LKQ CORP
Form 10-K
March 01, 2019

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
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 Number) |
| 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 | Name of each exchange on which registered |
|---|---|
| Common Stock, par value $.01 per share | NASDAQ Global Select Market |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

As of June 30, 2018, the aggregate market value of common stock outstanding held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was approximately $10.1 billion (based on the closing sale price on the NASDAQ Global Select Market on such date). The number of outstanding shares of the registrant's common stock as of February 22, 2019 was 314,775,176.

Documents Incorporated by Reference

Those sections or portions of the registrant's proxy statement for the Annual Meeting of Stockholders to be held on May 6, 2019, described in Part III hereof, are incorporated by reference in this report.

PART I
SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

Statements and information in this Annual Report on Form 10-K that are not historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are made pursuant to the “safe harbor” provisions of such Act.

Forward-looking statements include, but are not limited to, statements regarding our outlook, guidance, expectations, beliefs, hopes, intentions and strategies. Words such as "may," "will," "plan," "should," "expect," "anticipate," "believe," "if," "estimate," "intend," "project" and similar words or expressions are used to identify these forward-looking statements. These statements are subject to a number of risks, uncertainties, assumptions and other factors including those identified below. All forward-looking statements are based on information available to us at the time the statements are made. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

You should not place undue reliance on our forward-looking statements. Actual events or results may differ materially from those expressed or implied in the forward-looking statements. The risks and uncertainties that could cause actual results to differ from the results predicted or implied by our forward-looking statements include the following (not necessarily in order of importance):

- changes in economic and political activity in the U.S. and other countries in which we are located or do business, including the U.K. withdrawal from the European Union (also known as Brexit), and the impact of these changes on our businesses, the demand for our products and our ability to obtain financing for operations;
- increasing competition in the automotive parts industry (including the potential competitive advantage to original equipment manufacturers ("OEMs") with "connected car" technology);
- fluctuations in the pricing of new OEM replacement products;
- changes in the level of acceptance and promotion of alternative automotive parts by insurance companies and vehicle repairers;
- changes to our business relationships with insurance companies or changes by insurance companies to their business practices relating to the use of our products;
- our ability to identify sufficient acquisition candidates at reasonable prices to maintain our growth objectives;
- our ability to integrate, realize expected synergies, and successfully operate acquired companies and any companies acquired in the future, and the risks associated with these companies;
- the implementation of a border tax or tariff on imports and the negative impact on our business due to the amount of inventory we import;
- restrictions or prohibitions on selling certain aftermarket products through enforcement by OEMs of intellectual property rights;
- restrictions or prohibitions on importing certain aftermarket products by border enforcement agencies based on, among other things, intellectual property infringement claims;
- variations in the number of vehicles manufactured and sold, vehicle accident rates, miles driven, and the age profile of vehicles in accidents;
- the increase of accident avoidance systems being installed in vehicles;
- the potential loss of sales of certain mechanical parts due to the rise of electric vehicle sales;
- fluctuations in the prices of fuel, scrap metal and other commodities;
- changes in laws or regulations affecting our business;
- higher costs and the resulting potential inability to service our customers to the extent that our suppliers decide to discontinue business relationships with us;
- price increases, interruptions or disruptions to the supply of vehicle parts from aftermarket suppliers and vehicles from salvage auctions;
- changes in the demand for our products and the supply of our inventory due to severity of weather and seasonality of weather patterns;

- the risks associated with operating in foreign jurisdictions, including foreign laws and economic and political instabilities;
- declines in the values of our assets;
- additional unionization efforts, new collective bargaining agreements, and work stoppages;
- our ability to develop and implement the operational and financial systems needed to manage our operations;
- interruptions, outages or breaches of our operational systems, security systems, or infrastructure as a result of attacks on, or malfunctions of, our systems;
- costs of complying with laws relating to the security of personal information;
- product liability claims by the end users of our products or claims by other parties who we have promised to indemnify for product liability matters;
- costs associated with recalls of the products we sell;
- potential losses of our right to operate at key locations if we are not able to negotiate lease renewals;
- inaccuracies in the data relating to our industry published by independent sources upon which we rely;
- currency fluctuations in the U.S. dollar, pound sterling and euro versus other currencies;
- our ability to obtain financing on acceptable terms to finance our growth;
- our ability to satisfy our debt obligations and to operate within the limitations imposed by financing arrangements;
- changes to applicable U.S. and foreign tax laws, changes to interpretations of tax laws, and changes in our mix of earnings among the jurisdictions in which we operate; and
- disruptions to the management and operations of our business and the uncertainties caused by activist investors.

Other matters set forth in this Annual Report may also cause our actual results to differ materially from our forward-looking statements, including the risk factors disclosed in Item 1A of this Annual Report.

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website (www.lkqcorp.com) as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission.

ITEM 1. BUSINESS

OVERVIEW

LKQ Corporation ("LKQ" or the "Company") is a global distributor 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.

Buyers of vehicle replacement products have the option to purchase from primarily five sources: new products produced by original equipment manufacturers ("OEMs"); new products produced by companies other than the OEMs, which are referred to as aftermarket products; recycled products obtained from salvage vehicles; used products that have been refurbished; and used products that have been remanufactured. Collectively, we refer to these four sources that are not new OEM products as alternative parts. We distribute a variety of products to collision and mechanical repair shops, including aftermarket collision and mechanical products; recycled collision and mechanical products; refurbished collision products such as wheels, bumper covers and lights; and remanufactured engines and transmissions.

We are a leading provider of alternative vehicle collision replacement products and alternative vehicle mechanical replacement products, with our sales, processing, and distribution facilities reaching most major markets in the United States and Canada. We are also a leading provider of alternative vehicle replacement and maintenance products in the United Kingdom, Germany, the Benelux region (Belgium, Netherlands, and Luxembourg), Italy, Czech Republic, Poland, Slovakia, Austria, and various other European countries. In addition to our wholesale operations, we operate self service retail facilities across the U.S. that sell recycled automotive products from end-of-life vehicles. We are also a leading distributor of specialty vehicle aftermarket equipment and accessories reaching most major markets in the U.S. and Canada.

We are organized into four operating segments: Wholesale - North America, Europe, Specialty, and Self Service. We aggregate our Wholesale - North America and Self Service operating segments into one reportable segment, North America, resulting in three reportable segments: North America, Europe and Specialty. See Note 16, "Segment and Geographic Information" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for financial information by reportable segment and by geographic region.

HISTORY

We were initially formed in 1998 through the combination of a number of wholesale recycled products businesses located in Florida, Michigan, Ohio and Wisconsin. We subsequently expanded through internal development and approximately 270 acquisitions of aftermarket, recycled, refurbished, and remanufactured product suppliers and manufacturers; self service retail businesses; and specialty vehicle aftermarket equipment and accessories suppliers. Our most significant acquisitions include:

- 2007 acquisition of Keystone Automotive Industries, Inc., which, at the time of acquisition, was the leading domestic distributor of aftermarket products, including collision replacement products, paint products, refurbished steel bumpers, bumper covers and alloy wheels.
- 2011 acquisition of Euro Car Parts Holdings Limited ("ECP"), a vehicle mechanical aftermarket parts distribution company operating in the United Kingdom. This acquisition served as our entry into the European automotive aftermarket business, from which we have expanded our European footprint through organic growth and subsequent acquisitions.
- 2013 acquisition of Sator Beheer B.V. ("Sator"), a vehicle mechanical aftermarket parts distribution company based in the Netherlands, with operations in the Netherlands, Belgium and Northern France. This acquisition allowed us to further expand our geographic presence into continental Europe.
- 2014 acquisition of Keystone Automotive Holdings, Inc. (“Keystone Specialty”), which expanded our product offering and increased our addressable market to include specialty vehicle aftermarket equipment and accessories.
- 2016 acquisition of Rhiag-Inter Auto Parts Italia S.r.l. (“Rhiag”), a distributor of aftermarket spare parts for passenger cars and commercial vehicles in Italy, Czech Republic, Slovakia, Switzerland, Hungary, Romania, Ukraine, Bulgaria, Poland and Spain. This acquisition expanded our geographic presence in continental Europe.
- 2018 acquisition of Stahlgruber GmbH (“Stahlgruber”), a 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. This acquisition expanded our geographic presence in continental Europe and serves as

an additional strategic hub for our European operations.

Further information regarding our recent acquisitions is included in Note 2, "Business Combinations" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

STRATEGY

Our mission is to be the leading global value-added distributor of vehicle parts and accessories by offering our customers the most comprehensive, available and cost-effective selection of part solutions while building strong partnerships with our employees and the communities in which we operate.

We have four primary pillars of a strategy to build economic value: growth through diversified product offerings; growth through geographic expansion; adaptation to evolving technology; and rationalization of our asset base to enhance margins and return on capital. We believe our supply network, with a broad inventory of quality alternative collision and mechanical repair products and specialty vehicle aftermarket products, high fulfillment rates, and superior customer service, provides us with a competitive advantage. To execute our strategy, we are focused on a number of key areas, including:

- Extensive distribution network. We have invested significant capital to develop a network of alternative and specialty vehicle parts facilities across our operating segments. Additionally, our ability to move inventory throughout our distribution networks increases the availability of our products and helps us to fill a relatively high percentage of our customers' requests. In order to expand our distribution network, we will continue to seek to enter new markets and to improve penetration through both organic development and acquisitions. We will continue to seek opportunities to leverage the distribution network by delivering more parts through our existing network. We believe our North America segment has the largest distribution network of alternative vehicle parts and accessories for the automotive collision repair market in North America. In our Europe segment, we are implementing a similar strategy to our North America operations by establishing a Pan-European distribution network. We currently have operations in 24 different European countries, which we believe represents the broadest and largest footprint in the aftermarket industry in Europe. On a global basis, we have approximately 1,700 locations as part of our distribution network.
- Broad product offering. The breadth and depth of our inventory across all of our operating segments reinforces our ability to provide a "one-stop" solution for our customers' alternative vehicle replacement, maintenance, and specialty vehicle product needs.
- High fulfillment rates. We manage local inventory levels to improve delivery and maximize customer service. Improving local order fulfillment rates reduces transfer costs and delivery times, and improves customer satisfaction.
- Strong business relationships. We have developed business relationships with key constituents, including customers, automobile insurance companies, suppliers and other industry participants in North America, Europe, and Asia.
- Acquisitions. The primary objective of our acquisitions is to expand our presence to new or adjacent geographic markets and to expand into other product lines and businesses that may benefit from our operating strengths, in each case with the aim of increasing the size of our addressable market. When we identify potential acquisitions, we attempt to target companies with a leading market presence, an experienced management team and workforce that provide a fit with our existing operations, and strong cash flows. After completing an acquisition, we focus on integrating the company with our existing business to provide additional value to the combined entity through cost savings and synergies, such as logistics cost synergies resulting from integration with our existing distribution network, administrative cost savings, shared procurement, and cross-selling opportunities.
- Technology driven business processes. We focus on technology development as a way to support our competitive advantage. We believe that we can more cost effectively leverage our data to make better business decisions than our smaller competitors.
- Adaptation to evolving technology in the automotive industry. We are committed to monitoring and adapting our business to the technological changes in the automotive industry. We have recently established a strategy and innovation team that will help us to be more forward-looking and to assess the potential opportunities and risks associated with several areas including, but not limited to, e-commerce, accident avoidance systems, vehicle connectivity, autonomous vehicles, electric vehicles and ride-sharing trends.

NORTH AMERICA SEGMENT

Our North America segment is composed of wholesale operations, which consists of aftermarket and salvage operations, self service retail operations, and aviation operations.

Wholesale Operations

Inventory

Our wholesale operations in North America sell five product types (aftermarket, recycled, remanufactured, refurbished and, to a lesser extent, OEM parts) to professional collision and mechanical automobile repair businesses. Our principal aftermarket product types consist of those most frequently damaged in collisions, including bumper covers, automotive body panels, lights and automotive glass products such as windshields. Platinum Plus is our exclusive product line offered under the Keystone brand of aftermarket products. Certain of our products are certified by independent organizations such as the Certified Automotive Parts Association (“CAPA”) and NSF International (“NSF”). CAPA and NSF are associations that evaluate the quality of aftermarket collision replacement products compared to OEM collision replacement products. We also developed a product line called "Value Line" for more value conscious, often self-pay, consumers. Our salvage products include both mechanical and collision parts, including engines; transmissions; door assemblies; sheet metal products such as trunk lids, fenders and hoods; lights; and bumper assemblies.

The aftermarket products we distribute are purchased from independent manufacturers and distributors located primarily in North America and Asia, principally Taiwan. In 2018, approximately 39% of our aftermarket purchases were made from our top 4 vendors, with our largest vendor providing approximately 15% of our annual inventory purchases. We believe we are one of the largest customers of each of these suppliers. Outside of this group, no other supplier provided more than 5% of our supply of aftermarket products in 2018. We purchased approximately 47% of our aftermarket products in 2018 directly from manufacturers in Taiwan and other Asian countries. Approximately 50% of our aftermarket products were purchased from vendors located in the U.S.; however, we believe the majority of these products were manufactured in Taiwan, Mexico or other foreign countries.

Within our wholesale operations, we focus our procurement on products that are in the most demand, based on a number of factors such as historical sales records of vehicles by model and year, customer requests, and projections of future supply and demand trends. Because lead times may be 40 days or more on imported aftermarket products, sales volumes and in-stock inventory are important factors in the procurement process.

In our aftermarket operations, we use a third party enterprise management system and other third party software packages to leverage the centralized data and information that a single system provides, such as a data warehouse to conduct enhanced analytics and reporting, an integrated budgeting system, an electronic data interchange tool, and E-commerce tools to enhance our online business-to-business initiatives - OrderKeystone.com and Keyless.

We procure recycled products for our wholesale operations by acquiring total loss vehicles, typically sold at regional salvage auctions, and then dismantling and inventorying the parts. The availability and pricing of the salvage vehicles we procure for our wholesale recycled products operations may be impacted by a variety of factors, including the production level of new vehicles and the percentage of damaged vehicles declared total losses. Our bidding specialists are equipped with a proprietary software application that allows them to compare the vehicles at salvage auctions against our current inventory levels, historical demand, and recent average selling prices to arrive at an estimated maximum bid.

Our wholesale recycled product locations in North America operate an internally-developed, proprietary enterprise management system called LKQX. We believe that the use of a single system across all of our wholesale recycled product operations helps facilitate the sales process; allows for continued implementation of standard operating procedures; and yields improved training efficiency, employee transferability, access to our national inventory database, management reporting and data storage. The system also supports an electronic exchange process for identifying and locating parts at other select recyclers and facilitates brokered sales to fill customer orders for items not in stock.

Scrap and Other Materials

Our salvage operations generate scrap metal and other materials that we sell to metals recyclers. Vehicles that have been dismantled for recycled products and "crush only" end-of-life vehicles acquired from other companies are typically crushed using equipment on site. In other cases, we will hire mobile crushing equipment to crush the vehicles before they are transported to shredders and scrap metal processors. Damaged and unusable wheel cores are melted in our aluminum furnace and sold to consumers of aluminum ingot and sow for the production of various automotive products, including wheels. We also extract and sell the precious metals contained in certain of our recycled parts such as catalytic converters.

Customers

We sell our products to wholesale customers that include collision and mechanical repair shops and new and used car dealerships, as well as to retail customers. The majority of these customers tend to be individually-owned small businesses, although the number of independent and dealer-operated collision repair facilities has declined over the last decade, as regional or national multiple-location operators have increased their geographic presence through

consolidation.
Automobile insurance companies affect the demand for our collision products; while insurance companies do not pay for our products directly, they ultimately pay for the repair costs of insured vehicles in excess of any deductible amount. As a result, insurance companies often influence the types of products used in a repair. The use of our products instead of OEM products provides a direct benefit to insurance companies by lowering the cost of repairs, decreasing the time required to return the repaired vehicle to the customer, and providing a replacement product that is of high quality and comparable performance to the part replaced.

Our sales personnel are encouraged to promote LKQ to customers as a “one-stop shop” by offering comparable options from our other product lines if the desired part is not in stock. To support these efforts, we have provided our sales staff with access to both recycled and aftermarket sales systems to encourage cross selling.

To better serve our customers, we take a consolidated approach to the electronic sale of wholesale products in our North America segment. A full suite of e-commerce services is available to approved partners that helps us improve order accuracy, reduce return rate and better fit our customer workflow. Using these services in coordination with our partners, products can be searched, priced and ordered without leaving the customers' own operating systems.

Distribution

We have a distribution network of warehouses and cross dock facilities, which allows us to develop and maintain our service levels with local repair shops while providing fulfillment rates that are made possible by our nationwide presence. Our delivery fleet utilizes a third party software provider to optimize delivery routes, and to track the progress of delivery vehicles throughout their runs. Our local presence allows us to provide daily deliveries as required by our customers, using drivers who routinely deliver to the same customers. Our sales force and local delivery drivers develop and maintain critical personal relationships with the local repair shops that benefit from access to our wide selection of products, which we are able to offer as a result of our regional inventory network. We operate a delivery fleet of medium-sized trucks and smaller trucks and vans, which deliver multiple product types on the same delivery routes to help minimize distribution costs and improve customer service.

Competition

We consider all suppliers of vehicle collision and mechanical products to be competitors, including aftermarket suppliers, recycling businesses, refurbishing operations, parts remanufacturers, OEMs and internet-based suppliers. We compete with alternative parts distributors on the basis of our nationwide distribution system, our product lines and inventory availability, customer service, our relationships with insurance companies, and to a lesser extent, price; we compete with OEMs primarily on the basis of price and, to a lesser extent, on service and product quality. We do not consider retail chains that focus on the do-it-yourself market to be our direct competitors since many of our wholesale product sales are influenced by insurance companies, who ultimately pay for the repair costs of insured vehicles in excess of any deductible amount, rather than the end user, and there is limited overlap in the products that we sell.

Self Service Operations

Our self service retail operations, most of which operate under the name “LKQ Pick Your Part,” allow consumers to come directly to the yard to pick parts off of salvage vehicles. In addition to revenue from the sale of parts, core, and scrap, we charge a nominal admission fee to access the property.

Inventory

We acquire inventory for our self service retail product operations from a variety of sources, including but not limited to towing companies, vehicle auctions, the general public, municipality sales, insurance carriers, and charitable organizations. We typically procure salvage vehicles for our self service retail product operations that are generally older and of lower price than the salvage vehicles we purchase for our wholesale recycled product operations. Vehicles are delivered to our locations by the seller, or we arrange for transportation. Once on our property, minimal labor is required to process the vehicle other than removing the battery, fluids, refrigerants, catalytic converters and hazardous materials. The extracted fluids are stored in bulk and subsequently sold to recyclers. Vehicles are then placed in the yard for customers to remove parts. In our self service business, availability of a specific part will depend on which vehicles are currently at the site and to what extent parts may have been previously sold. We usually keep a vehicle at our facility for 30 to 120 days, depending on the capacity of the yard and size of the market, before it is crushed and sold to scrap metal processors.

Scrap and Other Materials

Our self service operations generate scrap metal, alloys and other materials that we sell to recyclers. Vehicles that we no longer make available to the public and "crush only" vehicles acquired from other companies, including OEMs, are typically crushed using equipment on site. Damaged and unusable wheel cores are melted in our aluminum furnace and sold to consumers of aluminum ingot and sow for the production of various automotive products, including wheels. We also extract and sell the precious metals contained in certain of our recycled parts such as catalytic converters.

Customers

The customers of our self service yards are frequently do-it-yourself mechanics, small independent repair shops servicing older vehicles, auto rebuilders, and resellers. The scrap from the vehicle hulks, when not processed by us, is sold to metals recyclers, with whom we may also compete when procuring salvage vehicles for our operations.

