3,654)	—	—	(3,654)
Reclassification of unrealized (gain) loss	—	(19,188)	253	—	(18,935)
Reclassification of deferred income taxes	—	4,512	(62)	—	4,450
Other comprehensive loss from unconsolidated subsidiaries	—	—	—	(3,463)	(3,463)
Ending balance	$(187,492)	$ 11,637	$ (7,884)	$ (7,115)	$ (190,854)

Three Months Ended March 31, 2018	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized (Loss) Gain on Pension Plans	Other Comprehensive Loss from Unconsolidated Subsidiaries	Accumulated Other Comprehensive (Loss) Income
Beginning balance	$(71,933)	$ 11,538	$ (8,772)	$ (1,309)	$ (70,476)
Pretax income (loss)	48,435	(4,501)	(629)	—	43,305
Income tax effect	50	1,053	8	—	1,111
Reclassification of unrealized loss	—	8,747	—	—	8,747
Reclassification of deferred income taxes	—	(2,045)	—	—	(2,045)
Other comprehensive loss from unconsolidated subsidiaries	—	—	—	(605)	(605)
Adoption of ASU 2018-02	2,859	2,486	—	—	5,345
Ending balance	$(20,589)	$ 17,278	$ (9,393)	$ (1,914)	$ (14,618)

Net unrealized gains on our interest rate swaps, inclusive of our interest rate swap agreements and the interest rate swap component of our cross currency swaps, totaling $2 million were reclassified to Interest expense, net of interest income in our Unaudited Condensed Consolidated Statements of Income during each of the three months ended March 31, 2019 and 2018. We also reclassified gains of $4 million and $1 million to Interest expense, net of interest income related to the foreign currency forward component of our cross currency swaps during the three months ended March 31, 2019 and 2018, respectively. Also related to our cross currency swaps, we reclassified gains of $13 million and losses of $12 million to Other income, net in our Unaudited Condensed Consolidated Statements of Income during the three months ended March 31, 2019 and 2018, respectively; these gains and losses offset the impact of the remeasurement of the underlying contracts. Net unrealized losses related to our pension plans were reclassified to Other income, net in our Unaudited Condensed Consolidated Statements of Income during the three months ended March 31, 2019. Our policy is to reclassify the income tax effect from Accumulated other comprehensive income (loss) to the Provision for income taxes when the related gains and losses are released to the Unaudited Condensed Consolidated Statements of Income.

During the first quarter of 2018, we adopted ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"), which allowed a reclassification from Accumulated other comprehensive income (loss) to Retained earnings for stranded tax effects resulting from the reduction of the U.S. federal statutory income tax rate to 21% from 35% due to the enactment of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). As a result of the adoption of ASU 2018-02 in the first quarter of 2018, we recorded a $5 million reclassification to increase Accumulated other comprehensive income (loss) and decrease Retained earnings.

Note 9. Long-Term Obligations

Long-term obligations consist of the following (in thousands):

	March 31, 2019	December 31, 2018
Senior secured credit agreement:		
Term loans payable	$347,813	$350,000
Revolving credit facilities	1,363,544	1,387,177
U.S. Notes (2023)	600,000	600,000
Euro Notes (2024)	560,900	573,350
Euro Notes (2026/28)	1,121,800	1,146,700
Receivables securitization facility	79,690	110,000
Notes payable through October 2030 at weighted average interest rates of 2.1% and 2.0%, respectively	21,701	23,056
Finance lease obligations	42,160	39,966
Other long-term debt at weighted average interest rate of 1.9% and 1.8%, respectively	126,540	117,448
Total debt	4,264,148	4,347,697
Less: long-term debt issuance costs	(34,810)	(36,906)
Less: current debt issuance costs	(289)	(291)
Total debt, net of debt issuance costs	4,229,049	4,310,500
Less: current maturities, net of debt issuance costs	(136,283)	(121,826)
Long term debt, net of debt issuance costs	$4,092,766	$4,188,674