Competition

There are competitors operating self service businesses in all of the markets in which we operate. In some markets, there are numerous competitors, often operating in close proximity to our operations. We try to differentiate our business by the quality of the inventory and the size and cleanliness of the property. We also differentiate our business from our competitors through our app, which allows customers to receive daily push notifications when cars they are interested in are placed into their favorite yards. In addition to allowing customers to see our available inventory, the app also allows customers to input search parameters such as the specific part they are searching for, and the year, make, and model of the vehicle, in an effort to expand the number of cars that might be available to pull parts from. We do not consider retail chains that focus on the do-it-yourself market to be our direct competitors, as there is limited overlap in the products that we sell.

Aviation Operations

Our aviation operations specialize in the sale of recycled aviation parts, including aircraft structural components and spare parts, complete engines, engine components, and whole airplanes to regional Maintenance, Repair and Overhaul providers, aircraft operators, fixed-base operators, corporate customers, and other aviation dealers and distributors around the globe. Our aviation business is located in the U.S., with sales representation in Mexico and the U.K. Our aviation business comprises approximately 1% of our North America segment revenue.

EUROPE SEGMENT

Our Europe segment was built on four key acquisitions: ECP (2011), Sator (2013), Rhiag (2016) and Stahlgruber (2018). Additionally, in 2014 we expanded our European segment to include wholesale recycling operations through our acquisition of a business with salvage and vehicle repair facilities in Sweden and Norway, and in 2016, we acquired an equity investment in Mekonomen AB ("Mekonomen"), the leading independent car parts and service chain in the Nordic region of Europe. Mekonomen is independent of our existing European operations, but we are exploring areas where the companies can work together in a mutually beneficial manner, primarily related to procurement. Our European strategy is to target platform acquisitions to cover broad markets initially, then integrate these businesses with our other operations and subsequently expand our footprint in these regions through new branch openings and smaller tuck-in acquisitions with the goal of eventually attaining continent-wide coverage. Our acquisitions provide a platform to capitalize on the large and fragmented aftermarket mechanical replacement parts market in Europe, and allow for potential cost savings from the leveraging of our combined purchasing power given the significant overlap in suppliers and product mix. We have acquired many smaller businesses within the regions we operate and over time, we anticipate further integration of our European operations as we optimize purchasing, warehousing, cataloging, logistics and back-office functions, and align our private label brands across the segment.

Inventory

Our inventory is primarily composed of mechanical aftermarket parts for the repair of vehicles 3 to 15 years old. Our top selling products include 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 addition to mechanical aftermarket parts, we also sell collision parts in our Europe segment, although these sales represent less than 2% of total Europe segment revenue.

In 2018, our top two suppliers represented 12% of our aftermarket inventory purchases, with our top supplier representing approximately 7% of our purchases. No other suppliers comprised more than 5% of our purchases during 2018. The aftermarket products we distribute are purchased from vendors located primarily in the U.K. and continental Europe. In 2018, we purchased 93% of our products from companies in Europe. The remaining 7% of our 2018 purchases were sourced from vendors located primarily in China or Taiwan, some of which also supply collision parts for our Wholesale - North America operations. In 2018, 66%, 22%, 6%, and 3% of our total inventory purchases were made in Euros, Pounds Sterling, U.S. Dollars and Czech Koruna, respectively.

Our aftermarket operations in Europe use various information technology (“IT”) systems. Our systems are complex, and are designed to do a variety of tasks (depending on the market), including: manage customer orders and inventory movement, optimize our warehouse and logistics, and financial reporting. Certain of our IT systems can interface with our repair shop customers' respective IT systems, which enables them to identify the part required for the repair. In 2018, as part of our strategy to create an integrated European company, we initiated a multi-year program to develop a European wide ERP system, which will reduce the number of IT systems we operate.

In our Nordic operations, we purchase severely damaged or totaled vehicles from insurance companies, which are transferred to our dismantling facilities or sold to other third party dismantlers.

Customers

We primarily operate a two-step (i.e. direct sales to customers) distribution model in Europe, although certain of our operations, such as Italy, the Netherlands, Germany, Switzerland, and Hungary, operate wholly or partially a three-step (i.e.

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sales to distributors who in turn sell to customers) distribution model. In our two-step operations, we sell the majority of our products to commercial customers primarily consisting of professional repairers, including both independent mechanical repair shops and collision repair shops. In our three-step operations, we sell products to wholesale distributors or jobbers. In addition to our sales to repair shops and wholesale distributors, we generate a portion of our revenue through sales to retail customers from e-commerce platforms and from counter sales at the branch locations.

Distribution

Our European operations employ a distribution model in which inventory is stored at national or international distribution centers or regional hubs, with fast moving product stored at branch locations (where we operate a two-step distribution model). The large distribution centers regularly re-stock the smaller branches and hubs and hold slower moving items allowing us high fulfillment rates. Product is moved through the distribution network on our vans or via common carrier.

Competition

We view all suppliers of replacement repair products as our competitors, including other alternative parts suppliers and OEMs and their dealer networks. We face significant competition in many markets where even smaller competitors can compete on price and service and the OEM's compete via ties to, and brand loyalty of, the consumer while also remaining competitive on price, service and availability. We believe we have been able to distinguish ourselves from other alternative parts suppliers primarily through our distribution network, efficient stock management systems and proprietary technology, which allows us to deliver our products quickly, as well as through our product lines and inventory availability, pricing, and service.

SPECIALTY SEGMENT

Our Specialty operating segment was formed in 2014 with our acquisition of Keystone Specialty, a leading distributor and marketer of specialty vehicle aftermarket products and accessories in North America. Our Specialty operations reach most major markets in the U.S. and Canada and serve the following six product segments: RV; truck and off-road; towing; speed and performance; wheels, tires and performance handling; and miscellaneous accessories. In 2017, we acquired Warn Industries, Inc. ("Warn"), a leading designer, manufacturer and marketer of high performance vehicle equipment and accessories. The acquisition of Warn expanded our presence in the specialty market and creates viable points of entry into related markets.

Inventory

The specialty vehicle aftermarket equipment and accessories we distribute and raw materials for products we manufacture are purchased from suppliers located primarily in the U.S., Canada, and China. Our top selling products are RV appliances & air conditioners, towing hitches, truck bed covers, vehicle protection products, cargo management products, and wheels, tires & suspension products. Specialty aftermarket suppliers are typically small to medium-sized, independent businesses that focus on a narrow product or market niche. Due to the highly fragmented supplier base for specialty vehicle aftermarket products, we have limited supplier concentration. In 2018, approximately 14% of our specialty vehicle aftermarket purchases were made from our top two suppliers, with our largest supplier providing approximately 9% of our annual inventory purchases. No other suppliers comprised more than 5% of our purchases during 2018. With our 2017 acquisition of Warn, we have internal manufacturing capabilities to source aftermarket winches, hoists, and bumpers.

Most of our Specialty operations utilize an internally developed inventory management and order entry system that interfaces with third party software systems for accounting, transaction processing, data analytics, and reporting.

Customers

Overall, the specialty vehicle aftermarket parts and accessories market serves a fragmented customer base composed of RV and specialty automotive dealers, installers, jobbers, builders, parts chains, and mail-order businesses. Our customers are principally small, independent businesses. These customers depend on us to provide a broad range of products, rapid delivery, marketing support and technical assistance. In addition to traditional customers, in recent years we have increased sales to several large parts and accessory online retailers. Our Specialty segment also operates retail stores in northeast Pennsylvania.

We promote our products to customers through marketing programs, which include: (i) catalogs, advertising, sponsorships and promotional activities, (ii) product level marketing and merchandising support, and (iii) online and digital marketing initiatives. Our national footprint allows us to stage trade shows across the U.S., which provide an opportunity to improve sales through the showcasing of new and innovative products from our vendors to our customers.

Online sales of our Specialty products take place primarily through our ekeystone.com and viantp.com sites and mobile app. These sites provide customers (i) the ability to match products with the make and model of vehicle thus allowing the customer to order the right part, (ii) product information (e.g. pictures, attributes) available for review and (iii) the convenience of searching inventory availability and ordering the product on the site. Additionally, the site can provide sales opportunities by suggesting other parts to purchase based on an inquiry submitted by the customer.

Distribution

Our Specialty segment operations employ a hub-and-spoke distribution model which enables us to transport products from our primary distribution centers to our non-inventory stocking cross docks, a majority of which are co-located with our North America wholesale operations and provide distribution points to key regional markets and synergies with our existing infrastructure. We believe this provides added value to our customers through a broader product offering and more efficient distribution process. We use our delivery routes to provide delivery and returns of our products directly to and from our customers in all 48 continental U.S. states and 9 Canadian provinces, and we ship globally to customers in other countries. Our delivery fleet utilizes a third party software provider to optimize delivery routes, and to track the progress of delivery vehicles throughout their runs.

Competition

Industry participants have a variety of supply choices. Vendors can deliver products to market via warehouse distributors and mail order catalog businesses, or directly to retailers and/or consumers. We view all suppliers of specialty vehicle aftermarket equipment and accessories as our competitors. We believe we have been able to distinguish ourselves from other specialty vehicle aftermarket parts and equipment suppliers primarily through our broad product selection, which encompasses both popular and hard-to-find products, our national distribution network, and efficient inventory management systems, as well as through our service. We compete on the basis of product breadth and depth, rapid and dependable delivery, marketing initiatives, support services, and price.

## INTELLECTUAL PROPERTY

We own and have the right to use various intellectual property, including intellectual property acquired as a result of past acquisitions. In addition to trade names, trademarks and patents, we also have technology-based intellectual property that has been both internally developed and obtained through license agreements and acquisitions. We do not believe that our business is materially dependent on any single item of intellectual property, or any single group of related intellectual property, owned or licensed, nor would the expiration of any particular item or related group of intellectual property, or the termination of any particular intellectual property license agreement materially affect our business.

## EMPLOYEES

As of December 31, 2018, we employed approximately 51,000 persons, of which approximately 22,500 were employed in North America and approximately 28,500 were employed outside of North America. Of our employees in North America, approximately 1,200 were represented by unions. Outside of North America, we have government-mandated collective bargaining agreements and union contracts in certain countries, particularly in Europe where many of our employees are represented by unions and/or works councils. We consider our employee relations to be good.

## FACILITIES

As of December 31, 2018, our operations included approximately 1,700 facilities, most of which are leased. Of our total facilities, approximately 550 facilities were located in the U.S. and approximately 1,150 facilities were located in 24 other countries. Many of our locations stock multiple product types or serve more than one function.

Our global headquarters are located at 500 West Madison Street, Chicago, Illinois 60661. Our North American headquarters, in Nashville, Tennessee, performs certain centralized functions for our North American operations, including accounting, procurement, and information systems support. In 2018, we expanded the size of our North American headquarters via construction of a new 100,000 square foot facility in Nashville. Our European operations are distributed throughout Europe with some main offices in Tamworth, England; in Schiedam, and Amsterdam, the Netherlands; in Milan, Italy; in Prague, Czech Republic; and in Poing, Germany. In addition to these offices, we have two national distribution centers in Tamworth totaling 1,000,000 and 500,000 square feet, respectively, which house inventory to supply the hubs and branches of our U.K. and Republic of Ireland operations, and one international distribution center in Sulzbach-Rosenberg, Germany which supplies our recently acquired Stahlgruber's operations in Germany, Austria, Italy, Slovenia and Croatia. Our Specialty operations maintain primary procurement, accounting and finance functions in Exeter, Pennsylvania. Certain back-office support functions for our segments are performed in Bangalore, India. Additionally, we operate an aftermarket parts warehouse in Taiwan to aggregate inventory for shipment to our locations in North America.

## REGULATION

Our operations and properties are subject to laws and regulations relating to the protection of the environment in the U.S. and the other countries in which we operate. See the risk factor “We are subject to environmental regulations and incur costs relating to environmental matters” in Part I, Item 1A of this Annual Report on Form 10-K for further information regarding the effects of environmental laws and regulations on us.

We may be affected by tariffs and other import laws and restrictions because we import into the U.S. a significant number of products for sale and distribution. See the risk factors “If significant tariffs or other restrictions are placed on products or materials we import or any related counter-measures are taken by countries to which we export products, our revenue and results of operations may be materially harmed” and “Intellectual property claims relating to aftermarket products could adversely affect our business” in Part 1, Item 1A of this Annual Report on Form 10-K for further information regarding importation risks.

Our business processes and operations are subject to laws and regulations relating to privacy and data protection. See the risk factor “The costs of complying with the requirements of laws pertaining to the privacy and security of personal information and the potential liability associated with the failure to comply with such laws could materially adversely affect our business and results of operations” in Part 1, Item 1A of this Annual Report on Form 10-K for further information about privacy and data protection risks.

Some jurisdictions have enacted laws to restrict or prohibit the sale of alternative vehicle parts. See the risk factor “Existing or new laws and regulations may prohibit, restrict or burden the sale of aftermarket, recycled, refurbished or remanufactured products” in Part 1, Item 1A of this Annual Report on Form 10-K for further information concerning regulatory restrictions on the sale of our products.

We have thousands of employees located in the U.S. and many other countries and are subject to labor and employment laws in numerous jurisdictions. See the risk factor “Our business may be adversely affected by union activities and labor and employment laws” in Part 1, Item 1A of this Annual Report on Form 10-K for further information regarding these labor and employment risks.

SEASONALITY

Our operating results are subject to quarterly variations based on a variety of factors, influenced primarily by seasonal changes in weather patterns. During the winter months, we tend to have higher demand for our vehicle replacement products because there are more weather related repairs. Our specialty vehicle operations typically generate greater revenue and earnings in the second quarter, when vehicle owners tend to install this equipment, and lower revenue and earnings in the fourth quarter, when the number of RV trips tends to decline as a result of the winter weather. Our aftermarket glass operations typically generate greater revenue and earnings in the second and third quarters, when the demand for automotive replacement glass increases after the winter weather.

ITEM 1A. RISK FACTORS

Risks Relating to Our Business

Our operating results and financial condition have been and could continue to be adversely affected by the economic and political conditions in the U.S. and elsewhere.

Changes in economic and political conditions in the U.S., Europe and other countries in which we are located or do business could have a material effect on our company. Changes in such conditions have, in some periods, resulted in fewer miles driven, fewer accident claims, and a reduction of vehicle repairs, all of which could negatively affect our business. The number and types of new vehicles produced and sold by manufacturers affects our business. A decrease in the number of vehicles on the road results in a decrease in repairs.

Our sales are also impacted by changes to the economic health of vehicle owners. The economic health of vehicle owners is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, taxation, fuel prices, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside of our control. If any of these conditions worsen, our business, results of operations, financial condition and cash flows could be adversely affected.

In addition, economic conditions, including decreased access to credit, may result in financial difficulties leading to restructurings, bankruptcies, liquidations and other unfavorable events for our customers, suppliers, logistics and other service providers and financial institutions that are counterparties to our credit facilities and hedge transactions. These unfavorable events affecting our business partners could have an adverse effect on our business, results of operations, financial condition and cash flows.

We have a substantial business presence in Europe, including a significant presence in the U.K. and the Republic of Ireland (“ROI”). In June 2016, voters in the U.K. decided by referendum to withdraw from the European Union (also known as Brexit). The precise timing and impacts of this action on our businesses in the U.K. and other parts of Europe are unknown at this time. Since the vote, we have seen fluctuations in exchange rates leading to cost pressures and unfavorable translation effects on our sterling denominated earnings. Depending upon how the details of the U.K.’s withdrawal from the European Union are negotiated and implemented, our European businesses could be adversely affected as a result of further fluctuations in exchange rates, disruptions to access to markets by U.K. and ROI companies, interruptions of the movement of goods and services between countries, a decrease of economic activity in Europe, and political or social unrest. The U.K.’s withdrawal from the European Union is scheduled to occur on March 29, 2019. The U.K. and the European Union have been attempting to negotiate the terms of the withdrawal but have not been able to reach an agreement. Unless there is an agreed extension or cancellation of the withdrawal, the withdrawal will occur on March 29, 2019. If no negotiated withdrawal agreement is reached, businesses (including ours) will likely experience greater disruptions and risks than would occur compared with a negotiated withdrawal.

We face intense competition from local, national, international, and internet-based vehicle products providers, and this competition could negatively affect our business.

The vehicle replacement products industry and vehicle accessory parts industry are highly competitive and are served by numerous suppliers of OEM, recycled, aftermarket, refurbished and remanufactured products. Within each of these categories of suppliers, there are local owner-operated companies, larger regional suppliers, national and international providers, and internet-based suppliers and distributors. Providers of vehicle replacement and accessory products that have traditionally sold only certain categories of such products may decide to expand their product offerings into other categories of vehicle products, which may further increase competition. Some of our current and potential competitors may have more operational expertise; greater financial, technical, manufacturing, distribution, and other resources; longer operating histories; lower cost structures; and better relationships in the insurance and vehicle repair industries or with consumers, than we do.

In certain regions of the U.S., local vehicle recycling companies have formed cooperative efforts to compete in the wholesale recycled products industry. Similarly, in Europe, some local companies are part of cooperative efforts to compete in the aftermarket parts industry. As a result of these factors, our competitors may be able to provide products that we are unable to supply, provide their products at lower costs, or supply products to customers that we are unable to serve.

We believe that a majority of collision parts by dollar amount are supplied by OEMs, with the balance being supplied by distributors of alternative aftermarket, recycled, refurbished and remanufactured collision parts like us. The OEMs are therefore able to exert pricing pressure in the marketplace. We compete with the OEMs primarily on price and to a lesser extent on service and quality. From time to time, the OEMs have implemented programs seeking to increase their market share in the collision repair parts industry. For example, they have reduced prices on specific products to match the lower prices of alternative products and introduced other rebate programs that may disrupt our sales. The growth of these programs or the introduction of new ones could have a material adverse impact on our business.

In addition, vehicles are being equipped with systems that transmit data to the OEMs wirelessly regarding, among other items, accident incidents, maintenance requirements, location of the vehicle, identification of the closest dealership, and other statistics about the vehicle and its driving history. To the extent that this data is not shared with alternative suppliers, the OEMs will have an advantage with respect to such matters as contacting the vehicle driver, recommending repairs and maintenance, and directing the vehicle owner to an affiliated dealership.

We rely upon our customers and insurance companies to promote the usage of alternative parts.

Our success depends, in part, on the acceptance and promotion of alternative parts usage by automotive insurance companies and vehicle repair facilities. There can be no assurance that current levels of alternative parts usage will be maintained or will increase in the future.

We rely on business relationships with insurance companies. These insurance companies encourage vehicle repair facilities to use products we provide. The business relationships include in some cases participation in aftermarket quality and service assurance programs that may result in a higher usage of our aftermarket products than would be the case without the programs. Our arrangements with these companies may be terminated by them at any time, including in connection with their own business concerns relating to the offering, availability, standards or operations of the aftermarket quality and service assurance programs. We rely on these relationships for sales to some collision repair shops, and a termination of these relationships may result in a loss of sales, which could adversely affect our results of operations.

In an Illinois lawsuit involving State Farm Mutual Automobile Insurance Company ("Avery v. State Farm"), a jury decided in October 1999 that State Farm breached certain insurance contracts with its policyholders by using non-OEM replacement products to repair damaged vehicles when use of such products did not restore the vehicle to its "pre-loss condition." The jury found that State Farm misled its customers by not disclosing the use of non-OEM replacement products and the alleged inferiority of those products. The jury assessed damages against State Farm of $456 million, and the judge assessed an additional $730 million of disgorgement and punitive damages for violations of the Illinois Consumer Fraud Act. In April 2001, the Illinois Appellate Court upheld the verdict but reduced the damage award by $130 million because of duplicative damage awards. On August 18, 2005, the Illinois Supreme Court reversed the awards made by the circuit court and found, among other things, that the plaintiffs had failed to establish any breach of contract by State Farm. The U.S. Supreme Court declined to hear an appeal of this case. As a result of this case, some insurance companies reduced or eliminated their use of aftermarket products. Our financial results could be adversely affected if insurance companies modified or terminated the arrangements pursuant to which repair shops buy aftermarket or recycled products from us due to a fear of similar claims.

In addition, to the extent that the collision repair industry continues to consolidate, the buying power of collision repair shop customers may further increase, putting additional pressure on our financial returns.

We may not be able to successfully acquire new businesses or integrate acquisitions, which could cause our growth and profitability objectives to suffer.

We may not be able to successfully complete potential strategic acquisitions if we cannot reach agreement on acceptable terms, if we do not obtain required antitrust or other regulatory approvals, or for other reasons. Moreover, we may not be able to identify a sufficient number of acquisition candidates at reasonable prices to maintain our inorganic growth objectives, and/or be able to successfully integrate acquisitions.

If we buy a company or a division of a company, we may experience difficulty integrating that company's or division's personnel and operations, which could negatively affect our operating results. In addition:

- the key personnel of the acquired company may decide not to work for us;
- customers of the acquired company may decide not to purchase products from us;
- suppliers of the acquired company may decide not to sell products to us;
- we may experience business disruptions as a result of information technology systems conversions;
- we may experience additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, and financial reporting;
- we may be held liable for environmental, tax or other risks and liabilities as a result of our acquisitions, some of which we may not have discovered during our due diligence;
- we may intentionally assume the liabilities of the companies we acquire, which could result in material adverse effects on our business;

• our existing business may be disrupted or receive insufficient management attention;

- we may not be able to realize the cost savings or other financial benefits we anticipated, either in the amount or in the time frame that we expect; and
- we may incur debt or issue equity securities to pay for any future acquisition, the issuance of which could involve the imposition of restrictive covenants or be dilutive to our existing stockholders.

Intellectual property claims relating to aftermarket products could adversely affect our business.

OEMs and others have attempted to use claims of intellectual property infringement against manufacturers and distributors of aftermarket products to restrict or eliminate the sale of aftermarket products that are the subject of the claims. The OEMs have brought such claims in federal court and with the U.S. International Trade Commission. U.S. Customs and Border Protection have used claims of intellectual property infringement to seize certain of our aftermarket parts as we attempted to import them into the U.S.

To the extent OEMs and other manufacturers obtain design patents and trademarks and are successful in asserting infringement of these patents and trademarks and defending their validity, we could be restricted or prohibited from selling certain aftermarket products, which could have an adverse effect on our business. We will likely incur significant expenses investigating and defending intellectual property infringement claims. In addition, aftermarket products certifying organizations may revoke the certification of parts that are the subject of the claims. Lack of certification may negatively impact us because many major insurance companies recommend or require the use of aftermarket products only if they have been certified by an independent certifying organization.

In December 2005 and May 2008, Ford Global Technologies, LLC filed complaints with the International Trade Commission against us and others alleging that certain aftermarket products imported into the U.S. infringed on Ford design patents. The parties settled these matters in April 2009 pursuant to a patent license arrangement that is currently scheduled to expire in March 2020. In January 2014, Chrysler Group, LLC filed a complaint against us in the U.S. District Court in the Eastern District of Michigan contending that certain aftermarket parts we sell infringe Chrysler design patents. The parties settled this matter in June 2014 pursuant to a patent license arrangement that expires in June 2019. In the event that these license arrangements, or other similar license arrangements with OEMs, are terminated or we are unable to agree upon renewal terms, we may be subject to costs and uncertainties of litigation as well as restrictions on our ability to sell aftermarket parts that replicate parts covered by design patents.

If the number of vehicles involved in accidents declines or the number of cars being repaired declines, or the mix of the types of vehicles in the overall vehicle population changes, our business could suffer.

Our business depends on vehicle accidents, mechanical failures and routine maintenance for both the demand for repairs using our products and the supply of recycled, remanufactured and refurbished parts. To the extent that a relatively higher percentage of damaged vehicles are declared total losses, there will be less demand for our products to repair such vehicles. In addition, our business is impacted by factors which influence the number and/or severity of accidents and mechanical failures including, but not limited to, the number of vehicles on the road, the number of miles driven, the ages of drivers, the occurrence and severity of certain weather conditions, the congestion of traffic, drivers distracted by electronic equipment, the use of alcohol or drugs by drivers, the usage rate and effectiveness of accident avoidance systems in new vehicles, the reliability of new OEM parts, and the condition of roadways. For example, an increase in the acceptance of ride-sharing could reduce the number of vehicles on the road. Additionally, an increase in fuel prices may cause the number of vehicles on the road, the number of miles driven, and the need for mechanical repairs and maintenance to decline, as motorists seek alternative transportation options. Mild weather conditions, particularly during winter months, tend to result in a decrease in vehicle accidents. Moreover, legislation banning the use of handheld cellular telephones or other electronic devices while driving could lead to a decline in accidents.

Systems designed to minimize accident frequency and severity are becoming more prevalent and more technologically sophisticated. To the extent OEMs install or are mandated by law to install accident avoidance systems in their vehicles, the number and severity of accidents could decrease, which could have a material adverse effect on our business.

The average number of new vehicles sold annually has fluctuated from year-to-year. Periods of decreased sales could result in a reduction in the number of vehicles on the road and consequently fewer vehicles involved in accidents or in need of mechanical repair or maintenance. Substantial further declines in automotive sales in the future could have a material adverse effect on our business, results of operations and/or financial condition. In addition, if vehicle population trends result in a disproportionately high number of older vehicles on the road, insurance companies may find it uneconomical to repair such vehicles or there could be less costly repairs. If vehicle population trends result in a disproportionately high number of newer vehicles on the road, the demand generally for mechanical repairs and maintenance would likely decline due to the newer, longer-lasting parts in the vehicle population and mechanical failures being covered by OEM warranties for the first years of a vehicle's life. Moreover, alternative collision and mechanical parts are less likely to be used on newer vehicles. Our Specialty segment depends on sales of pickup trucks, sport utility vehicles, crossover utility vehicles, high performance vehicles and recreational vehicles; any reduction in the number of such vehicles in operation will adversely affect demand for our Specialty products.

Electric vehicles do not have traditional engines, transmissions, and certain related parts. Engines and transmissions represent some of our largest revenue generating SKUs in North America, and parts for engines and transmissions represent a significant amount of the revenue of our European operations. Thus, an increase in electric vehicles as a percentage of vehicles sold will have a negative impact on our sales of engines, transmissions, and other related parts.

Fluctuations in the prices of metals and other commodities could adversely affect our financial results.

Our recycling operations generate scrap metal and other metals that we sell. After we dismantle a salvage vehicle for wholesale parts and after vehicles have been processed in our self service retail business, the remaining vehicle hulks are sold to scrap processors and other remaining metals are sold to processors and brokers of metals. In addition, we receive "crush only" vehicles from other companies, including OEMs, which we dismantle and which generate scrap metal and other metals. The prices of scrap and other metals have historically fluctuated, sometimes significantly, due to market factors. In addition, buyers may stop purchasing metals entirely due to excess supply. To the extent that the prices of metals decrease materially or buyers stop purchasing metals, our revenue from such sales will suffer and a write-down of our inventory value could be required. For example, China has recently imposed a ban on the importation of 32 types of solid waste allegedly in an effort to reduce environmental pollution. This ban includes certain metals that we sell and will likely have the effect of reducing the prices of such products.

The cost of our wholesale recycled and our self service retail inventory purchases will change as a result of fluctuating scrap metal and other metals prices. In a period of falling metal prices, there can be no assurance that our inventory purchasing cost will decrease the same amount or at the same rate as the scrap metal and other metals prices decline, and there may be a delay between the scrap metal and other metals price reductions and any inventory cost reductions.

The prices of steel, aluminum, and plastics are components of the cost to manufacture products for our aftermarket business. If the prices of commodities rise and result in higher costs to us for products we sell, we may not be able to pass these higher costs on to our customers.

Existing or new laws and regulations may prohibit, restrict or burden the sale of aftermarket, recycled, refurbished or remanufactured products.

Most states have passed laws that prohibit or limit the use of aftermarket products in collision repair work. These laws include requirements relating to consumer disclosure, vehicle owner’s consent regarding the use of aftermarket products in the repair process, and the requirement to have aftermarket products certified by an independent testing organization. Additional legislation of this kind may be introduced in the future. If additional laws prohibiting or restricting the use of aftermarket products are passed, it could have an adverse impact on our aftermarket products business.

Certain organizations test the quality and safety of vehicle replacement products. If these organizations decide not to test a particular vehicle product, or in the event that such organizations decide that a particular vehicle product does not meet applicable quality or safety standards, we may decide to discontinue sales of such product or insurance companies may decide to discontinue authorization of repairs using such product. Such events could adversely affect our business.

Some jurisdictions have enacted laws prohibiting or severely restricting the sale of certain recycled products that we provide, such as airbags. In addition, laws relating to the regulation of parts affecting vehicle emissions, such as California’s Proposition 65, may impact the ability of our Specialty segment to sell certain accessory products. These and other jurisdictions could enact similar laws or could prohibit or severely restrict the sale of additional recycled products. The passage of legislation with prohibitions or restrictions that are more severe than current laws could have a material adverse impact on our business. Additionally, Congress could enact federal legislation restricting the use of aftermarket or recycled automotive products used in the course of vehicle repairs.

The Federal Trade Commission has issued guides that regulate the use of certain terms such as “rebuilt” or “remanufactured” in connection with the sale of automotive parts. Restrictions on the products we are able to sell and on the marketing of such products could decrease our revenue and have an adverse effect on our business and operations.

In 1992, Congress enacted the Anti-Car Theft Act to deter trafficking in stolen vehicles. The purpose of the law is to implement an electronic system to track and monitor vehicle identification numbers and major automotive parts. In January 2009, the U.S. Department of Justice implemented the portion of the system to track and monitor vehicle identification numbers. The portion of the system that would track and monitor major automotive parts would require various entities, including automotive parts recyclers like us, to inspect salvage vehicles for the purpose of collecting the part number for any "covered major part." The Department of Justice has not promulgated rules on this portion of the system, and therefore there has been no progress on the implementation of the system to track and monitor major automotive parts. However, if this system is fully implemented, the requirement to collect the information would place substantial burdens on vehicle recyclers, including us, that otherwise would not normally exist. It would place similar burdens on repair shops, which may discourage the use by such shops of recycled products. There is no pending initiative to implement the parts registration from a law enforcement point of view. However, there is a risk that a heightened legislative concern over safety of parts might precipitate an effort to push for the implementation of such rules.

An adverse change in our relationships with our suppliers or a disruption to our supply of inventory could increase our expenses and impede our ability to serve our customers.

Our North American business is dependent on a relatively small number of suppliers of aftermarket products, a large portion of which are sourced from Taiwan. Our European business also acquires product from Asian sources. We incur substantial freight costs to import parts from our suppliers, many of which are located in Asia. If the cost of freight rose, we might not be able to pass the cost increases on to our customers. Furthermore, although alternative suppliers exist for substantially all aftermarket products distributed by us, the loss of any one supplier could have a material adverse effect on us until alternative suppliers are located and have commenced manufacturing and providing the relevant products. In addition, we are subject to disruptions from work stoppages and other labor disputes at port facilities through which we import our inventory. We also face the risk that our suppliers could attempt to circumvent us and sell their product directly to our customers.

Moreover, our operations are subject to the customary risks of doing business abroad, including, among other things, natural disasters, transportation costs and delays, political instability, currency fluctuations and the imposition of tariffs, import and export controls and other non-tariff barriers (including changes in the allocation of quotas), as well as the uncertainty regarding future relations between China, Japan and Taiwan. For example, U.S. Customs and Border Protection have used claims of intellectual property infringement to seize certain of our aftermarket parts as we attempted to import them into the U.S.

Because a substantial volume of our sales involves products manufactured from sheet metal, we can be adversely impacted if sheet metal becomes unavailable or is only available at higher prices, which we may not be able to pass on to our customers. Additionally, as OEMs convert to raw materials other than steel, it may be more difficult or expensive to source aftermarket parts made with such materials and it may be more difficult for repair shops to work with such materials in the repair process.

Most of our salvage and a portion of our self service inventory is obtained from vehicles offered at salvage auctions operated by several companies that own auction facilities in numerous locations across the U.S. We do not typically have contracts with the auction companies. According to industry analysts, a small number of companies control a large percentage of the salvage auction market in the U.S. If an auction company prohibited us from participating in its auctions, began competing with us, or significantly raised its fees, our business could be adversely affected through higher costs or the resulting potential inability to service our customers. Moreover, we face competition in the purchase of vehicles from direct competitors, rebuilders, exporters and other bidders. To the extent that the number of bidders increases, it may have the effect of increasing our cost of goods sold for wholesale recycled products. Some states regulate bidders to help ensure that salvage vehicles are purchased for legal purposes by qualified buyers. Auction companies have been actively seeking to reduce, circumvent or eliminate these regulations, which would further increase the number of bidders.

In addition, there is a limited supply of salvage vehicles in the U.S. As we grow and our demand for salvage vehicles increases, the costs of these incremental vehicles could be higher. In some states, when a vehicle is deemed a total loss, a salvage title is issued. Whether states issue salvage titles is important to the supply of inventory for the vehicle recycling industry because an increase in vehicles that qualify as salvage vehicles provides greater availability and typically lowers the price of such vehicles. Currently, these titling issues are a matter of state law. In 1992, the U.S. Congress commissioned an advisory committee to study problems relating to vehicle titling, registration, and salvage. Since then, legislation has been introduced seeking to establish national uniform requirements in this area, including a uniform definition of a salvage vehicle. The vehicle recycling industry will generally favor a uniform definition, since it will avoid inconsistencies across state lines, and will generally favor a definition that expands the number of damaged vehicles that qualify as salvage. However, certain interest groups, including repair shops and some insurance associations, may oppose this type of legislation. National legislation has not yet been enacted in this area, and there can be no assurance that such legislation will be enacted in the future.

We also acquire inventory directly from insurance companies, OEMs, and others. To the extent that these suppliers decide to discontinue these arrangements, our business could be adversely affected through higher costs or the resulting potential inability to service our customers.

In Europe, we acquire products from a wide variety of suppliers. As vehicle technology changes, some parts will become more complex and the design or technology of those parts may be covered by patents or other rights that make it difficult for aftermarket suppliers to produce for sale to companies such as ours. The complexity of the parts may include software or other technical aspects that make it difficult to identify what is wrong with the vehicle. More complex parts may be difficult to repair and may require expensive or difficult to obtain software updates, limiting our ability to compete with the OEMs.

Our annual and quarterly performance may fluctuate.
Our revenue, cost of goods sold, and operating results have fluctuated on a quarterly and annual basis in the past and can be expected to continue to fluctuate in the future as a result of a number of factors, many of which are beyond our control. Future factors that may affect our operating results include, but are not limited to, those listed in the Special Note on Forward-Looking Statements in this Annual Report on Form 10-K. Additionally, the number of selling days can fluctuate each quarter causing volatility in revenue and net income. Accordingly, our results of operations may not be indicative of future performance. These fluctuations in our operating results may cause our results to fall below our published financial guidance and the expectations of public markets, which could cause our stock price or the value of our debt instruments to decline.
Our key management personnel are important to successfully manage our business and achieve our objectives.
Our future success depends in large part upon the leadership and performance of our executive management team and key employees at the operating level. If we lose the services of one or more of our executive officers or key employees, or if one or more of them decides to join a competitor or otherwise compete directly or indirectly with us, we may not be able to successfully manage our business or achieve our business objectives. If we lose the services of any of our key employees at the operating or regional level, we may not be able to replace them with similarly qualified personnel, which could harm our business. In addition, to the extent wage inflation occurs in jurisdictions in which we operate, we may not be able to retain key employees or we may experience increased costs.
We operate in foreign jurisdictions, which exposes us to foreign exchange and other risks.
We have operations in North America, Europe and Taiwan, and we may expand our operations in the countries in which we do business and into other countries. Our foreign operations expose us to additional risks associated with international business, which could have an adverse effect on our business, results of operations and/or financial condition, including import and export requirements and compliance with anti-corruption laws, such as the U.K. Bribery Act 2010 and the Foreign Corrupt Practices Act. We also incur costs in currencies other than our functional currencies in some of the countries in which we operate. We are thus subject to foreign exchange exposure to the extent that we operate in different currencies, as well as exposure to foreign tax and other foreign and domestic laws. In addition, certain countries in which we operate have a higher level of political instability and criminal activity than the U.S. that could affect our operations and the ability to maintain our supply of products.
If we determine that our goodwill or other intangible assets have become impaired, we may incur significant charges to our pre-tax income.
Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. In the future, our goodwill and intangible assets may increase as a result of acquisitions. Goodwill is reviewed at least annually for impairment. Impairment may result from, among other things, deterioration in the performance of acquired businesses, deterioration of expected future cash flows or performance, increases in our cost of capital, adverse market conditions, and adverse changes in applicable laws or regulations, including modifications that restrict the activities of the acquired business. As of December 31, 2018, our total goodwill subject to future impairment testing was $4.4 billion. For further discussion of our annual impairment test, see "Goodwill Impairment" in the Critical Accounting Policies and Estimates section of Item 7 in this Annual Report on Form 10-K.
Except for indefinite-lived intangibles, we amortize other intangible assets over the assigned useful lives, each of which is based upon the expected period to be benefited. We review indefinite-lived intangible assets for impairment annually or sooner if events or changes in circumstances indicate that the carrying value may not be recoverable. We review finite-lived intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In the event conditions change that affect our ability to realize the underlying cash flows associated with our intangible assets, we may record an impairment charge. As of December 31, 2018, the value of our other intangible assets, net of accumulated amortization, was $929 million.
Our business may be adversely affected by union activities and labor and employment laws.
Certain of our employees are represented by labor unions and other employee representative bodies and work under collective bargaining or similar agreements, which are subject to periodic renegotiation. From time to time, there have been efforts to organize additional portions of our workforce and those efforts can be expected to continue. In addition, legislators and government agencies could adopt new regulations, or interpret existing regulations in a manner, that could make it significantly easier for unionization efforts to be successful. Also, we may in the future be

subject to strikes or work stoppages, union and works council campaigns, and other labor disruptions and disputes. Additional unionization efforts, new collective bargaining or similar agreements, and work stoppages could materially increase our costs and reduce revenue and could limit our flexibility in terms of work schedules, reductions in force and other operational matters.

We also are subject to laws and regulations that govern such matters as minimum wage, overtime and other working conditions. Some of these laws are technical in nature and could be subject to interpretation by government agencies and courts different than our interpretations. Efforts to comply with existing laws, changes to such laws and newly-enacted laws may increase our labor costs and limit our flexibility. If we were found not to be in compliance with such laws, we could be subject to fines, penalties and liabilities to our employees or government agencies. In addition, efforts to better protect local markets from foreign workers and decisions of countries to withdraw from treaties and joint economic areas may lead to increased restrictions on the free movement of people and labor and may limit our ability to place key personnel where it could best serve our needs.

We rely on information technology and communication systems in critical areas of our operations and a disruption relating to such technology could harm our business.

In the ordinary course of business, we rely upon information technology networks and systems, some of which are leased from third parties, to process, transmit and store electronic information and to manage and support a variety of business processes and activities. The secure operation of these information technology networks and the processing and maintenance of this information is critical to our business operations and strategy. Despite security measures and business continuity plans, our information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attacks by cyber criminals, breaches due to employee error or malfeasance, disruptions during the process of upgrading or replacing computer software or hardware, terminations of business relationships by third party service providers, power outages, computer viruses, telecommunication or utility failures, terrorist acts, natural disasters or other catastrophic events. The occurrence of any of these events could compromise our networks, and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or loss of information could result in legal claims or proceedings, disruption to our operations and damage to our reputation, any of which could adversely affect our business. In addition, as security threats continue to evolve, we will likely need to invest additional resources to protect the security of our systems.

In the event that we decide to switch providers or to implement upgrades or replacements to our own systems, we may be unsuccessful in the development of our own systems or we may underestimate the costs and expenses of switching providers or developing and implementing our own systems. Also, our revenue may be hampered during the period of implementing an alternative system, which period could extend longer than we anticipated. In 2018, we launched a systems conversion project for our European businesses, which will be subject to all of these risks.

The costs of complying with the requirements of laws pertaining to the privacy and security of personal information and the potential liability associated with the failure to comply with such laws could materially adversely affect our business and results of operations.