Senior Secured Credit Agreement

On November 20, 2018, LKQ Corporation, LKQ Delaware LLP, and certain other subsidiaries (collectively, the "Borrowers") entered into Amendment No. 3 to the Fourth Amended and Restated Credit Agreement ("Credit Agreement"), which amended the Fourth Amended and Restated Credit Agreement dated January 29, 2016 by modifying certain terms to (1) increase the total availability under the revolving credit facility's multicurrency component from $2.75 billion to $3.15 billion; (2) reduce the margin on borrowings by 25 basis points at the September 30, 2018 leverage ratio, and reduce the number of leverage pricing tiers; (3) extend the maturity date by one year to January 29, 2024; (4) reduce the unused facility fee depending on leverage category; (5) increase the capacity for incurring additional indebtedness under our receivables securitization facility; (6) increase the maximum borrowing limit of swingline loans and add the ability to borrow in British Pounds and Euros; and (7) make other immaterial or clarifying modifications and amendments to the terms of the Credit Agreement. Borrowings will continue to bear interest at variable rates.

Amounts under the revolving credit facility are due and payable upon maturity of the Credit Agreement on January 29, 2024. Term loan borrowings, which totaled $348 million as of March 31, 2019, are due and payable in quarterly installments equal to $2 million on the last day of each of the first four fiscal quarters ending on or after March 31, 2019 and approximately $4 million on the last day of each fiscal quarter thereafter, with the remaining balance due and payable on January 29, 2024.

The increase in the revolving credit facility's multicurrency component of $400 million was used in part to pay down $240 million of the term loan (to the new $350 million amount that was outstanding as of the date of the amendment); the remainder will be used for general corporate purposes.

We are required to prepay the term loan by amounts equal to proceeds from the sale or disposition of certain assets if the proceeds are not reinvested within twelve months. We also have the option to prepay outstanding amounts under the Credit Agreement without penalty.

The Credit Agreement contains customary representations and warranties and customary covenants that provide limitations and conditions on our ability to enter into certain transactions. The Credit Agreement also contains financial and affirmative covenants, including limitations on our net leverage ratio and a minimum interest coverage ratio.

Borrowings under the Credit Agreement bear interest at variable rates, which depend on the currency and duration of the borrowing elected, plus an applicable margin. The applicable margin is subject to change in increments of 0.25% depending on our net leverage ratio. Interest payments are due on the last day of the selected interest period or quarterly in arrears depending on the type of borrowing. Including the effect of the interest rate swap agreements described in Note 10, "Derivative

Instruments and Hedging Activities," the weighted average interest rates on borrowings outstanding under the Credit Agreement at March 31, 2019 and December 31, 2018 were 1.8% and 1.9%, respectively. We also pay a commitment fee based on the average daily unused amount of the revolving credit facilities. The commitment fee is subject to change in increments of 0.05% depending on our net leverage ratio. In addition, we pay a participation commission on outstanding letters of credit at an applicable rate based on our net leverage ratio, and a fronting fee of 0.125% to the issuing bank, which are due quarterly in arrears.

Of the total borrowings outstanding under the Credit Agreement, there were $11 million classified as current maturities at March 31, 2019 compared to $9 million at December 31, 2018. As of March 31, 2019, there were letters of credit outstanding in the aggregate amount of $65 million. The amounts available under the revolving credit facilities are reduced by the amounts outstanding under letters of credit, and thus availability under the revolving credit facilities at March 31, 2019 was $1.7 billion.

Related to the execution of Amendment No. 3 to the Fourth Amended and Restated Credit Agreement in November 2018, we incurred $4 million of fees, the majority of which were capitalized as an offset to Long-Term Obligations and are amortized over the term of the agreement.

U.S. Notes (2023)

In 2013, we issued $600 million aggregate principal amount of 4.75% senior notes due 2023 (the "U.S. Notes (2023)"). The U.S. Notes (2023) are governed by the Indenture dated as of May 9, 2013 (the "U.S. Notes (2023) Indenture") among LKQ Corporation, certain of our subsidiaries (the "Guarantors"), the trustee, paying agent, transfer agent and registrar. The U.S. Notes (2023) are registered under the Securities Act of 1933.

The U.S. Notes (2023) bear interest at a rate of 4.75% per year from the most recent payment date on which interest has been paid or provided for. Interest on the U.S. Notes (2023) is payable in arrears on May 15 and November 15 of each year. The U.S. Notes (2023) are fully and unconditionally guaranteed, jointly and severally, by the Guarantors.

The U.S. Notes (2023) and the related guarantees are, respectively, LKQ Corporation's and each Guarantor's senior unsecured obligations and are subordinated to all of the Guarantors' existing and future secured debt to the extent of the assets securing that secured debt. In addition, the U.S. Notes (2023) are effectively subordinated to all of the liabilities of our subsidiaries that are not guaranteeing the U.S. Notes (2023) to the extent of the assets of those subsidiaries.

Euro Notes (2024)

On April 14, 2016, LKQ Italia Bondco S.p.A. (“LKQ Italia”), an indirect, wholly-owned subsidiary of LKQ Corporation, completed an offering of €500 million aggregate principal amount of senior notes due April 1, 2024 (the “Euro Notes (2024)”) in a private placement conducted pursuant to Regulation S and Rule 144A under the Securities Act of 1933. The proceeds from the offering were used to repay a portion of the revolver borrowings under the Credit Agreement and to pay related fees and expenses. The Euro Notes (2024) are governed by the Indenture dated as of April 14, 2016 (the “Euro Notes (2024) Indenture”) among LKQ Italia, LKQ Corporation and certain of our subsidiaries (the “Euro Notes (2024) Subsidiaries”), the trustee, and the paying agent, transfer agent, and registrar.

The Euro Notes (2024) bear interest at a rate of 3.875% per year from the date of original issuance or from the most recent payment date on which interest has been paid or provided for. Interest on the Euro Notes (2024) is payable in arrears on April 1 and October 1 of each year. The Euro Notes (2024) are fully and unconditionally guaranteed by LKQ Corporation and the Euro Notes (2024) Subsidiaries (the "Euro Notes (2024) Guarantors").

The Euro Notes (2024) and the related guarantees are, respectively, LKQ Italia’s and each Euro Notes (2024) Guarantor’s senior unsecured obligations and are subordinated to all of LKQ Italia's and the Euro Notes (2024) Guarantors’ existing and future secured debt to the extent of the assets securing that secured debt. In addition, the Euro Notes (2024) are effectively subordinated to all of the liabilities of our subsidiaries that are not guaranteeing the Euro Notes (2024) to the extent of the assets of those subsidiaries. The Euro Notes (2024) have been listed on the ExtraMOT, Professional Segment of the Borsa Italia S.p.A. securities exchange and the Global Exchange Market of Euronext Dublin.

Euro Notes (2026/28)

On April 9, 2018, LKQ European Holdings B.V. ("LKQ Euro Holdings"), a wholly-owned subsidiary of LKQ Corporation, completed an offering of €1.0 billion aggregate principal amount of senior notes. The offering consisted of €750 million senior notes due 2026 (the "2026 notes") and €250 million senior notes due 2028 (the "2028 notes" and, together with the 2026 notes, the "Euro Notes (2026/28)") in a private placement conducted pursuant to Regulation S and Rule 144A under the Securities Act of 1933. The proceeds from the offering, together with borrowings under our senior secured credit facility, were or will be used to (i) finance a portion of the consideration paid for the Stahlgruber acquisition, (ii) for general corporate purposes and (iii) to pay related fees and expenses, including the refinancing of net financial debt. The Euro Notes (2026/28) are governed by the Indenture dated as of April 9, 2018 (the “Euro Notes (2026/28) Indenture”) among LKQ Euro Holdings, LKQ Corporation and certain of our subsidiaries (the “Euro Notes (2026/28) Subsidiaries”), the trustee, paying agent, transfer agent, and registrar.

The 2026 notes and 2028 notes bear interest at a rate of 3.625% and 4.125%, respectively, per year from the date of original issuance or from the most recent payment date on which interest has been paid or provided for. Interest on the Euro Notes (2026/28) is payable in arrears on April 1 and October 1 of each year, beginning on October 1, 2018. The Euro Notes (2026/28) are fully and unconditionally guaranteed by LKQ Corporation and the Euro Notes (2026/28) Subsidiaries (the "Euro Notes (2026/28) Guarantors").