We collect personally identifiable information ("PII") and other data as part of our business processes and operations. The legislative and regulatory framework relating to privacy and data protection is rapidly evolving worldwide and is likely to remain uncertain for the foreseeable future. This data is subject to a variety of U.S. and international laws and regulations. Many foreign countries and governmental bodies, including the European Union, Canada and other jurisdictions where we conduct business, have laws and regulations concerning the collection and use of PII and other data obtained from their residents or by businesses operating within their jurisdictions that are more restrictive than those in the U.S. Additionally, the European Union adopted the General Data Protection Regulation ("GDPR") that will impose more stringent data protection requirements for processors and controllers of personal data, including expanded disclosures about how PII is to be used, limitations on retention of PII, mandatory data breach notification requirements, and higher standards for data controllers to demonstrate that they have obtained valid consent for certain data processing activities. The GDPR became effective in May 2018, and there can be no assurance that we have timely implemented all processes required for full compliance with the regulation. The GDPR provides severe penalties for noncompliance. In addition, stricter laws in this area are being enacted in certain states in the U.S. and in other countries, and more jurisdictions are likely to follow this trend.

Any inability, or perceived inability, to adequately address privacy and data protection issues, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations (including at newly-acquired companies) could result in additional cost and liability to us, result in governmental investigations and enforcement actions, give rise to civil litigation, result in damage to our reputation (including the loss of trust by our customers and employees), inhibit sales, and otherwise adversely affect our business. We also may be subject to these adverse effects if other parties with whom we do business, including lenders, suppliers, consultants and advisors, violate applicable laws or contractual obligations or suffer a security breach.

Business interruptions in our distribution centers or other facilities may affect our operations, the function of our computer systems, and/or the availability and distribution of merchandise, which may affect our business.

Weather, terrorist activities, war or other disasters, or the threat of any of them, may result in the closure of our distribution centers or other facilities or may adversely affect our ability to deliver inventory through our system on a timely basis. This may affect our ability to serve our customers, resulting in lost sales or a potential loss of customer loyalty. Some of our merchandise is imported from other countries and these goods could become difficult or impossible to bring into the U.S. or into the other countries in which we operate, and we may not be able to obtain such merchandise from other sources at similar prices. Such a disruption in revenue could potentially have a negative impact on our results of operations and financial condition.

We are subject to environmental regulations and incur costs relating to environmental matters.

We are subject to various environmental protection and health and safety laws and regulations governing, among other things: the emission and discharge of hazardous materials into the ground, air, or water; exposure to hazardous materials; and the generation, handling, storage, use, treatment, identification, transportation, and disposal of industrial by-products, waste water, storm water, and mercury and other hazardous materials. We are also required to obtain environmental permits from governmental authorities for certain of our operations. If we violate or fail to obtain or comply with these laws, regulations, or permits, we could be fined or otherwise sanctioned by regulators or lose our operating permits. We could also become liable if employees or other parties are improperly exposed to hazardous materials. We have an environmental management process designed to facilitate and support our compliance with these requirements; we cannot assure you, however, that we will at all times be in complete compliance with such requirements.

We have made and will continue to make capital and other expenditures relating to environmental matters. Although we presently do not expect to incur any capital or other expenditures relating to environmental controls or other environmental matters in amounts that would be material to us, we may be required to make such expenditures in the future.

Under certain environmental laws, we could be held responsible for all of the costs relating to any contamination at, or migration to or from, our or our predecessors' past or present facilities and at independent waste disposal sites. These laws often impose liability even if the owner or operator did not know of, or was not responsible for, the release of such hazardous substances. Many of our facilities are located on or near properties with a history of industrial use that may have involved hazardous materials. As a result, some of our properties may be contaminated. Some environmental laws hold current or previous owners or operators of real property liable for the costs of cleaning up contamination. These environmental laws also impose liability on any person who disposes of, treats, or arranges for the disposal or treatment of hazardous substances, regardless of whether the affected site is owned or operated by such person, and at times can impose liability on companies deemed under law to be a successor to such person. Third parties may also make claims against owners or operators of properties, or successors to such owners or operators, for personal injuries and property damage associated with releases of hazardous or toxic substances.

Contamination resulting from vehicle recycling processes can include soil and ground water contamination from the release, storage, transportation, or disposal of gasoline, motor oil, antifreeze, transmission fluid, chlorofluorocarbons ("CFCs") from air conditioners, other hazardous materials, or metals such as aluminum, cadmium, chromium, lead, and mercury. Contamination from the refurbishment of chrome plated bumpers can occur from the release of the plating material. Contamination can migrate on-site or off-site, which can increase the risk, and the amount, of any potential liability.

When we identify a potential material environmental issue during our acquisition due diligence process, we analyze the risks, and, when appropriate, perform further environmental assessment to verify and quantify the extent of the potential contamination. Furthermore, where appropriate, we have established financial reserves for certain environmental matters. In the event we discover new information or if laws change, we may incur significant liabilities, which may exceed our reserves.

Environmental laws are complex, change frequently, and have tended to become more stringent over time. Our costs of complying with current and future environmental and health and safety laws, and our liabilities arising from past or future releases of, or exposure to, hazardous substances, may adversely affect our business, results of operations, or financial condition.

We could be subject to product liability claims and involved in product recalls.

If customers of repair shops that purchase our products are injured or suffer property damage, we could be subject to product liability claims by such customers. The successful assertion of this type of claim could have an adverse effect on our business, results of operations or financial condition. In addition, we may become involved in the recall of a product that is determined to be defective. More generally, a recall involving alternative parts, even if we did not sell the recalled products, could adversely affect the perceived quality of alternative parts, leading to decreased usage of alternative parts. The expenses of a recall and the damage to our reputation, or the reputation of alternative parts generally, could have an adverse effect on our business, results of operations or financial condition.

We have agreed to defend and indemnify in certain circumstances insurance companies and customers against claims and damages relating to product liability and product recalls. The existence of claims or damages for which we must defend and indemnify these parties could also negatively impact our business, results of operations or financial condition.

Governmental agencies may refuse to grant or renew our operating licenses and permits.
Our operating subsidiaries in our salvage, self-service, and refurbishing operations must obtain licenses and permits from state and local governments to conduct their operations. When we develop or acquire a new facility, we must seek the approval of state and local units of government. Governmental agencies may resist the establishment of a vehicle recycling or refurbishing facility in their communities. There can be no assurance that future approvals or transfers will be granted. In addition, there can be no assurance that we will be able to maintain and renew the licenses and permits our operating subsidiaries currently hold.
Regulations related to conflict-free minerals may force us to incur additional expenses and otherwise adversely impact our business.
In August 2012, as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC adopted final rules regarding disclosure of the use of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo or adjoining countries. These requirements impose significant burdens on U.S. public companies. Compliance with the rules requires substantial due diligence in an effort to determine whether products contain the conflict minerals. The results of such due diligence efforts must be disclosed on an annual basis in a filing with the SEC.
Our supply chain is complex and we may incur significant costs to determine the source of any such minerals used in our products. We may also incur costs with respect to potential changes to products, processes or sources of supply as a consequence of our diligence activities. Further, the implementation of these rules and their effect on customer, supplier and/or consumer behavior could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering products free of conflict minerals in some circumstances, we cannot be sure that we will be able to obtain necessary products from such suppliers in sufficient quantities or at competitive prices. We may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict-free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we implement. Accordingly, these rules could have a material adverse effect on our business, results of operations and/or financial condition.
If we experience problems with our fleet of trucks and other vehicles, our business could be harmed.
We use a fleet of trucks and other vehicles to deliver the majority of the products we sell. We are subject to the risks associated with providing delivery services, including inclement weather, disruptions in the transportation infrastructure, governmental regulation, availability and price of fuel, liabilities arising from accidents to the extent we are not covered by insurance, and insurance premium increases. In addition, our failure to deliver products in a timely and accurate manner could harm our reputation and brand, which could have a material adverse effect on our business.
We may lose the right to operate at key locations.
We lease most of the properties at which we conduct our businesses. At the end of a lease term, we must negotiate a renewal, exercise a purchase option (to the extent we have that right), or find a new location. There can be no assurance that we will be able to negotiate renewals on terms acceptable to us or that we will find a suitable alternative location, especially with respect to our salvage operations (which have characteristics that are often not attractive to landlords, local governments, or neighbors). In such cases, we may lose the right to operate at key locations.
Our effective tax rate could materially increase as a consequence of various factors, including interpretations and administrative guidance in regard to the Tax Act (defined below), U.S. and/or international tax legislation, mix of earnings by jurisdiction, and U.S. and foreign jurisdictional audits.
We are a U.S. based multinational company subject to income taxes in the U.S. and a number of foreign jurisdictions. Therefore, we are subject to changes in tax laws in each of these jurisdictions and such changes could have a material adverse effect on our effective tax rate and cash flows.
On December 22, 2017, the U.S. enacted legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). Among other things, the Tax Act reduced the U.S. statutory corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. Additionally, beginning in 2018, the Tax Act imposed a regime of taxation on foreign subsidiary earnings (Global Intangible Low-Taxed Income, “GILTI”) and on certain related party payments (Base Erosion Anti-abuse Tax, “BEAT”). Other important changes potentially material to our operations included the full expensing of certain assets placed into service after September 27, 2017, the repeal of the domestic manufacturing deduction, and additional limitations on the deductibility of executive compensation. Finally, as part of the transition

of U.S. international taxation from a worldwide tax system to a territorial tax system, the Tax Act imposed a one-time transition tax on the deemed repatriation of historical earnings of foreign subsidiaries as of December 31, 2017. Other than the transition tax and revaluation of deferred tax balances (which were applicable to us for 2017), the provisions will generally be applicable in 2018 and beyond. In accordance with the guidance provided in SEC Staff Accounting Bulletin No. 118 ("SAB 118"), in the fourth quarter of 2017, we recorded provisional reasonable estimates of the impact of the Tax Act, including $51 million for the transition tax and a deferred tax benefit of $73 million related to the revaluation of deferred tax balances based on the new rate. During the third quarter of 2018, we recorded a $10 million favorable adjustment to the provisional amount recognized in 2017 related to the transition tax; no further material adjustments were recognized with regard to the revaluation of deferred tax balances. As of December 31, 2018, we completed our analysis of the impact of the Tax Act in accordance with SAB 118, and the provisional amounts recognized in 2017 are no longer considered provisional.

Certain non-U.S. jurisdictions are considering tax legislation based upon recommendations made by the Organization for Economic Co-operation and Development in connection with its Base Erosion and Profit Shifting study. The outcome of these legislative developments could have a material adverse effect on our effective tax rate and cash flows.

The tax rates applicable in the jurisdictions within which we operate vary widely. Therefore, our effective tax rate may be adversely affected by changes in the mix of our earnings by jurisdiction.

We are also subject to ongoing audits of our income tax returns in various jurisdictions both in the U.S. and internationally. While we believe that our tax positions will be sustained, the outcomes of such audits could result in the assessment of additional taxes, which could adversely impact our cash flows and financial results.

If significant tariffs or other restrictions are placed on products or materials we import or any related counter-measures are taken by countries to which we export products, our revenue and results of operations may be materially harmed.

The current U.S. administration has recently imposed tariffs on certain materials imported into the U.S. from China and announced additional tariffs on other goods from China and other countries. Moreover, counter-measures have been taken by other countries in retaliation for the U.S.-imposed tariffs. The tariffs cover products and materials that we import, and the counter-measures may affect products we export. The effects currently are not material; however, depending on the breadth of products and materials ultimately affected by, and the duration of, the tariffs and countermeasures, our financial results may be materially harmed. In addition, countries may impose other restrictions on the importation of products. For example, China has imposed a ban on the importation of 32 types of solid waste allegedly in an effort to reduce environmental pollution. This ban includes certain scrap metals that we sell and will likely have the effect of reducing the prices of such products.

Activist investors could cause us to incur substantial costs, divert management’s attention, and have an adverse effect on our business.

From time to time, we may be subject to proposals by activist investors urging us to take certain corporate actions. If activist investor activities occur, our business could be adversely affected because responding to proxy contests and other demands by activist investors can be costly and time-consuming, disrupt our operations, and divert the attention of management and our employees. For example, we may be required to retain the services of various professionals to advise us on activist investor matters, including legal, financial and communications advisors, the costs of which may negatively impact our future financial results. Campaigns by activist investors to effect changes at publicly-traded companies are sometimes led by investors seeking to increase short term investor value through actions such as financial restructuring, increased debt, special dividends, stock repurchases, or sales of assets or the entire company. Perceived uncertainties as to our future direction, strategy or leadership that arise as a consequence of activist investor initiatives may result in the loss of potential business opportunities, harm our ability to attract new investors, employees and business partners, and cause our stock price to experience periods of volatility or stagnation.

Risks Relating to Our Common Stock and Financial Structure

The market price of our common stock may be volatile and could expose us to securities class action litigation.

The stock market and the price of our common stock may be subject to wide fluctuations based upon general economic and market conditions.  The market price for our common stock may also be affected by our ability to meet analysts’ expectations.  Failure to meet such expectations, even slightly, could have an adverse effect on the market price of our common stock. In addition, stock market volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies.  Downturns in the stock market may cause the price of our common stock to decline.  Additionally, the market price for our common stock has been in the past, and in the future may be, adversely affected by allegations made or reports issued by short sellers, analysts, activists or others regarding our business model, our management or our financial accounting.

Following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such companies.  If similar litigation were instituted against us, it could result in substantial costs and a diversion of our management's attention and resources, which could have an adverse effect on our business.

Delaware law, our charter documents and our loan documents may impede or discourage a takeover, which could affect the price of our stock.

The anti-takeover provisions of our certificate of incorporation and bylaws, our loan documents and Delaware law could, together or separately, impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our existing stockholders. Our certificate of incorporation and bylaws have provisions that could discourage potential takeover attempts and make attempts by stockholders to change management more difficult. Our credit agreement provides that a change of control is an event of default. Our incorporation under Delaware law and these provisions could also impede an acquisition, takeover, or other business combination involving us or discourage a potential acquirer from making a tender offer for our common stock, which, under certain circumstances, could reduce the price of our common stock.

Future sales of our common stock or other securities may depress our stock price.

We and our stockholders may sell shares of common stock or other equity, debt or instruments that constitute an element of our debt and equity (collectively, "securities") in the future. We may also issue shares of common stock under our equity incentive plan or in connection with future acquisitions. We cannot predict the size of future issuances of securities or the effect, if any, that future issuances and sales of shares of our common stock or other securities will have on the price of our common stock. Sales of substantial amounts of common stock (including shares issued in connection with an acquisition), the issuance of additional debt securities, or the perception that such sales or issuances could occur, may cause the price of our common stock to fall.

We cannot guarantee that our stock repurchase program will be fully implemented.

In October 2018, our Board of Directors approved a stock repurchase program totaling $500 million. We are not obligated to repurchase a specified number or dollar value of shares, and our repurchase program may be suspended or terminated at any time.

We have a substantial amount of indebtedness, which could have a material adverse effect on our financial condition and our ability to obtain financing in the future and to react to changes in our business.

As of December 31, 2018, we had approximately $1.8 billion aggregate principal amount of secured debt outstanding and approximately $1.7 billion of availability under our credit agreement ($1.8 billion of availability reduced by $65 million of amounts outstanding under letters of credit). In addition, we had approximately $2.3 billion aggregate principal amount of unsecured debt outstanding comprising $600 million aggregate principal amount of 4.75% senior notes due May 15, 2023 (the "U.S. Notes (2023)"), €500 million ($573 million) aggregate principal amount of 3.875% senior notes due April 1, 2024 (the "Euro Notes (2024)"), and €1.0 billion ($1.1 billion) aggregate principal amount consisting of €750 million of 3.625% senior notes due 2026 (the "Euro Notes (2026)") and €250 million of 4.125% senior notes due 2028 (the "Euro Notes (2028)," together with the 2026 notes, the "Euro Notes (2026/28)," and together with the U.S. Notes (2023), Euro Notes (2024), and Euro Notes (2026), the "senior notes"). Borrowings under the credit agreement mature in January 2024.

Our significant amount of debt and our debt service obligations could limit our ability to satisfy our obligations, limit our ability to operate our business and impair our competitive position.

For example, our debt and our debt service obligations could:

- increase our vulnerability to adverse economic and general industry conditions, including interest rate fluctuations, because a portion of our borrowings are and will continue to be at variable rates of interest;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, which would reduce the availability of our cash flow from operations to fund working capital, capital expenditures or other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and industry;
- place us at a disadvantage compared to competitors that may have proportionately less debt;
- limit our ability to obtain additional debt or equity financing due to applicable financial and restrictive covenants in our debt agreements; and
- increase our cost of borrowing.

In addition, if we or our subsidiaries incur additional debt, the risks associated with our substantial leverage and the ability to service such debt would increase.

Our senior notes do not impose any limitations on our ability to incur additional debt or protect against certain other types of transactions.

Although we are subject to our credit agreement for so long as it remains in effect, the indentures governing the senior notes do not restrict the future incurrence of unsecured indebtedness, guarantees or other obligations. The indentures contain certain limitations on our ability to incur liens on assets and engage in sale and leaseback transactions. However, these limitations are subject to important exceptions. In addition, the indentures do not contain many other restrictions, including certain restrictions contained in our credit agreement, including, without limitation, making investments, prepaying subordinated indebtedness or engaging in transactions with our affiliates.

Our credit agreement will permit, subject to specified conditions and limitations, the incurrence of a significant amount of additional indebtedness. As of December 31, 2018, we would have been able to incur an additional $1.7 billion of indebtedness under our credit agreement ($1.8 billion of availability reduced by $65 million of amounts outstanding under letters of credit). If we or our subsidiaries incur additional debt, the risks associated with our substantial leverage and the ability to service such debt would increase.

Our credit agreement imposes significant operating and financial restrictions on us and our subsidiaries, which may prevent us from capitalizing on business opportunities.

Our credit agreement imposes significant operating and financial restrictions on us. These restrictions limit our ability, among other things, to:

- incur, assume or permit to exist additional indebtedness (including guarantees thereof);
- pay dividends or certain other distributions on our capital stock or repurchase our capital stock or prepay subordinated indebtedness;
- incur liens on assets;
- make certain investments or other restricted payments;
- engage in transactions with affiliates;
- sell certain assets or merge or consolidate with or into other companies;
- guarantee indebtedness; and
- alter the business we conduct.

As a result of these covenants and restrictions, we will be limited in how we conduct our business and we may be unable to raise additional debt or equity financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we may incur could include more restrictive covenants. We cannot assure you that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the lenders and/or amend the covenants. The failure to comply with any of these covenants would cause a default under the credit agreement. A default, if not waived, could result in acceleration of our debt, in which case the debt would become immediately due and payable. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance it. Even if new financing were available, it may be on terms that are less attractive to us than our existing credit facilities or it may be on terms that are not acceptable to us.

We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. If our operating results and available cash are insufficient to meet our debt service obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or to obtain the proceeds that we hope to realize from them, and these proceeds may not be adequate to meet any debt service obligations then due. Any future refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants which could further restrict our business operations. Additionally, our credit agreement and the indentures that govern our senior notes limit the use of the proceeds from certain dispositions of our assets; as a result, our credit agreement and our senior notes may prevent us from using the proceeds from such dispositions to satisfy all of our debt service obligations.

Our future capital needs may require that we seek to refinance our debt or obtain additional debt or equity financing, events that could have a negative effect on our business.