The Euro Notes (2026/28) and the related guarantees are, respectively, LKQ Euro Holdings' and each Euro Notes (2026/28) Guarantor’s senior unsecured obligations and will be subordinated to all of LKQ Euro Holdings' and the Euro Notes (2026/28) Guarantors’ existing and future secured debt to the extent of the assets securing that secured debt. In addition, the Euro Notes (2026/28) are effectively subordinated to all of the liabilities of our subsidiaries that are not guaranteeing the Euro Notes (2026/28) to the extent of the assets of those subsidiaries. The Euro Notes (2026/28) have been listed on the Global Exchange Market of Euronext Dublin.

Related to the execution of the Euro Notes (2026/28) in April 2018, we incurred $16 million of fees, which were capitalized as an offset to Long-Term Obligations and are amortized over the term of the Euro Notes (2026/28).

Receivables Securitization Facility

On December 20, 2018, we amended the terms of our receivables securitization facility with MUFG Bank, Ltd. ("MUFG") (formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd.) to: (i) extend the term of the facility to November 8, 2021; (ii) increase the maximum amount available to $110 million; and (iii) make other clarifying and updating changes. Under the facility, LKQ sells an ownership interest in certain receivables, related collections and security interests to MUFG for the benefit of conduit investors and/or financial institutions for cash proceeds. Upon payment of the receivables by customers, rather than remitting to MUFG the amounts collected, LKQ retains such collections as proceeds for the sale of new receivables generated by certain of the ongoing operations of the Company. The sale of the ownership interest in the receivables is accounted for as a secured borrowing in our Unaudited Condensed Consolidated Balance Sheets, under which the receivables included in the program collateralize the amounts invested by MUFG, the conduit investors and/or financial institutions (the "Purchasers"). The receivables are held by LKQ Receivables Finance Company, LLC ("LRFC"), a wholly owned bankruptcy-remote special purpose subsidiary of LKQ, and therefore, the receivables are available first to satisfy the creditors of LRFC, including the Purchasers. Net receivables totaling $142 million and $132 million were collateral for the investment under the receivables facility as of March 31, 2019 and December 31, 2018, respectively.

Under the receivables facility, we pay variable interest rates plus a margin on the outstanding amounts invested by the Purchasers. The variable rates are based on (i) commercial paper rates, (ii) London Interbank Offered Rate ("LIBOR"), or (iii) base rates, and are payable monthly in arrears. The commercial paper rate is the applicable variable rate unless conduit investors are not available to invest in the receivables at commercial paper rates. In such case, financial institutions will invest at the LIBOR rate or at base rates. We also pay a commitment fee on the excess of the investment maximum over the average daily outstanding investment, payable monthly in arrears. As of March 31, 2019, the interest rate under the receivables facility was based on commercial paper rates and was 3.4%. The outstanding balances of $80 million and $110 million as of March 31, 2019 and December 31, 2018, respectively, were classified as long-term on the Unaudited Condensed Consolidated Balance Sheets because we have the ability and intent to refinance these borrowings on a long-term basis.

Note 10. Derivative Instruments and Hedging Activities

We are exposed to market risks, including the effect of changes in interest rates, foreign currency exchange rates and commodity prices. Under our current policies, we use derivatives to manage our exposure to variable interest rates on our senior secured debt and changing foreign exchange rates for certain foreign currency denominated transactions. We do not hold or issue derivatives for trading purposes.

Cash Flow Hedges

We hold interest rate swap agreements to hedge a portion of the variable interest rate risk on our variable rate borrowings under our Credit Agreement, with the objective of minimizing the impact of interest rate fluctuations and stabilizing cash flows. Under the terms of the interest rate swap agreements, we pay the fixed interest rate and receive payment at a variable rate of interest based on LIBOR for the respective currency of each interest rate swap agreement’s notional

amount. Changes in the fair value of the interest rate swap agreements are recorded in Accumulated Other Comprehensive Income (Loss) and are reclassified to interest expense when the underlying interest payment has an impact on earnings. Our interest rate swap contracts have maturity dates ranging from January to June 2021. In December 2018, we sold two interest rate swap contracts with a notional amount of $110 million.
From time to time, we may hold foreign currency forward contracts related to certain foreign currency denominated intercompany transactions, with the objective of minimizing the impact of fluctuating exchange rates on these future cash flows. Under the terms of the foreign currency forward contracts, we will sell the foreign currency in exchange for U.S. dollars at a fixed rate on the maturity dates of the contracts. Changes in the fair value of the foreign currency forward contracts are recorded in Accumulated Other Comprehensive Income (Loss) and reclassified to other income, net when the underlying transaction has an impact on earnings.
In 2016, we entered into three cross currency swap agreements for a total notional amount of $422 million (€400 million). The notional amount steps down by €15 million annually through 2020 with the remainder maturing in January 2021. These cross currency swaps contain an interest rate swap component and a foreign currency forward contract component that, combined with related intercompany financing arrangements, effectively convert variable rate U.S. dollar-denominated borrowings into fixed rate euro-denominated borrowings. The swaps are intended to minimize the impact of fluctuating exchange rates and interest rates on the cash flows resulting from the related intercompany financing arrangements. The changes in the fair value of the derivative instruments are recorded in Accumulated Other Comprehensive Income (Loss) and are reclassified to interest expense, net of interest income when the underlying transactions have an impact on earnings.
In October 2018, we entered into two cross currency swap agreements for a total notional amount of $184 million (€160 million). Half of the notional amount matures in October 2019 with the remainder in October 2020. The purpose and accounting of the swaps are similar to those described in the previous paragraph.
The activity related to our cash flow hedges is presented in operating activities in our Unaudited Condensed Consolidated Statements of Cash Flows.
The following tables summarize the notional amounts and fair values of our designated cash flow hedges as of March 31, 2019 and December 31, 2018 (in thousands):

	Notional Amount	Fair Value at March 31, 2019 (USD)			
	March 31, 2019	Other Current Assets	Other Assets	Other Accrued Expenses	Other Noncurrent Liabilities
Interest rate swap agreements					
USD denominated	$480,000	$—	$11,350	$ —	$ —
Cross currency swap agreements					
USD/euro	$570,349	2,242	7,669	144	29,442
Total cash flow hedges		$2,242	$19,019	$ 144	$ 29,442

	Notional Amount	Fair Value at December 31, 2018 (USD)			
	December 31, 2018	Other Current Assets	Other Assets	Other Accrued Expenses	Other Noncurrent Liabilities
Interest rate swap agreements					
USD denominated	$480,000	$—	$14,967	$ —	$ —
Cross currency swap agreements					
USD/euro	$574,315	211	7,669	127	40,870
Total cash flow hedges		$211	$22,636	$ 127	$ 40,870

While certain derivative instruments executed with the same counterparty are subject to master netting arrangements, we present our cash flow hedge derivative instruments on a gross basis in our Unaudited Condensed Consolidated Balance Sheets. The impact of netting the fair values of these contracts would result in a decrease to Other Assets and Other Noncurrent Liabilities on our Unaudited Condensed Consolidated Balance Sheets of $12 million and $14 million at March 31, 2019 and December 31, 2018, respectively.

The activity related to our cash flow hedges is included in Note 8, "Accumulated Other Comprehensive Income (Loss)." As of March 31, 2019, we estimate that $4 million of derivative gains (net of tax) included in Accumulated Other Comprehensive Income (Loss) will be reclassified into our Unaudited Condensed Consolidated Statements of Income within the next 12 months.

Other Derivative Instruments

We hold other short-term derivative instruments, including foreign currency forward contracts, to manage our exposure to variability related to inventory purchases and intercompany financing transactions denominated in a non-functional currency. We have elected not to apply hedge accounting for these transactions, and therefore the contracts are adjusted to fair value through our results of operations as of each balance sheet date, which could result in volatility in our earnings. The notional amount and fair value of these contracts at March 31, 2019 and December 31, 2018, along with the effect on our results of operations during the three months ended March 31, 2019 and 2018, were immaterial.