We may need to raise additional funds in the future to, among other things, refinance existing debt, fund our existing operations, improve or expand our operations, respond to competitive pressures, or make acquisitions. From time to time, we may raise additional funds through public or private financing, strategic alliances, or other arrangements. Funds may not be available or available on terms acceptable to us as a result of different factors, including but not limited to turmoil in the credit markets that results in the tightening of credit conditions and current or future regulations applicable to the financial institutions from whom we seek financing. If adequate funds are not available on acceptable terms, we may be unable to meet our business or strategic objectives or compete effectively. If we raise additional funds by issuing equity securities, stockholders may experience dilution of their ownership interests, and the newly issued securities may have rights superior to those of our common stock. If we raise additional funds by issuing debt, we may be subject to higher borrowing costs and further limitations on our operations. If we refinance or restructure our debt, we may incur charges to write off the unamortized portion of deferred debt issuance costs from a previous financing, or we may incur charges related to hedge ineffectiveness from our interest rate swap obligations. There are restrictions in the indenture that governs the Euro Notes (2024), Euro Notes (2026) and Euro Notes (2028) on our ability to refinance such notes prior to January 1, 2024, April 1, 2021, and April 1, 2023, respectively. If we fail to raise capital when needed, our business may be negatively affected.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our indebtedness service obligations to increase significantly and could affect the value of our senior notes.

Certain borrowings under our credit agreement and the borrowing under our accounts receivable securitization facility are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease. Moreover, changes in market interest rates could affect the trading value of the senior notes. Certain of our variable rate debt, including our revolving credit facility, currently uses the London Interbank Offered Rate ("LIBOR") as a benchmark for establishing the interest rate. LIBOR is the subject of recent proposals for reform. These reforms and other pressures may cause LIBOR to disappear entirely or to perform differently than in the past. The consequences of these developments with respect to LIBOR cannot be entirely predicted but could result in an increase in the cost of our variable rate debt. Assuming all revolving loans were fully drawn and no interest rate swaps were in place, each one percentage point change in interest rates would result in a $36 million change in annual cash interest expense under our credit agreement and our accounts receivable securitization facility.

Repayment of our indebtedness, including our senior notes, is dependent on cash flow generated by our subsidiaries.

We are a holding company and repayment of our senior notes will be dependent upon cash flow generated by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Unless they are borrowers or guarantors of the indebtedness, our subsidiaries do not have any obligation to pay amounts due on the indebtedness or to make funds available for that purpose. Our subsidiaries may not be able to, or be permitted to, make distributions to enable us to make payments in respect of our indebtedness, including the senior notes. Each of our subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries and, under certain circumstances, distributions from our subsidiaries may be subject to taxes that reduce the amount of such distributions available to us. While the indentures governing the senior notes limit the ability of our subsidiaries to restrict the payment of dividends or make other intercompany payments to us, these limitations are subject to certain qualifications and exceptions. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness, including the senior notes.

A downgrade in our credit rating would impact our cost of capital and could impact the market value of our senior notes.

Credit ratings have an important effect on our cost of capital. Credit rating agencies rate our debt securities on factors that include, among other items, our results of operations, business decisions that we make, their view of the general outlook for our industry, and their view of the general outlook for the economy. Actions taken by the rating agencies can include maintaining, upgrading, or downgrading the current rating or placing us on a watch list for possible future downgrading. We believe our current credit ratings enhance our ability to borrow funds at favorable rates. A downgrade in our current credit rating from a rating agency could adversely affect our cost of capital by causing us to pay a higher interest rate on borrowed funds under our credit facilities. A downgrade could also adversely affect the market price and/or liquidity of our senior notes, preventing a holder from selling the senior notes at a favorable price, as well as adversely affecting our ability to issue new notes in the future or incur other indebtedness upon favorable terms.

The right to receive payments on the senior notes is effectively junior to those lenders who have a security interest in our assets.

Our obligations under our senior notes and our guarantors' obligations under their guarantees of the senior notes are unsecured, but our and each co-borrower's obligations under our credit agreement and each guarantor's obligations under their respective guarantees of the credit agreement are secured by a security interest in substantially all of our domestic tangible and intangible assets, including the stock of most of our wholly-owned United States subsidiaries and the stock of certain of our non-United States subsidiaries. If we are declared bankrupt or insolvent, or if we default under our credit agreement, the lenders could declare all of the funds borrowed thereunder, together with accrued interest, immediately due and payable. If we were unable to repay such indebtedness, the lenders could foreclose on the pledged assets to the exclusion of holders of our senior notes, even if an event of default exists under the applicable indenture governing the senior notes. Furthermore, if the lenders foreclose and sell the pledged equity interests in any subsidiary guarantor under our senior notes, then that guarantor will be released from its guarantee of the senior notes automatically and immediately upon such sale. In any such event, because the senior notes are not secured by any of our assets or the equity interests in subsidiary guarantors, it is possible that there would be no assets remaining from which claims by holders of the senior notes could be satisfied or, if any assets remained, they might be insufficient to satisfy claims fully. As of December 31, 2018, we had approximately $1.8 billion aggregate principal amount of secured debt outstanding and approximately $1.7 billion of availability under the credit agreement ($1.8 billion of availability reduced by $65 million of amounts outstanding under letters of credit).

United States federal and state statutes allow courts, under specific circumstances, to void the senior notes and the guarantees, subordinate claims in respect of the senior notes and the guarantees, and require holders of the senior notes to return payments received from us or the guarantors.

Our direct and indirect domestic subsidiaries that are obligors under the credit agreement guarantee the obligations under our senior notes. In addition, certain subsidiaries of the issuer of the Euro Notes (2024) guarantee the obligations under the Euro Notes (2024). The issuance of our senior notes and the issuance of the guarantees by the guarantors may be subject to review under state and federal laws if a bankruptcy, liquidation or reorganization case or a lawsuit, including in circumstances in which bankruptcy is not involved, were commenced at some future date by, or on behalf of, our unpaid creditors or the unpaid creditors of a guarantor. Under the federal bankruptcy laws of the United States and comparable provisions of state fraudulent transfer laws, a court may avoid or otherwise decline to enforce the senior notes, or a guarantor's guarantee, or may subordinate the senior notes, or such guarantee, to our or the applicable guarantor's existing and future indebtedness. While the relevant laws may vary from jurisdiction to jurisdiction, a court might do so if it found that when indebtedness under the senior notes was issued, or when the applicable guarantor entered into its guarantee, or, in some jurisdictions, when payments became due under the senior notes, or such guarantee, the issuer or the applicable guarantor received less than reasonably equivalent value or fair consideration and:

- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which its remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

A court would likely find that we or a guarantor did not receive reasonably equivalent value or fair consideration for the senior notes or such guarantee if we or such guarantor did not substantially benefit directly or indirectly from the issuance of the senior notes. Thus, if the guarantees were legally challenged, any guarantee could be subject to the claim that, since the guarantee was incurred for our benefit, and only indirectly for the benefit of the guarantor, the obligations of the applicable guarantor were incurred for less than reasonably equivalent value or fair consideration. If a court were to void the issuance of the senior notes or any guarantee, a holder of the senior notes would no longer have any claim against us or the applicable guarantor. In the event of a finding that a fraudulent transfer or conveyance occurred, a holder of the senior notes may not receive any repayment on the senior notes. Further, the avoidance of the senior notes could result in an event of default with respect to our and our subsidiaries' other debt, which could result in acceleration of that debt. The measures of insolvency for purposes of these fraudulent transfer laws vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, an issuer or a guarantor, as applicable, would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair value of its assets;

- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

A court might also void the senior notes, or a guarantee, without regard to the above factors, if the court found that the senior notes were incurred or issued or the applicable guarantor entered into its guarantee with actual intent to hinder, delay or defraud its creditors. We cannot give any assurance as to what standard a court would apply in determining whether we or the guarantors were solvent at the relevant time or that a court would agree with our conclusions in this regard, or, regardless of the standard that a court uses, that it would not determine that we or a guarantor were indeed insolvent on that date; that any payments to the holders of the senior notes (including under the guarantees) did not constitute preferences, fraudulent transfers or conveyances on other grounds; or that the issuance of the senior notes and the guarantees would not be subordinated to our or any guarantor's other debt. In addition, any payment by us or a guarantor pursuant to the senior notes, or its guarantee, could be avoided and required to be returned to us or such guarantor or to a fund for the benefit of our or such guarantor's creditors, and accordingly the court might direct holders of the senior notes to repay any amounts already received from us or such guarantor. Among other things, under U.S. bankruptcy law, any payment by us pursuant to the senior notes or by a guarantor under a guarantee made at a time we or such guarantor were found to be insolvent could be voided and required to be returned to us or such guarantor or to a fund for the benefit of our or such guarantor's creditors if such payment is made to an insider within a one-year period prior to a bankruptcy filing or within 90 days for any outside party and such payment would give such insider or outsider party more than such party would have received in a distribution under the Bankruptcy Code in a hypothetical Chapter 7 case. Although each guarantee contains a “savings clause” intended to limit the subsidiary guarantor's liability to the maximum amount that it could incur without causing the incurrence of obligations under its subsidiary guarantee to be a fraudulent transfer, this provision may not be effective as a legal matter to protect any subsidiary guarantees from being avoided under fraudulent transfer law. In that regard, in Official Committee of Unsecured Creditors of TOUSA, Inc. v Citicorp North America, Inc., the United States Bankruptcy Court in the Southern District of Florida held that a savings clause similar to the savings clause included in our indentures was unenforceable. As a result, the subsidiary guarantees were found to be fraudulent conveyances. The United States Court of Appeals for the Eleventh Circuit subsequently affirmed the liability findings of the Bankruptcy Court without ruling directly on the enforceability of savings clauses generally. If the decision of the bankruptcy court in TOUSA were followed by other courts, the risk that the guarantees would be deemed fraudulent conveyances would be significantly increased.

To the extent a court avoids the senior notes or any of the guarantees as fraudulent transfers or holds the senior notes or any of the guarantees unenforceable for any other reason, the holders of the senior notes would cease to have any direct claim against us or the applicable guarantor. If a court were to take this action, our or the applicable guarantor's assets would be applied first to satisfy our or the applicable guarantor's other liabilities, if any, and might not be applied to the payment of the senior notes. Sufficient funds to repay the senior notes may not be available from other sources, including the remaining guarantors, if any. In addition, the Euro Notes (2024) and the guarantees may be subject to avoidance under the laws of other foreign jurisdictions, including Italy and Czech Republic, to the extent that we, the issuer of the Euro Notes (2024), or any of the guarantors (as applicable) were to be the subject of an insolvency or related proceeding in such jurisdiction(s).

Not all of our subsidiaries have guaranteed our credit agreement or our senior notes, and the assets of our non-guarantor subsidiaries may not be available to make payments on such obligations.

Not all of our subsidiaries have guaranteed the credit agreement, our U.S. Notes (2023), Euro Notes (2024), Euro Notes (2026), and Euro Notes (2028). In the event that any non-guarantor subsidiary becomes insolvent, liquidates, reorganizes, dissolves or otherwise winds up, holders of its indebtedness and its trade creditors generally will be entitled to payment on their claims from the assets of that subsidiary before any of those assets are made available to the lenders under the credit agreement or the holders of the senior notes. Consequently, claims in respect of the credit agreement and the senior notes are structurally subordinated to all of the liabilities of our subsidiaries that are not guarantors of such instruments, including trade payables, and any claims of third party holders of preferred equity interests, if any, in our non-guarantor subsidiaries. For the year ended December 31, 2018, our subsidiaries that are not borrowers under or do not guarantee the credit agreement and our subsidiaries that do not guarantee the U.S. Notes (2023) represented approximately 49% and 30% of our total revenue and operating income, respectively. In addition, these non-guarantor subsidiaries represented approximately 58% and 60% of our total assets and total liabilities, respectively, as of December 31, 2018 (excluding, in each case, intercompany amounts). As of the same date, our subsidiaries that do not guarantee the credit agreement or the U.S. Notes (2023) had approximately $2.7 billion of outstanding indebtedness (which includes $683 million of borrowings under our revolving credit facilities by foreign subsidiaries that are borrowers under the revolving credit facilities but that do not guarantee the U.S. Notes (2023)).

The group of subsidiaries that does not guarantee the Euro Notes (2024) is similar to the group that does not guarantee the U.S. Notes (2023), Euro Notes (2026) and Euro Notes (2028), except that, in addition to the issuer of the Euro Notes (2024), there are four subsidiaries in the group that does not guarantee the U.S. Notes (2023), Euro Notes (2026) and Euro Notes (2028) that guarantee the Euro Notes (2024).

We may not be able to repurchase the senior notes upon a change of control or pursuant to an asset sale offer.

Upon a change of control, as defined in the indentures governing the senior notes, the holders of the senior notes will have the right to require us to offer to purchase all of the senior notes then outstanding at a price equal to 101% of their principal amount plus accrued and unpaid interest. Such a change of control would also be an event of default under our credit agreement. In order to obtain sufficient funds to pay amounts due under the credit agreement and the purchase price of the outstanding senior notes, we expect that we would have to refinance our indebtedness. We cannot assure you that we would be

able to refinance our indebtedness on reasonable terms, if at all. Our failure to offer to purchase all outstanding senior notes or to purchase all validly tendered senior notes would be an event of default under the indenture. Such an event of default may cause the acceleration of our other debt. Our other debt also may contain restrictions on repayment requirements with respect to specified events or transactions that constitute a change of control under the indenture.
The definition of change of control in the indentures governing the senior notes includes a phrase relating to the sale of “all or substantially all” of our assets. There is no precise established definition of the phrase “substantially all” under applicable law. Accordingly, the ability of a holder of senior notes to require us to repurchase its senior notes as a result of a sale of less than all our assets to another person may be uncertain.
In addition, in certain circumstances as specified in the indentures governing the senior notes, we will be required to commence an asset sale offer, as defined in the indentures governing the senior notes, pursuant to which we will be obligated to purchase certain senior notes at a price equal to 100% of their principal amount plus accrued and unpaid interest with the proceeds we receive from certain asset sales. Our other debt may contain restrictions that would limit or prohibit us from completing any such asset sale offer. In particular, our credit agreement contains provisions that require us, upon the sale of certain assets, to apply all of the proceeds from such asset sale to the prepayment of amounts due under the credit agreement. The mandatory prepayment obligations under the credit agreement will be effectively senior to our obligations to make an asset sale offer with respect to the senior notes under the terms of the indentures governing the senior notes. Our failure to purchase any such senior notes when required under the indentures would be an event of default under the indentures.
Key terms of the senior notes will be suspended if the notes achieve investment grade ratings and no default or event of default has occurred and is continuing.
Many of the covenants in the indentures governing the senior notes will be suspended if the senior notes are rated investment grade by Standard & Poor’s and Moody’s provided at such time no default or event of default has occurred and is continuing, including those covenants that restrict, among other things, our ability to pay dividends, incur liens and to enter into certain other transactions. There can be no assurance that the senior notes will ever be rated investment grade. However, suspension of these covenants would allow us to engage in certain transactions that would not be permitted while these covenants were in force (although provisions under our other debt, like the credit agreement, may continue to restrict us from engaging in these transactions), and the effects of any such transactions will be permitted to remain in place even if the senior notes are subsequently downgraded below investment grade.
The liquidity and market value of the senior notes may change due to a variety of factors.
The liquidity of any trading market in the senior notes, and the market price quoted for the senior notes, may be adversely affected by changes in the overall market for these types of securities, changes in interest rates, changes in our ratings, and changes in our financial performance or prospects or in the prospects for companies in our industries generally.
We rely on an accounts receivable securitization program for a portion of our liquidity.
We have an arrangement whereby we sell an interest in a portion of our accounts receivable to a special purpose vehicle and receive funding through the commercial paper market. This arrangement expires in November 2021. In the event that the market for commercial paper were to close or otherwise become constrained, our cost of credit relative to this program could rise, or credit could be unavailable altogether.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Our properties are described in Item 1 of this Annual Report on Form 10-K, and such description is incorporated by reference into this Item 2. Our properties are sufficient to meet our present needs, and we do not anticipate any difficulty in securing additional space to conduct operations or additional office space, as needed, on terms acceptable to us.

## ITEM 3. LEGAL PROCEEDINGS

On May 10, 2018, our Specialty segment received a Notice of Violation from the U.S. Environmental Protection Agency ("EPA") alleging that certain performance-related parts that we sold between January 1, 2015 and October 15, 2017 violated the provisions of the Clean Air Act that prohibit the sale of parts that could alter or defeat the emission control system of a vehicle. We are in negotiations with the EPA to resolve this matter, which may involve the payment of a civil penalty. Any penalty that is likely to be imposed is not expected to have material effect on our financial position, results of operations or cash flows.

In addition, we are from time to time subject to various claims and lawsuits incidental to our business. In the opinion of management, currently outstanding claims and suits will not, individually or in the aggregate, have a material adverse effect on our financial position, results of operations or cash flows.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market ("NASDAQ") under the symbol "LKQ." At December 31, 2018, there were 18 record holders of our common stock.

We have not paid any cash dividends on our common stock. We intend to continue to retain our earnings to finance our growth, repurchase stock through our stock repurchase program, and for general corporate purposes. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. In addition, our senior secured credit agreement and our senior notes indentures contain, and future financing agreements may contain, limitations on payment of cash dividends or other distributions of assets. Delaware law also imposes restrictions on dividend payments. Based on limitations in effect under our senior secured credit agreement and senior notes indentures, the maximum amount of dividends we could pay as of December 31, 2018 was approximately $1.7 billion. The limit on the payment of dividends is calculated using historical financial information and will change from period to period.

Stock Performance Graph and Cumulative Total Return

The following graph compares the percentage change in the cumulative total returns on our common stock, the Standard & Poor's 500 Stock Index ("S&P 500 Index") and the following group of peer companies (the "Peer Group"): Copart, Inc.; O'Reilly Automotive, Inc.; Genuine Parts Company; and Fastenal Co., for the period beginning on December 31, 2013 and ending on December 31, 2018 (which was the last day of our 2018 fiscal year). The stock price performance in the graph is not necessarily indicative of future stock price performance. The graph assumes that the value of an investment in each of the Company's common stock, the S&P 500 Index and the Peer Group was $100 on December 31, 2013 and that all dividends, where applicable, were reinvested.

Comparison of Cumulative Return

Among LKQ Corporation, the S&P 500 Index and the Peer Group

| | 12/31/2013 | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 | 12/31/2018 |
|---|---|---|---|---|---|---|
| LKQ Corporation | $ 100 | $ 85 | $ 90 | $ 93 | $ 124 | $ 72 |
| S&P 500 Index | $ 100 | $ 111 | $ 111 | $ 121 | $ 145 | $ 136 |
| Peer Group | $ 100 | $ 131 | $ 144 | $ 162 | $ 156 | $ 195 |

This stock performance information is "furnished" and shall not be deemed to be "soliciting material" or subject to Rule 14A, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, and shall not be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date of this report and irrespective of any general incorporation by reference language in any such filing, except to the extent that it specifically incorporates the information by reference.

Issuer Purchases of Equity Securities

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.

The following table summarizes our stock repurchases for the three months ended December 31, 2018 (in thousands, except per share data):

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1, 2018 - October 31, 2018 | 200 | $ 26.64 | 200 | 494,673 |
| November 1, 2018 - November 30, 2018 | 805 | $ 27.87 | 805 | 472,233 |
| December 1, 2018 - December 31, 2018 | 1,267 | $ 25.45 | 1,267 | 440,000 |
| Total | 2,272 | | 2,272 | |

Securities Authorized for Issuance Under Equity Compensation Plans

Information about our common stock that may be issued under our equity compensation plans as of December 31, 2018 included in Part III, Item 12 of this Annual Report on Form 10-K is incorporated herein by reference.

## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K and our consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K.

| (in thousands, except per share data) | Year Ended December 31, 2018 (1) | 2017 (2) | 2016 (3) | 2015 (4) | 2014 (5) |
|---|---|---|---|---|---|
| Statements of Income Data: | | | | | |
| Revenue | $11,876,674 | $9,736,909 | $8,584,031 | $7,192,633 | $6,740,064 |
| Cost of goods sold | 7,301,817 | 5,937,286 | 5,232,328 | 4,359,104 | 4,088,151 |
| Gross margin | 4,574,857 | 3,799,623 | 3,351,703 | 2,833,529 | 2,651,913 |
| Operating income (6) (7) | 882,241 | 844,998 | 763,398 | 704,627 | 649,868 |
| Other expense (income): | | | | | |
| Interest expense | 146,377 | 101,640 | 88,263 | 57,860 | 64,542 |
| Other income, net (6) | (7,567) | (23,269) | (2,146) | (2,263) | (2,562) |
| Income from continuing operations before provision for income taxes | 743,431 | 766,627 | 677,281 | 649,030 | 587,888 |
| Provision for income taxes | 191,395 | 235,560 | 220,566 | 219,703 | 204,264 |
| Equity in (losses) earnings of unconsolidated subsidiaries (8) | (64,471) | 5,907 | (592) | (6,104) | (2,105) |
| Income from continuing operations | 487,565 | 536,974 | 456,123 | 423,223 | 381,519 |
| Net (loss) income from discontinued operations | (4,397) | (6,746) | 7,852 | — | — |
| Net income | 483,168 | 530,228 | 463,975 | 423,223 | 381,519 |
| Less: net income (loss) attributable to noncontrolling interest | 3,050 | (3.516) | — | — | — |
| Net income attributable to LKQ stockholders | $480,118 | $533,744 | $463,975 | $423,223 | $381,519 |
| Basic earnings per share: (9) | | | | | |
| Income from continuing operations | $1.55 | $1.74 | $1.49 | $1.39 | $1.26 |
| Net (loss) income from discontinued operations | (0.01) | (0.02) | 0.03 | — | — |
| Net income | 1.54 | 1.72 | 1.51 | 1.39 | 1.26 |
| Less: net income (loss) attributable to noncontrolling interest | 0.01 | (0.01) | — | — | — |
| Net income attributable to LKQ stockholders | $1.53 | $1.73 | $1.51 | $1.39 | $1.26 |
| Diluted earnings per share: (9) | | | | | |
| Income from continuing operations | $1.54 | $1.73 | $1.47 | $1.38 | $1.25 |
| Net (loss) income from discontinued operations | (0.01) | (0.02) | 0.03 | — | — |
| Net income | 1.53 | 1.71 | 1.50 | 1.38 | 1.25 |
| Less: net income (loss) attributable to noncontrolling interest | 0.01 | (0.01) | — | — | — |
| Net income attributable to LKQ stockholders | $1.52 | $1.72 | $1.50 | $1.38 | $1.25 |
| Weighted average shares outstanding-basic | 314,428 | 308,607 | 306,897 | 304,722 | 302,343 |
| Weighted average shares outstanding-diluted | 315,849 | 310,649 | 309,784 | 307,496 | 306,045 |

| (in thousands) | Year Ended December 31, 2018 (1) | 2017 (2) | 2016 (3) | 2015 (4) | 2014 (5) |
|---|---|---|---|---|---|
| Other Financial Data: | | | | | |
| Net cash provided by operating activities | $710,739 | $518,900 | $635,014 | $544,282 | $388,711 |
| Net cash used in investing activities | (1,458,939) | (384,595) | (1,709,928) | (329,993) | (920,994) |
| Net cash provided by (used in) financing activities | 882,995 | (112,567) | 1,225,737 | (238,537) | 501,189 |
| Capital expenditures | (250,027) | (179,090) | (207,074) | (170,490) | (140,950) |
| Cash paid for acquisitions, net of cash acquired | (1,214,995) | (513,088) | (1,349,339) | (160,517) | (775,921) |
| Depreciation and amortization | 294,077 | 230,203 | 206,086 | 128,192 | 125,437 |
| Balance Sheet Data: | | | | | |
| Total assets | $11,393,402 | $9,366,872 | $8,303,199 | $5,647,837 | $5,475,739 |
| Working capital (10) | 2,830,601 | 2,499,410 | 2,045,273 | 1,588,742 | 1,491,169 |
| Long-term obligations, including current portion | 4,310,500 | 3,403,980 | 3,341,771 | 1,584,702 | 1,846,148 |
| Total Company stockholders' equity | 4,782,298 | 4,198,169 | 3,442,949 | 3,114,682 | 2,720,657 |

(1) Includes the results of operations of Stahlgruber, from its acquisition effective May 30, 2018, and 13 other businesses from their respective acquisition dates in 2018.

(2) Includes the results of operations of 26 businesses from their respective acquisition dates in 2017.

(3) Includes the results of operations of: (i) Rhiag, from its acquisition effective March 18, 2016; (ii) the aftermarket automotive glass distribution business of Pittsburgh Glass Works LLC ("PGW autoglass"), from its acquisition effective April 21, 2016; and (iii) 13 other businesses from their respective acquisition dates in 2016.

(4) Includes the results of operations of 18 businesses from their respective acquisition dates in 2015.

(5) Includes the results of operations of Keystone Specialty from its acquisition effective January 3, 2014 and 22 other businesses from their respective acquisition dates in 2014.

(6) Certain amounts for 2017 have been recast to reflect the 2018 adoption of ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See "Other Recently Adopted Accounting Pronouncements" within Note 4, "Summary of Significant Accounting Policies" for further information.

(7) Reflects $33 million goodwill impairment charge on the Aviation reporting unit. See Note 4, "Summary of Significant Accounting Policies," for further information.

(8) Reflects $71 million impairment charge related to the Mekonomen equity investment. See Note 4, "Summary of Significant Accounting Policies," for further information.

(9) The sum of the individual earnings per share amounts may not equal the total due to rounding.

(10) Working capital amounts represent current assets less current liabilities, excluding assets and liabilities of discontinued operations. As of its acquisition date, Stahlgruber added $240 million in working capital.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

We are a global distributor 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.

Buyers of vehicle replacement products have the option to purchase from primarily five sources: new products produced by original equipment manufacturers ("OEMs"); new products produced by companies other than the OEMs, which are referred to as aftermarket products; recycled products obtained from salvage and total loss vehicles; recycled products that have been refurbished; and recycled products that have been remanufactured. We distribute a variety of products to collision

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and mechanical repair shops, including aftermarket collision and mechanical products; recycled collision and mechanical products; refurbished collision products such as wheels, bumper covers and lights; and remanufactured engines and transmissions. Collectively, we refer to the four sources that are not new OEM products as alternative parts.

We are a leading provider of alternative vehicle collision replacement products and alternative vehicle mechanical replacement products, with our sales, processing, and distribution facilities reaching most major markets in the United States and Canada. We are also a leading provider of alternative vehicle replacement and maintenance products in the United Kingdom, Germany, the Benelux region (Belgium, Netherlands, and Luxembourg), Italy, Czech Republic, Poland, Slovakia, Austria, and various other European countries. In addition to our wholesale operations, we operate self service retail facilities across the U.S. that sell recycled automotive products from end-of-life-vehicles. We are also a leading distributor of specialty vehicle aftermarket equipment and accessories reaching most major markets in the U.S. and Canada.

We are organized into four operating segments: Wholesale – North America; Europe; Specialty and Self Service. We aggregate our Wholesale – North America and Self Service operating segments into one reportable segment, North America, resulting in three reportable segments: North America, Europe and Specialty.

Our operating results have fluctuated on a quarterly and annual basis in the past and can be expected to continue to fluctuate in the future as a result of a number of factors, some of which are beyond our control. Please refer to the factors referred to in Forward-Looking Statements above. Due to these factors and others, which may be unknown to us at this time, our operating results in future periods can be expected to fluctuate. Accordingly, our historical results of operations may not be indicative of future performance.

Acquisitions and Investments

Since our inception in 1998, we have pursued a growth strategy through both organic growth and acquisitions. We have pursued acquisitions that we believe will help drive profitability, cash flow and stockholder value. We target companies that are market leaders, will expand our geographic presence and will enhance our ability to provide a wide array of vehicle products to our customers through our distribution network.

On May 30, 2018, we acquired 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. This acquisition expands LKQ's geographic presence in continental Europe and serves as an additional strategic hub for our European operations. In addition, we believe this acquisition will allow for continued improvement in procurement, logistics and infrastructure optimization. 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.

On July 3, 2017, we acquired four parts distribution businesses in Belgium. These acquisitions are transforming the existing three-step distribution model in Belgium to a two-step distribution model to align with our Netherlands operations.

On November 1, 2017, we acquired the aftermarket business of Warn, a leading designer, manufacturer and marketer of high performance vehicle equipment and accessories. This acquisition expanded LKQ's presence in the specialty market and created viable points of entry into related markets.

On March 18, 2016, we acquired Rhiag, a distributor of aftermarket spare parts for passenger cars and commercial vehicles in Italy, Czech Republic, Switzerland, Hungary, Romania, Ukraine, Bulgaria, Slovakia, Poland and Spain. This acquisition expanded LKQ's geographic presence in continental Europe and provided additional procurement synergies in our Europe segment.

On April 21, 2016, we acquired PGW, a leading global distributor and manufacturer of automotive glass products. PGW’s business comprised aftermarket automotive replacement glass distribution services and automotive glass manufacturing. On March 1, 2017, we sold the automotive glass manufacturing component of PGW. Unless otherwise noted, the discussion related to PGW throughout Part II, Item 7 of this Annual Report on Form 10-K refers to the aftermarket glass distribution operations of PGW, PGW autoglass, which is included within continuing operations.

See Note 3, "Discontinued Operations" in Item 8 of this Annual Report on Form 10-K for further information related to our discontinued operations. The acquisition of PGW autoglass expanded our addressable market in North America and provided distribution synergies with our existing network.

In October 2016, we acquired substantially all of the business assets of Andrew Page Limited ("Andrew Page"), a distributor of aftermarket automotive parts in the United Kingdom. The U.K. Competition and Markets Authority ("CMA") concluded its review of this acquisition on October 31, 2017 and required us to divest less than 10% of the acquired locations. We divested the required locations during 2018.

In addition to the significant acquisitions mentioned above, during the years ended December 31, 2018, 2017, and 2016, we acquired various smaller businesses across our North America, Europe, and Specialty segments.

On December 1, 2016, we acquired a 26.5% equity interest in Mekonomen AB ("Mekonomen"), the leading independent car parts and service chain in the Nordic region of Europe, offering a wide range of quality products including spare parts and accessories for cars, and workshop services for consumers and businesses. We acquired additional shares in the fourth quarter of 2018, 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.

See Note 2, "Business Combinations," and "Investments in Unconsolidated Subsidiaries" in Note 4, "Summary of Significant Accounting Policies," to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for additional information related to our acquisitions and investments.

Sources of Revenue

We report our revenue in two categories: (i) parts and services and (ii) other. 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. Our service revenue is generated primarily from the sale of service-type warranties, fees for admission to our self service yards, and processing fees related to the secure disposal of vehicles. During the year ended December 31, 2018, parts and services revenue represented approximately 95% of our consolidated 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. Other revenue will vary from period to period based on fluctuations in commodity prices and the volume of materials sold. See Note 5, "Revenue Recognition" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for additional information related to our sources of revenue.

Selling, General and Administrative Expenses

In our Annual Report on Form 10-K for the year ended December 31, 2017, we reported the following categories of operating expenses: (i) facility and warehouse expenses; (ii) distribution expenses; and (iii) selling, general and administrative expenses. To better reflect the changing profile of our business, and to align our financial statement presentation with other automotive parts and distribution companies, beginning with our Quarterly Report on Form 10-Q for the three months ended March 31, 2018, these three categories have been consolidated into one line item: selling, general and administrative ("SG&A") expenses.

Other than the consolidation of these financial statement line items and the changes due to the adoptions of Accounting Standards Update ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), and ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," as discussed in Note 4, "Financial Statement Information" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K, there have been no changes to the classification of revenue or expenses on our Consolidated Statements of Income. Our SG&A expenses continue to include: personnel costs for employees in selling, general and administrative functions; costs to operate our selling locations, corporate offices and back office support centers; costs to transport our products from our facilities to our customers; and other selling, general and administrative expenses, such as professional fees, supplies, and advertising expenses.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, assumptions, and judgments, including those related to revenue recognition, inventory valuation, business combinations and goodwill impairment. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for our judgments about the carrying values of assets and liabilities and our recognition of revenue. Actual results may differ from these estimates.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09. This update outlines a new comprehensive revenue recognition model that supersedes the prior revenue recognition guidance and requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has issued several updates to ASU

2014-09, which collectively with ASU 2014-09, represent the FASB Accounting Standards Codification Topic 606 (“ASC 606”). On January 1, 2018, we adopted ASC 606 for all contracts using the modified retrospective method. For more information regarding the adoption of the new revenue standard as well as our critical accounting policies related to revenue, refer to Note 5, "Revenue Recognition," to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

Inventory Accounting

Salvage and Remanufactured Inventory. Our salvage inventory cost is established based upon the price we pay for a vehicle, including auction, towing and storage fees, as well as expenditures for buying and dismantling vehicles. Inventory carrying value is determined using the average cost to sales percentage at each of our facilities and applying that percentage to the facility's inventory at expected selling prices, the assessment of which incorporates the sales probability based on a part's days in stock and historical demand. The average cost to sales percentage is derived from each facility's historical profitability for salvage vehicles. Remanufactured inventory cost is based upon the price paid for cores, and also includes expenses incurred for freight, direct manufacturing costs and overhead related to our remanufacturing operations.

All Inventory. For all inventory, carrying value is recorded at the lower of cost or net realizable value and is reduced to reflect current anticipated demand. If actual demand differs from our estimates, additional reductions to inventory carrying value would be necessary in the period such determination is made.

Business Combinations

We record our acquisitions using the purchase method of accounting, under which the acquisition purchase price is allocated to the assets acquired and liabilities assumed based upon their respective fair values. We utilize management estimates and, in some instances, independent third-party valuation firms to assist in determining the fair values of assets acquired, liabilities assumed and contingent consideration granted. There are inherent assumptions and estimates used in developing the future cash flows and fair values of tangible and intangible assets, such as projecting revenues and profits, discount rates, income tax rates, royalty rates, customer attrition rates and other various valuation assumptions. We use various valuation methods to value property, plant and equipment. When valuing real property, we typically use the sales comparison approach for land and the income approach for buildings and building improvements. When valuing personal property, we typically use either the income or cost approach. 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.

Goodwill and Indefinite-Lived Intangibles Impairment

We are required to test our goodwill and indefinite-lived intangible assets for impairment at least annually. When testing goodwill for impairment, we are required to evaluate events and circumstances that may affect the performance of the reporting unit and the extent to which the events and circumstances may impact the future cash flows of the reporting unit to determine whether the fair value of the assets exceed the carrying value. Developing the estimated future cash flows and fair value of the reporting unit requires management's judgment in projecting revenues and profits, allocation of shared corporate costs, tax rates, capital expenditures, working capital requirements, discount rates and market multiples. Many of the factors used in assessing fair value are outside the control of management, and it is reasonably likely that assumptions and estimates can change in future periods. If these assumptions or estimates change in the future, we may be required to record impairment charges for these assets. In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses, which could result in an impairment of goodwill.

We perform goodwill impairment tests annually in the fourth quarter and between annual tests whenever events indicate that an impairment may exist. During 2018, we did not identify any events or changes in circumstances that would more likely than not reduce the fair value of our reporting units below their carrying amounts. Therefore, we did not perform any impairment tests other than our annual test in the fourth quarter of 2018 as of October 31.

Our goodwill impairment assessment is performed by reporting unit. A reporting unit is an operating segment, or a business one level below an operating segment (the "component" level), for which discrete financial information is prepared and regularly reviewed by segment management. However, components are aggregated as a single reporting unit if they have similar economic characteristics. For the purpose of aggregating our components into reporting units, we review the long-term performance of Segment EBITDA. Additionally, we review qualitative factors such as type or class of customers, nature of products, distribution methods, inventory procurement methods, level of integration, and interdependency of processes across

components. Our assessment of the aggregation includes both qualitative and quantitative factors and is based on the facts and circumstances specific to the components.
We have four operating segments: Wholesale – North America, Europe, Specialty and Self Service. Each of these operating segments consists of multiple components that have discrete financial information available that is reviewed by segment management on a regular basis. We have evaluated these components and concluded that the components that compose the Europe, Specialty, and Self Service operating segments are economically similar and thus were aggregated into three separate reporting units. Based on our aggregation assessment of the qualitative and quantitative factors of the components of the Wholesale – North America operating segment, we determined the Aviation component should not be aggregated with its operating segment, Wholesale – North America, thus we did not aggregate the Aviation component into the Wholesale – North America reporting unit. Our Aviation reporting unit resulted from a 2017 acquisition of a small wholesale business in North America. As of the date of our 2018 annual goodwill impairment test, we were organized into five reporting units: Wholesale - North America, Europe, Specialty, Self Service and Aviation.
Our goodwill would be considered impaired if the carrying value of a reporting unit exceeded its estimated fair value. The fair value estimates are established using weightings of the results of a discounted cash flow methodology and a comparative market multiples approach. We believe that using two methods to determine fair value limits the chances of an unrepresentative valuation. Discount rates, growth rates and cash flow projections are the assumptions that are most sensitive and susceptible to change as they require significant management judgment. Impairment may result from, among other things, deterioration in the performance of acquired businesses, increases in our cost of capital, adverse market conditions, and adverse changes in applicable laws or regulations, including modifications that restrict the activities of the acquired business. To assess the reasonableness of the fair value estimates, we compare the sum of the reporting units' fair values to the Company's market capitalization and calculate an implied control premium, which is then evaluated against recent market transactions in our industry. If we were required to recognize goodwill impairments, we would report those impairment losses as part of our operating results.
Based on our annual goodwill impairment test in the fourth quarter of 2018, we determined the carrying value of our Aviation reporting unit exceeded the fair value estimate by more than the carrying value, thus we recorded an impairment charge of $33 million, which represented the total carrying value of goodwill in our Aviation reporting unit. The impairment charge was due to a decrease in the fair value estimate from the prior year fair value estimate, primarily driven by a significant deterioration in the outlook for the Aviation reporting unit due to competition, customer financial issues and changing market conditions for the airplane platforms that the business services, which lowered our projected gross margin and related future cash flows. We reported the impairment charge in Impairment of goodwill on the Consolidated Statements of Income for the year ended December 31, 2018. We determined no other impairments existed when we performed our annual impairment testing on the remaining four reporting units as all those reporting units had a fair value estimate which exceeded the carrying value by at least approximately 15%, the level at which our Europe reporting unit exceeded its carrying value. The excess of the fair value estimate over the carrying value for our Europe reporting unit decreased from our 2017 to our 2018 impairment test as a result of the Stahlgruber acquisition in May 2018. This decrease aligns with our expectations as there has not been a significant change in the value of the Stahlgruber business since its acquisition, which had the effect of reducing the excess for the entire Europe reporting unit. As of December 31, 2018, we had a total of $4.4 billion in goodwill subject to future impairment tests.
We review indefinite-lived intangible assets for impairment annually or sooner if events or changes in circumstances indicate that the carrying value may not be recoverable. We performed a quantitative impairment test in the fourth quarter of 2018 as of October 31, using the relief-from-royalty method to value the Warn trademark, which is our only indefinite-lived intangible; we determined no impairment existed as the trademark had a fair value estimate which exceeded the carrying value.
Recently Issued Accounting Pronouncements
See "Recent Accounting Pronouncements" in Note 4, "Summary of Significant Accounting Policies" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for information related to new accounting standards.

Financial Information by Geographic Area

See Note 16, "Segment and Geographic Information" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for information related to our revenue and long-lived assets by geographic region.