Note 11. Fair Value Measurements

Financial Assets and Liabilities Measured at Fair Value

We use the market and income approaches to estimate the fair value of our financial assets and liabilities, and during the three months ended March 31, 2019, there were no significant changes in valuation techniques or inputs related to the financial assets or liabilities that we have historically recorded at fair value. The tiers in the fair value hierarchy include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as significant unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following tables present information about our financial assets and liabilities measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation inputs we utilized to determine such fair value as of March 31, 2019 and December 31, 2018 (in thousands):

	Exhibit No.
Balance as of March 31, 2019	**Description**
	10.40 (21) Stockholder Agreement, dated as of February 15, 2006, between Merrill Lynch & Co., Inc. and New Boise, Inc.31.1 Section 302 Certification of Chief Executive Officer.31.2 Section 302 Certification of Chief Financial Officer.32.1 Section 906 Certification of Chief Executive Officer and Chief Financial Officer.

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(1) Incorporated by Reference to the Registrant s Registration Statement on Form S-1 (Registration No. 333-78367), as amended, originally filed with the Securities and Exchange Commission on May 13, 1999.

(2) Incorporated by Reference to the Registrant s Registration Statement on Form S-8 (Registration No. 333-32406), originally filed with the Securities and Exchange Commission on March 14, 2000.

(3) Incorporated by Reference to the Registrant s Quarterly Report on Form 10-Q (Commission File No. 001-15305), for the quarter ended March 31, 2000.

(4) Incorporated by Reference to the Registrant s Quarterly Report on Form 10-Q (Commission File No. 001-15305), for the quarter ended September 30, 2000.

(5) Incorporated by Reference to the Registrant s Quarterly Report on Form 10-Q (Commission File No. 001-15305), for the quarter ended September 30, 2001.

(6) Incorporated by Reference to the Registrant s Registration Statement on Form S-8 (Registration No. 333-68670), originally filed with the Securities and Exchange Commission on August 30, 2001.

(7) Incorporated by Reference to the Registrant s Registration Statement on Form S-8 (Registration No. 333-68666), originally filed with the Securities and Exchange Commission on August 30, 2001.

(8) Incorporated by Reference to the Registrant s Quarterly Report on Form 10-Q (Commission File No. 001-15305), for the quarter ended June 30, 2002.

(9) Incorporated by Reference to the Registrant s Quarterly Report on Form 10-Q (Commission File No. 001-15305), for the quarter ended September 30, 2002.

(10) Incorporated by Reference to the Registrant s Annual Report on Form 10-K (Commission File No. 001-15305), for the year ended December 31, 2002.
(11) Incorporated by Reference to the Registrant s Quarterly Report on Form 10-Q (Commission File No. 001-15305), for the quarter ended March 31, 2004.
(12) Incorporated by Reference to the Registrant s Quarterly Report on Form 10-Q (Commission File No. 001-15305), for the quarter ended June 30, 2004.
(13) Incorporated by Reference to Exhibit 99.3 to the Registrant s Current Report on Form 8-K (Commission File No. 001-15305) filed on August 30, 2004.
(14) Incorporated by Reference to the Registrant s Quarterly Report on Form 10-Q (Commission File No. 001-15305) for the quarter ended September 30, 2004.
(15) Incorporated by Reference to Exhibit 99.2 to the Registrant s Current Report on Form 8-K (Commission File No. 001-15305) filed on January 31, 2005.
(16) Incorporated by Reference to the Registrant s Annual Report on Form 10-K (Commission File No. 001-15305) for the year ended December 31, 2004.
(17) Incorporated by Reference to the Registrant s Quarterly Report on Form 10-Q (Commission File No. 001-15305) for the quarter ended September 30, 2005.
(18) Incorporated by Reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K (Commission File No. 001-15305) filed on February 22, 2006.
(19) Incorporated by Reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K (Commission File No. 001-15305) filed on February 22, 2006.
(20) Incorporated by Reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K (Commission File No. 001-15305) filed on February 22, 2006.
(21) Incorporated by Reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K (Commission File No. 001-15305) filed on February 22, 2006.
\+ Denotes compensatory plans.