Results of Operations—Consolidated

The following table sets forth statements of income data as a percentage of total revenue for the periods indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Revenue | 100.0 % | 100.0 % | 100.0 % |
| Cost of goods sold | 61.5 % | 61.0 % | 61.0 % |
| Gross margin | 38.5 % | 39.0 % | 39.0 % |
| Selling, general and administrative expenses | 28.2 % | 27.9 % | 27.5 % |
| Restructuring and acquisition related expenses | 0.3 % | 0.2 % | 0.4 % |
| Impairment of goodwill | 0.3 % | — | — |
| Depreciation and amortization | 2.3 % | 2.3 % | 2.2 % |
| Operating income | 7.4 % | 8.7 % | 8.9 % |
| Other expense, net | 1.2 % | 0.8 % | 1.0 % |
| Income from continuing operations before provision for income taxes | 6.3 % | 7.9 % | 7.9 % |
| Provision for income taxes | 1.6 % | 2.4 % | 2.6 % |
| Equity in (losses) earnings of unconsolidated subsidiaries | (0.5 )% | 0.1 % | (0.0 )% |
| Income from continuing operations | 4.1 % | 5.5 % | 5.3 % |
| Net (loss) income from discontinued operations | (0.0 )% | (0.1 )% | 0.1 % |
| Net income | 4.1 % | 5.4 % | 5.4 % |
| Less: net income (loss) attributable to noncontrolling interest | 0.0 % | (0.0 )% | — % |
| Net income attributable to LKQ stockholders | 4.0 % | 5.5 % | 5.4 % |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenue. The following table summarizes the changes in revenue by category (in thousands):

| | Year Ended December 31, | | Percentage Change in Revenue | | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | Organic | Acquisition | Foreign Exchange | Total Change |
| Parts & services revenue | $11,233,407 | $9,208,634 | 4.4 % | 16.0 % | 1.5 % | 22.0 % |
| Other revenue | 643,267 | 528,275 | 20.4 % | 1.4 % | 0.0 % | 21.8 % |
| Total revenue | $11,876,674 | $9,736,909 | 5.3 % | 15.3 % | 1.4 % | 22.0 % |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

The change in parts and services revenue of 22.0% represented increases in segment revenue of 6.5% in North America, 43.4% in Europe and 13.2% in Specialty. Organic growth in parts and services revenue on a per day basis was 4.1% as there was one additional selling day in 2018 compared to 2017. The increase in other revenue of 21.8% was primarily driven by a $108 million organic increase, largely attributable to our North America segment. Refer to the discussion of our segment results of operations for factors contributing to the change in revenue by segment during the year ended December 31, 2018 compared to the year ended December 31, 2017.

Cost of Goods Sold. Cost of goods sold increased to 61.5% of revenue in the year ended December 31, 2018 from 61.0% of revenue in the year ended December 31, 2017. Cost of goods sold increased 0.4% and 0.3% as a result of our Europe and North America segments, respectively. Refer to the discussion of our segment results of operations for factors contributing to the changes in cost of goods sold as a percentage of revenue by segment for the year ended December 31, 2018 compared to the year ended December 31, 2017.

Selling, General and Administrative Expenses. Our SG&A expenses as a percentage of revenue increased to 28.2% in the year ended December 31, 2018 from 27.9% in the year ended December 31, 2017, primarily as a result of a 0.2%

increase from our North America segment. Refer to the discussion of our segment results of operations for factors contributing to the changes in SG&A expenses as a percentage of revenue by segment for the year ended December 31, 2018 compared to the year ended December 31, 2017.

Restructuring and Acquisition Related Expenses. The following table summarizes restructuring and acquisition related expenses for the periods indicated (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | Change |
| Restructuring expenses | $14,313 (1) | $5,012 (2) | $9,301 |
| Acquisition related expenses | 18,115 (3) | 14,660 (4) | 3,455 |
| Total restructuring and acquisition related expenses | $32,428 | $19,672 | $12,756 |

(1) Restructuring expenses for the year ended December 31, 2018 primarily consisted of $10 million related to the integration of our acquisition of Andrew Page and $3 million related to our Specialty segment. These integration activities included the closure of duplicate facilities and termination of employees.

(2) Restructuring expenses for the year ended December 31, 2017 included $2 million, $2 million, and $1 million related to the integration of acquired businesses in our North America, Specialty, and Europe segments, respectively. These integration activities included the closure of duplicate facilities and termination of employees.

(3) Acquisition related expenses for the year ended December 31, 2018 primarily consisted of $16 million of costs for our acquisition of Stahlgruber. The remaining costs related to other completed acquisitions and acquisitions that were pending as of December 31, 2018.

(4) Acquisition related expenses for the year ended December 31, 2017 included $5 million of costs for our acquisition of Andrew Page, primarily related to legal and other professional fees associated with the CMA review. The remaining acquisition related costs for the year ended December 31, 2017 consisted of external costs for completed acquisitions; pending acquisitions as of December 31, 2017, including $4 million related to Stahlgruber; and potential acquisitions that were terminated.

See Note 6, "Restructuring and Acquisition Related Expenses" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information on our restructuring and integration plans.

Impairment of Goodwill. We recorded a $33 million goodwill impairment charge on the Aviation reporting unit in the fourth quarter of 2018. See "Intangible Assets" in Note 4, "Summary of Significant Accounting Policies," for further information.

Depreciation and Amortization. The following table summarizes depreciation and amortization for the periods indicated (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | Change |
| Depreciation | $137,632 | $117,859 | $19,773 (1) |
| Amortization | 136,581 | 101,687 | 34,894 (2) |
| Total depreciation and amortization | $274,213 | $219,546 | $54,667 |

(1) The increase in depreciation expense primarily reflected an increase of $17 million in our Europe segment, composed of (i) $10 million of incremental depreciation expense from our acquisition of Stahlgruber, (ii) a $3 million increase due to a measurement period adjustment recorded in the year ended December 31, 2017 related to our valuation procedures for our acquisition of Rhiag that reduced depreciation expense, and (iii) $3 million of incremental depreciation expense from our acquisitions of aftermarket parts distribution businesses in Belgium and Poland in the third quarter of 2017. Depreciation expense also increased by $2 million related to the impact of foreign currency translation, primarily due to increases in the pound sterling, euro, and Czech koruna exchange rates during 2018 compared to the prior year.

(2) The increase in amortization expense primarily reflected (i) an increase of $37 million from our acquisition of Stahlgruber, and (ii) an increase of $4 million from our acquisition of Warn, partially offset by (iii) a $7 million decrease due to our 2016 acquisitions of Rhiag and PGW, which had higher amortization expense in 2017 compared to 2018 as a result of the accelerated amortization on the customer relationship intangible assets.

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Other Expense, Net. The following table summarizes the components of the year-over-year increase in other expense, net (in thousands):

| | | |
|---|---|---|
| Other expense, net for the year ended December 31, 2017 | $ 78,371 | |
| Increase due to: | | |
| Interest expense | 44,737 | (1) |
| Loss on debt extinguishment | 894 | |
| Gains on bargain purchases | 1,452 | (2) |
| Interest income and other income, net | 13,356 | (3) |
| Net increase | 60,439 | |
| Other expense, net for the year ended December 31, 2018 | $ 138,810 | |

(1) Additional interest primarily related to (i) a $38 million increase resulting from higher outstanding debt during 2018 compared to the prior year (including the borrowings under our Euro Notes (2026/28)), (ii) a $5 million increase from higher interest rates on borrowings under our senior secured credit agreement compared to the prior year, and (iii) a $2 million increase from foreign currency translation, primarily related to an increase in the euro exchange rate during the year ended December 31, 2018 compared to the year ended December 31, 2017.

(2)

(3) Over the past three years, we have completed several European acquisitions that resulted in gains on bargain purchase. In 2018, newly recorded gains and adjustments related to preliminary gains decreased relative to the prior year amount.
The increase in other expense primarily consisted of (i) a $6 million increase in foreign currency losses, (ii) a $5 million fair value loss recorded during 2018 related to a preferential rights issue to subscribe for new shares at a discounted share price for our equity method investment in Mekonomen; see Note 4, "Summary of Significant Accounting Policies" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information, and (iii) a non-recurring $4 million gain recorded in 2017 due to a decrease in the fair value of contingent consideration liabilities.

Provision for Income Taxes. Our effective income tax rate was 25.7% for the year ended December 31, 2018, compared to 30.7% for the year ended December 31, 2017. The following table summarizes the components of our provision for income taxes for the periods indicated (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | |
| Base provision for income taxes | $202,511 | $266,403 | (1) |
| Excess tax benefits from stock-based payments | (4,859) | (8,000) | (2) |
| U.S. tax reform deferred tax rate adjustment | — | (72,988) | (3) |
| U.S. tax reform transition tax on foreign earnings | (9,581) | 50,800 | (4) |
| Other discrete items | 3,324 | (655) | |
| Provision for income taxes | $191,395 | $235,560 | |

(1) Excluding the impact of discrete items, prior to the enactment of the Tax Act our recurring annual effective tax rate was approximately 35%. Largely due to the reduction in the U.S. federal tax rate to 21%, we now estimate the recurring rate to be approximately 27%. We continue to analyze the highly complex and interdependent 2017 U.S. tax legislation. Adjustments to that legislation, as well as regulations implemented by the U.S. Treasury Department, which could have an impact on our effective tax rate.

(2) Represents a discrete item for excess tax benefits received upon the exercise of stock options or vesting of RSUs.

(3) The 2017 amount represented the provisional estimate of the revaluation of deferred tax assets and liabilities as a result of the Tax Act which reduced the U.S. federal corporate tax rate. There were no adjustments to the revaluation recorded in 2018; the accounting for this item is complete.

(4) The 2017 amount represented the provisional estimate of the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017 as a result of the Tax Act. In 2018, we recognized

a $10 million favorable adjustment to the Tax Act transition tax provisional estimate; the accounting for this item is complete.

For further discussion of the Tax Act, see Note 15, "Income Taxes," included in Part II, Item 8 of this Annual Report on Form 10-K.

Equity in (Losses) Earnings of Unconsolidated Subsidiaries. Equity in (losses) earnings of unconsolidated subsidiaries for the years ended December 31, 2018 and 2017 primarily related to our investment in Mekonomen. During the year ended December 31, 2018, we recorded $71 million in other-than-temporary impairments related to our investment in Mekonomen. See Note 4, "Summary of Significant Accounting Policies" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information on the impairment charges. The impairment charges are excluded from our calculation of Segment EBITDA. See Note 16, "Segment and Geographic Information" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for our reconciliation of Net Income to Segment EBITDA.

Foreign Currency Impact. We translate our statements of income at the average exchange rates in effect for the period. Relative to the rates used during the year ended December 31, 2017, the Czech koruna, euro, and pound sterling rates used to translate the 2018 statements of income increased by 7.2%, 4.5%, and 3.6%, respectively. The translation effect of the change in foreign currencies against the U.S. dollar and realized and unrealized currency losses for the year ended December 31, 2018 resulted in a $0.02 positive effect on diluted earnings per share from continuing operations relative to the prior year.

Net Loss from Discontinued Operations. We recorded net losses from discounted operations of $4 million and $7 million during the years ended December 31, 2018 and 2017, respectively. Discontinued operations represents the automotive glass manufacturing business of PGW, which we sold on March 1, 2017. See Note 3, "Discontinued Operations" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information.

Net Income (Loss) Attributable to Noncontrolling Interest. Net income attributable to noncontrolling interest for the year ended December 31, 2018 increased $7 million from 2017 due to (i) a $5 million increase in our North America segment, as we allocated a loss of $4 million to the noncontrolling interest of an immaterial subsidiary during the year ended December 31, 2017, and (ii) a $2 million increase related to the noncontrolling interest of subsidiaries acquired in connection with the Stahlgruber acquisition.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue. The following table summarizes the changes in revenue by category (in thousands):

| | Year Ended December 31, | | Percentage Change in Revenue | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Organic | Acquisition | Foreign Exchange | Total Change |
| Parts & services revenue | $9,208,634 | $8,144,645 | 4.1 % | 9.1 % | (0.1 )% | 13.1 % |
| Other revenue | 528,275 | 439,386 | 19.6% | 0.7 % | 0.0 % | 20.2 % |
| Total revenue | $9,736,909 | $8,584,031 | 4.9 % | 8.7 % | (0.1 )% | 13.4 % |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

The change in parts and services revenue of 13.1% represented increases in segment revenue of 6.7% in North America, 24.5% in Europe, and 6.7% in Specialty. The increase in other revenue of 20.2% primarily consisted of an $86 million organic increase in other revenue, which was largely attributable to our North America segment. Refer to the discussion of our segment results of operations for factors contributing to the change in revenue by segment during 2017 compared to the prior year.

Cost of Goods Sold. Cost of goods sold remained flat at 61.0% of revenue for the years ended December 31, 2017 and 2016. Cost of goods sold decreased 0.3% as a result of our North America segment, primarily related to our salvage operations. Offsetting this decrease were roughly equal increases in cost of goods sold in our Europe and Specialty segments. Refer to the discussion of our segment results of operations for factors contributing to the changes in cost of goods sold as a percentage of revenue by segment for the year ended December 31, 2017 compared to the year ended

December 31, 2016.
Selling, General and Administrative Expenses. Our SG&A expenses as a percentage of revenue for the year ended December 31, 2017 increased to 27.9% in 2017 from 27.5% in 2016, primarily as a result of a 0.4% increase from our Europe segment and a 0.2% increase from our North America segment. Partially offsetting these increases was a decrease in SG&A expense as a percentage of revenue in our Specialty segment. Refer to the discussion of our segment results of operations for factors contributing to the changes in SG&A expenses as a percentage of revenue by segment for the year ended December 31, 2017 compared to the year ended December 31, 2016.

Restructuring and Acquisition Related Expenses. The following table summarizes restructuring and acquisition related expenses for the periods indicated (in thousands):

| | Year Ended December 31, 2017 | | Year Ended December 31, 2016 | | Change |
|---|---|---|---|---|---|
| Restructuring expenses | $5,012 | (1) | $15,782 | (2) | $(10,770) |
| Acquisition related expenses | 14,660 | (3) | 21,980 | (4) | (7,320) |
| Total restructuring and acquisition related expenses | $19,672 | | $37,762 | | $(18,090) |

(1) Restructuring expenses for the year ended December 31, 2017 included $2 million, $2 million, and $1 million related to the integration of acquired businesses in our North America, Specialty, and Europe segments. These integration activities included the closure of duplicate facilities and termination of employees.

(2) Restructuring expenses for the year ended December 31, 2016 included $10 million, $3 million, $2 million related to the integration of acquired businesses in our Specialty, North America and Europe segments, respectively. These integration activities included the closure of duplicate facilities and termination of employees.

(3) Acquisition related expenses for the year ended December 31, 2017 included $5 million of costs for our acquisition of Andrew Page, primarily related to legal and other professional fees associated with the CMA review. The remaining acquisition related costs for the year ended December 31, 2017 consisted of external costs for completed acquisitions; pending acquisitions as of December 31, 2017, including $4 million related to Stahlgruber; and potential acquisitions that were terminated.

(4) Acquisition related expenses for the year ended December 31, 2016 reflect $11 million and $4 million related to the acquisitions of Rhiag and PGW autoglass, respectively. The remaining $7 million of expense was related to other completed acquisitions and acquisitions that were pending as of December 31, 2016.

See Note 6, "Restructuring and Acquisition Related Expenses" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information on our restructuring and integration plans.

Depreciation and Amortization. The following table summarizes depreciation and amortization for the periods indicated (in thousands):

| | Year Ended December 31, 2017 | Year Ended December 31, 2016 | Change | |
|---|---|---|---|---|
| Depreciation | $117,859 | $107,945 | $9,914 | (1) |
| Amortization | 101,687 | 83,488 | 18,199 | (2) |
| Total depreciation and amortization | $219,546 | $191,433 | $28,113 | |

(1) The increase in depreciation expense primarily reflected increases of $4 million and $2 million for property, plant and equipment recorded for our acquisitions of Andrew Page and Rhiag, respectively. Depreciation expense increased in 2017 for Andrew Page and Rhiag primarily due to both acquisitions having a full year of results in 2017 compared to a partial year in 2016 (from acquisition dates of October 4, 2016 and March 18, 2016, respectively, through December 31, 2016). The remaining change primarily reflected increased levels of property, plant and equipment to support our organic related growth.

(2) The increase primarily reflected incremental amortization expense of (i) $14 million related to intangibles recorded for our acquisition of Rhiag and (ii) $3 million related to intangibles recorded for acquisitions within our Benelux operations during 2017.

Other Expense, Net. The following table summarizes the components of the year-over-year decrease in other expense, net (in thousands):

| | | |
|---|---|---|
| Other expense, net for the year ended December 31, 2016 | $ 86,117 | |
| Increase (decrease) due to: | | |
| Interest expense | 13,377 | (1) |
| Loss on debt extinguishment | (26,194 ) | (2) |
| Gain on foreign exchange contracts - acquisition related | 18,342 | (3) |
| Gains on bargain purchases | 4,337 | (4) |
| Interest income and other income, net | (17,608 ) | (5) |
| Net decrease | (7,746 ) | |
| Other expense, net for the year ended | $ 78,371 | |

December
31,
2017

(1) Additional interest primarily related to borrowings used to fund our acquisitions of Rhiag and PGW.

(2) During the first quarter of 2016, we incurred a $24 million loss on debt extinguishment as a result of our early payment of Rhiag debt assumed as part of the acquisition, and we incurred a $3 million loss on debt extinguishment as a result of our January 2016 amendment to our senior secured credit agreement. We incurred an immaterial loss on debt extinguishment as a result of our December 2017 amendment to our senior secured credit agreement.

(3) In March 2016, we entered into foreign currency forward contracts to acquire a total of €588 million used to fund the purchase price of the Rhiag acquisition. The rates under the foreign currency forwards were favorable to the spot rate on the date the funds were drawn to complete the acquisition, and as a result, these derivatives contracts generated a gain of $18 million.

(4) In October 2016, we acquired Andrew Page out of receivership. We recorded a gain on bargain purchase of $8 million in the fourth quarter of 2016, as the fair value of the net assets acquired exceeded the purchase price. During the year ended December 31, 2017, we increased the gain on bargain purchase for this acquisition by $2 million as a result of changes to our estimate of the fair value of net assets acquired. We also recorded a gain on bargain purchase for another acquisition in Europe completed in the second quarter of 2017.

(5) Interest income and other income, net was higher in 2017 primarily due to the impact of foreign currency transaction gains and losses, which had a net $6 million favorable impact compared to the prior year period. This primarily included unrealized gains and losses on foreign currency transactions and unrealized mark-to-market gains and losses on foreign currency forward contracts used to hedge the purchases of inventory in our U.K. operations. Additionally, there was (i) a $4 million gain due to a decrease in the fair value of contingent consideration liabilities, and (ii) a $2 million curtailment gain in 2017 related to our pensions. The remaining change related to miscellaneous other income.

Provision for Income Taxes. Our effective income tax rate was 30.7% for the year ended December 31, 2017, compared to 32.6% for the year ended December 31, 2016. The following table summarizes the components of our provision for income taxes for the periods indicated (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | |
| Base provision for income taxes | $266,403 | $235,355 | (1) |
| Excess tax benefits from stock-based payments | (8,000) | (11,441) | (2) |
| U.S. tax reform deferred tax rate adjustment | (72,988) | — | (3) |
| U.S. tax reform transition tax on foreign earnings | 50,800 | — | (4) |
| Other discrete items | (655) | (3,348) | |
| Provision for income taxes | $235,560 | $220,566 | |

(1) Excluding the impact of discrete items, our annual effective tax rate has been close to 35% over the prior two years. We were still evaluating the impact of the Tax Act on our future U.S. tax liability, but at the time, we expected that the overall impact of the Tax Act on our effective tax rate would be a decrease in the rate from previous years.

(2) Represents a discrete item for excess tax benefits received upon the exercise of stock options or vesting of RSUs.

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(3) Represents the provisional estimate of the revaluation of deferred tax assets and liabilities as a result of the Tax Act which reduced the U.S. federal corporate tax rate.

(4) Represents the provisional estimate of the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017 as a result of the Tax Act.

For further discussion of the Tax Act, see Note 15, "Income Taxes," included in Part II, Item 8 of this Annual Report on Form 10-K.

Equity in (Losses) Earnings of Unconsolidated Subsidiaries. Equity in earnings of unconsolidated subsidiaries for the year ended December 31, 2017 primarily related to our investment in Mekonomen. See Note 4, "Summary of Significant Accounting Policies" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information.

Foreign Currency Impact. We translate our statements of income at the average exchange rates in effect for the period. During the year ended December 31, 2017, the pound sterling rate used to translate the 2017 statements of income declined by 4.9%, while both the Canadian dollar rate and euro rate increased by 2.1% compared to the year ended December 31, 2016. The translation effect of the change in these currencies against the U.S. dollar and realized and unrealized currency losses for the year ended December 31, 2017 resulted in a $0.01 negative effect on diluted earnings per share from continuing operations relative to the prior year.

Net (Loss) Income from Discontinued Operations. During the year ended December 31, 2017 we recorded a loss from discontinued operations, net of tax totaling $7 million, of which $6 million was for the loss on sale of discontinued operations, compared to income from discontinued operations, net of tax totaling $8 million for the year ended December 31, 2016. Discontinued operations for 2017 and 2016 represents the automotive glass manufacturing business of PGW, which we acquired in April 2016 and sold on March 1, 2017. See Note 3, "Discontinued Operations" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information.

Net Income (Loss) Attributable to Noncontrolling Interest. During the year ended December 31, 2017, we allocated a loss of $4 million to the noncontrolling interest of an immaterial subsidiary.

Results of Operations—Segment Reporting

We have four operating segments: Wholesale – North America, Europe, Specialty and Self Service. Our Wholesale – North America and Self Service operating segments are aggregated into one reportable segment, North America, because they possess similar economic characteristics and have common products and services, customers, and methods of distribution. Therefore, we present three reportable segments: North America, Europe and Specialty.

We have presented the growth of our revenue and profitability in our operations on both an as reported and a constant currency basis. The constant currency presentation, which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency information provides valuable supplemental information regarding our growth and profitability, consistent with how we evaluate our performance, as this statistic removes the translation impact of exchange rate fluctuations, which are outside of our control and do not reflect our operational performance. Constant currency revenue and Segment EBITDA results are calculated by translating prior year revenue and Segment EBITDA in local currency using the current year's currency conversion rate. This non-GAAP financial measure has important limitations as an analytical tool and should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP. Our use of this term may vary from the use of similarly-titled measures by other issuers due to potential inconsistencies in the method of calculation and differences due to items subject to interpretation. In addition, not all companies that report revenue or profitability on a constant currency basis calculate such measures in the same manner as we do, and accordingly, our calculations are not necessarily comparable to similarly-named measures of other companies and may not be appropriate measures for performance relative to other companies.

The following table presents our financial performance, including third party revenue, total revenue and Segment EBITDA, by reportable segment for the periods indicated (in thousands):

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | % of Total Segment Revenue | 2017 | % of Total Segment Revenue | 2016 | % of Total Segment Revenue |
| Third Party Revenue | | | | | | |
| North America | $5,181,964 | | $4,798,901 | | $4,443,886 | |
| Europe | 5,221,754 | | 3,636,811 | | 2,920,470 | |
| Specialty | 1,472,956 | | 1,301,197 | | 1,219,675 | |
| Total third party revenue | $11,876,674 | | $9,736,909 | | $8,584,031 | |
| Total Revenue | | | | | | |
| North America | $5,182,609 | | $4,799,651 | | $4,444,625 | |
| Europe | 5,221,754 | | 3,636,811 | | 2,920,470 | |
| Specialty | 1,477,680 | | 1,305,516 | | 1,223,723 | |
| Eliminations | (5,369) | | (5,069) | | (4,787) | |
| Total revenue | $11,876,674 | | $9,736,909 | | $8,584,031 | |
| Segment EBITDA | | | | | | |
| North America | $660,153 | 12.7 % | $655,275 | 13.7 % | $589,945 | 13.3 % |
| Europe | 422,721 | 8.1 % | 319,156 | 8.8 % | 283,608 | 9.7 % |
| Specialty | 168,525 | 11.4 % | 142,159 | 10.9 % | 131,427 | 10.7 % |

The key measure of segment profit or loss reviewed by our chief operating decision maker, who is our Chief Executive Officer, is Segment EBITDA. Segment EBITDA includes revenue and expenses that are controllable by the segment. Corporate general and administrative expenses are allocated to the segments based on usage, with shared expenses apportioned based on the segment's percentage of consolidated revenue. We calculate Segment EBITDA as EBITDA excluding restructuring and acquisition related expenses, change in fair value of contingent consideration liabilities, other gains and losses related to acquisitions, equity method investments, or divestitures, equity in losses and earnings of unconsolidated subsidiaries and impairment of goodwill. EBITDA, which is the basis for Segment EBITDA, is calculated as net income, less net income (loss) attributable to noncontrolling interest, excluding discontinued operations, depreciation, amortization, interest (which includes loss on debt extinguishment) and income tax expense. See Note 16, "Segment and Geographic Information" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for a reconciliation of total Segment EBITDA to net income.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

North America

Third Party Revenue. The following table summarizes the changes in third party revenue by category in our North America segment (in thousands):

| | Year Ended December 31, | | Percentage Change in Revenue | | | |
|---|---|---|---|---|---|---|
| North America | 2018 | 2017 | Organic | Acquisition (3) | Foreign Exchange | Total Change |
| Parts & services revenue | $4,558,220 | $4,278,531 | 5.7 % (1) | 0.8 % | 0.0 % | 6.5 % |
| Other revenue | 623,744 | 520,370 | 19.6% (2) | 0.3 % | 0.0 % | 19.9 % |
| Total third party revenue | $5,181,964 | $4,798,901 | 7.2 % | 0.8 % | 0.0 % | 8.0 % |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1) Organic growth in parts and services revenue was attributable to roughly equal impacts of favorable pricing and increased sales volumes in our wholesale operations. The volume increases were primarily driven by (i) incremental sales related to an agreement signed in December 2017 for the distribution of batteries, and (ii) to a lesser extent,

severe winter weather conditions in the first quarter of 2018 compared to mild winter weather conditions in the prior year period. Organic growth in parts and services revenue for our North America segment on a per day basis was 5.3% as there was one additional selling day in 2018 compared to 2017.

(2) The $103 million increase in other revenue primarily related to (i) a $64 million increase in revenue from scrap steel and other metals primarily related to higher prices and, to a lesser extent, increased volumes, year over year, (ii) a $24 million increase in revenue from metals found in catalytic converters (platinum, palladium, and rhodium) primarily due to higher prices and, to a lesser extent, increased volumes, year over year, and (iii) a $7 million increase in core revenue primarily related to increased volumes year over year.

(3) Acquisition related growth in 2018 reflected revenue from our acquisition of ten wholesale businesses from the beginning of 2017 up to the one-year anniversary of the acquisition dates.

Segment EBITDA. Segment EBITDA increased $5 million, or 0.7%, in 2018 compared to the prior year. Sequential increases in scrap steel prices in our salvage and self service operations had a favorable impact of $5 million on North America Segment EBITDA during the year ended December 31, 2018, compared to a $12 million positive impact on the year ended December 31, 2017. This favorable impact resulted from the increase in scrap steel prices between the date we purchased a vehicle, which influences the price we pay for a vehicle, and the date we scrapped a vehicle, which influences the price we receive for scrapping a vehicle.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our North America segment:

| North America | Percentage of Total Segment Revenue | | |
|---|---|---|---|
| Segment EBITDA for the year ended December 31, 2017 | 13.7 | % | |
| Decrease due to: | | | |
| Change in gross margin | (0.5 | )% | (1) |
| Change in segment operating expenses | (0.3 | )% | (2) |
| Change in other expense, net and net income (loss) attributable to noncontrolling interest | (0.2 | )% | (3) |
| Segment EBITDA for the year ended December 31, 2018 | 12.7 | % | |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1) The decrease in gross margin reflected unfavorable impacts of 0.3% and 0.2% from our wholesale and self service operations, respectively. The decrease in wholesale gross margin is primarily attributable to (i) a shift in our sales toward lower margin products, including batteries, compared to the prior year period, and (ii) higher car costs in our salvage operations. The decrease in self service gross margin is primarily attributable to higher car costs as a result of increases in scrap prices in the first half of the year. While higher car costs can produce more gross margin dollars, these cars tend to have a dilutive effect on the gross margin percentage as parts revenue will typically increase at a lesser rate than the rise in average car cost. Self service gross margin was negatively impacted in the second half of 2018 due to declining scrap steel prices as the higher cost vehicles were scrapped.

(2) The increase in segment operating expenses as a percentage of revenue primarily reflected (i) a 0.3% increase in vehicle expenses primarily due to increased vehicle rental leases to handle incremental volumes as well as increases in fuel prices, and (ii) a 0.2% increase in freight expenses due to a higher use of, and increased prices of, third party freight, partially offset by (iii) several individually immaterial factors that had a favorable impact of 0.1% in the aggregate.

(3) The increase in other expense, net and net income (loss) attributable to noncontrolling interest was primarily due to several individually immaterial factors that had an unfavorable impact of 0.2% in the aggregate.

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Europe

Third Party Revenue. The following table summarizes the changes in third party revenue by category in our Europe segment (in thousands):

| | Year Ended December 31, | | Percentage Change in Revenue | | | |
|---|---|---|---|---|---|---|
| Europe | 2018 | 2017 | Organic (1) | Acquisition (2) | Foreign Exchange (3) | Total Change |
| Parts & services revenue | $5,202,231 | $3,628,906 | 2.9 % | 36.7 % | 3.8 % | 43.4 % |
| Other revenue | 19,523 | 7,905 | 74.2 % | 72.8 % | (0.0 )% | 147.0 % |
| Total third party revenue | $5,221,754 | $3,636,811 | 3.1 % | 36.7 % | 3.8 % | 43.6 % |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1) Parts and services revenue growth for the year varied by geography. In our Eastern European operations, revenue grew in the high single digits due to both existing and new branches (we added 68 since the beginning of 2017). Our Western European operations experienced slight declines to mid-single digit growth for the year due primarily to higher volumes in the second quarter of 2018 (partly attributable to the timing of the Easter holiday) offsetting softness in the remainder of the year. While we expect to achieve lower organic growth rates in these more mature markets than in Eastern Europe, our revenue growth in 2018 was negatively impacted by competitor actions, economic conditions in certain countries, such as Italy, and warmer than normal weather conditions. Organic growth in parts and services revenue for our Europe segment on a per day basis was 2.6% as there was one additional selling day in 2018 compared to 2017.

(2) Acquisition related growth for the year ended December 31, 2018 included $1.1 billion, or 30.2%, $79 million, or 2.2%, and $72 million, or 2.0%, from our acquisitions of Stahlgruber and aftermarket parts distribution businesses in Poland and Belgium, respectively. The remainder of our acquired revenue growth included revenue from our acquisitions of 20 wholesale businesses in our Europe segment since the beginning of 2017 through the one-year anniversary of the acquisitions.

(3) Compared to the prior year, exchange rates increased our revenue growth by $137 million, or 3.8%, primarily due to the weaker U.S. dollar against the pound sterling, euro and Czech koruna during 2018 relative to 2017.

Segment EBITDA. Segment EBITDA increased $104 million, or 32.4%, in 2018 compared to the prior year. Our Europe Segment EBITDA included a positive year over year impact of $15 million related to the translation of local currency results into U.S. dollars at higher exchange rates than those experienced during 2017. On a constant currency basis (i.e. excluding the translation impact), Segment EBITDA increased by $89 million, or 27.9%, compared to the prior year. Refer to the Foreign Currency Impact discussion within the Results of Operations - Consolidated section above for further detail regarding foreign currency impact on our results for the year ended December 31, 2018.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Europe segment:

| Europe | Percentage of Total Segment Revenue | |
|---|---|---|
| Segment EBITDA for the year ended December 31, 2017 | 8.8 % | |
| Decrease due to: | | |
| Change in gross margin | (0.2 )% | (1) |
| Change in segment operating expenses | (0.4 )% | (2) |
| Change in other expense, net and net income (loss) attributable to noncontrolling interest | (0.1 )% | |
| Segment EBITDA for the year ended December 31, 2018 | 8.1 % | |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1) The decline in gross margin was due to (i) a 0.6% decrease related to our U.K. operations primarily as a result of incremental costs related to the national distribution facility, principally due to replenishment issues and related

stock availability in the first quarter at our national distribution center and branches that led to some temporary service issues and increased labor costs to manually stock and receive product, and higher customer incentives, partially offset by increased supplier rebates, and (ii) a 0.3% net decrease due to mix related to our acquisition of an aftermarket parts distribution business in Poland during the third quarter of 2017. The unfavorable effects were partially offset by (i) a 0.4% increase in gross margin in our Benelux operations primarily due to increased supplier rebates and the ongoing move from a three-step to a two-step distribution model, and (ii) a 0.3% favorable impact related to an increase in supplier rebates as a result of centralized procurement for our Europe segment.

(2) The increase in segment operating expenses as a percentage of revenue was primarily due to a 0.4% increase in personnel expenses principally as a result of (i) negative leverage effect, as personnel costs grew at a greater rate than organic revenue, and (ii) increased headcount in our Eastern European operations as new branches were opened, as well as wage inflation due to low unemployment in the region. Additionally, a 0.2% increase in professional fees, primarily due to new information technology projects and other system enhancements, added to the unfavorable change in segment operating expenses. The unfavorable effects were partially offset by a 0.2% decrease in freight expenses due to a decreased use of third party freight in our U.K. operations.

Specialty

Third Party Revenue. The following table summarizes the changes in third party revenue by category in our Specialty segment (in thousands):

| | Year Ended December 31, | | Percentage Change in Revenue | | | |
|---|---|---|---|---|---|---|
| Specialty | 2018 | 2017 | Organic (1) | Acquisition (2) | Foreign Exchange | Total Change |
| Parts & services revenue | $1,472,956 | $1,301,197 | 4.6% | 8.6 % | 0.0 % | 13.2 % |
| Other revenue | — | — | — % | — % | — % | — % |
| Total third party revenue | $1,472,956 | $1,301,197 | 4.6% | 8.6 % | 0.0 % | 13.2 % |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1) Organic growth in parts and services revenue was primarily due to higher volumes across both our automotive and RV businesses, largely due to expansion of our product line coverage, strong exclusive line performance, and year over year growth of new vehicle sales of pickups, sport utility vehicles and other highly accessorized vehicles. Organic growth in parts and services revenue for our Specialty segment on a per day basis was 4.2% as there was one additional selling day in 2018 compared to 2017.

(2) Acquisition related growth in 2018 included $110 million, or 8.4%, from our acquisition of Warn through the one-year anniversary of the acquisition date. The remainder of our acquired revenue growth reflected an immaterial amount of acquired revenue from our acquisitions of three wholesale businesses from the beginning of 2017 up to the one-year anniversary of the acquisition dates.

Segment EBITDA. Segment EBITDA increased $26 million, or 18.5%, in 2018 compared to the prior year.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Specialty segment:

| Specialty | Percentage of Total Segment Revenue | |
|---|---|---|
| Segment EBITDA for the year ended December 31, 2017 | 10.9 % | |
| Increase (decrease) due to: | | |
| Change in gross margin | 1.3 % | (1) |
| Change in segment operating expenses | (0.6 )% | (2) |
| Change in other expense, net | (0.2 )% | (3) |
| Segment EBITDA for the year ended December 31, 2018 | 11.4 % | |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1)

The increase in gross margin reflects favorable impacts of (i) 0.8% from our acquisition of Warn, which has a higher gross margin than our existing Specialty operations, and (ii) 0.6% from our initiatives to improve gross margin. The favorable effects were partially offset by 0.2% of increased inventory write-downs as damaged and defective product was identified during our warehouse expansion projects on the West Coast and in the Southeastern U.S.

(2) The increase in segment operating expenses reflects unfavorable impacts of (i) 0.3% in personnel costs primarily due to wage inflation, increased distribution expenses driven by a decreased use of third party freight and increased delivery routes to improve service levels, as well as higher employee benefit costs, (ii) 0.2% in vehicle and fuel expenses primarily due to increased fuel prices, and (iii) by several individually immaterial factors that had an unfavorable impact of 0.1% in the aggregate.

(3) The increase in other expense, net is due to several individually immaterial factors that had an unfavorable impact of 0.2% in the aggregate.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

North America

Third Party Revenue. The following table summarizes the changes in third party revenue by category in our North America segment (in thousands):

| | Year Ended December 31, | | Percentage Change in Revenue | | | |
|---|---|---|---|---|---|---|
| North America | 2017 | 2016 | Organic | Acquisition (3) | Foreign Exchange | Total Change |
| Parts & services revenue | $4,278,531 | $4,009,129 | 3.0 % (1) | 3.6 % | 0.1 % | 6.7 % |
| Other revenue | 520,370 | 434,757 | 19.3% (2) | 0.4 % | 0.0 % | 19.7 % |
| Total third party revenue | $4,798,901 | $4,443,886 | 4.6 % | 3.2 % | 0.1 % | 8.0 % |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1) Organic growth in parts and services revenue was largely attributable to increased sales volumes in our wholesale operations, primarily in our salvage operations and, to a lesser extent, our aftermarket operations. Within our salvage operations, the favorable volume impact, which was primarily related to mechanical parts, was a result of refinements to our buying algorithms. Also, an emphasis on inventorying more parts off of each car purchased contributed to the increase in the number of parts sold per vehicle. While we were able to increase parts and services revenue over the prior year, we believe the weather conditions in 2017 contributed to a lower growth rate than generated in prior years. Organic revenue growth for our North America segment was also negatively affected by one fewer selling day in 2017 compared to 2016; on a per day basis, organic revenue growth was 3.4%.

(2) The $86 million increase in other revenue primarily related to (i) a $57 million increase in revenue from scrap steel and other metals primarily related to higher prices and, to a lesser extent, increased volumes, year over year and (ii) a $25 million increase in revenue from metals found in catalytic converters (platinum, palladium, and rhodium) primarily due to higher prices, year over year.

(3) Acquisition related growth in 2017 included $92 million, or 2.1%, from our PGW autoglass acquisition. The remainder of our acquired revenue growth reflected revenue from our acquisition of 11 wholesale businesses from the beginning of 2016 up to the one-year anniversary of the acquisition dates.

Segment EBITDA. Segment EBITDA increased $65 million, or 11.1%, in 2017 compared to the prior year. Sequential increases in scrap steel prices in our salvage and self service operations benefited gross margins and had a favorable impact of $12 million on North America Segment EBITDA and approximately a $0.03 positive effect on diluted earnings per share. This favorable impact resulted from the increase in scrap steel prices between the date we purchased a vehicle, which influences the price we pay for a vehicle, and the date we scrapped a vehicle, which influences the price we receive for scrapping a vehicle.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our North America segment:

| North America | Percentage of Total Segment Revenue | |
|---|---|---|
| Segment EBITDA for the year ended December 31, 2016 | 13.3 % | |
| Increase (decrease) due to: | | |
| Change in gross margin | 0.6 % | (1) |
| Change in segment operating expenses | (0.3 )% | (2) |
| Change in other expense, net | 0.1 % | |
| Segment EBITDA for the year ended December 31, 2017 | 13.7 % | |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1) The improvement in gross margin reflected a 1.1% favorable impact in our salvage operations, primarily attributable to raising revenue per car by a greater rate than car costs. Revenue per car improved due to higher volumes of parts sold per car, which was a result of refinements to our buying algorithms, an emphasis on inventorying more parts off of each car purchased, and an increase in the number of days we hold each car before it is scrapped. This improvement was partially offset by an unfavorable impact of 0.4% attributable to our aftermarket operations. Within our aftermarket operations, we experienced a 0.4% decline in gross margin primarily as a result of higher input costs from suppliers as well as decreases in net prices caused by higher customer discounts. The remaining change in gross margin was attributable to individually insignificant fluctuations in gross margin across our other North America operations.

(2) The increase in segment operating expenses as a percentage of revenue reflected (i) a 0.3% increase in personnel costs, and (ii) a 0.2% increase in freight costs driven by higher use of third party freight to handle increased volumes, partially offset by (iii) a 0.2% decrease in segment operating costs attributable to shared PGW corporate expenses incurred during 2016; these costs ceased being incurred upon the closing of the sale of the glass manufacturing business on March 1, 2017.

Europe

Third Party Revenue. The following table summarizes the changes in third party revenue by category in our Europe segment (in thousands):

| Europe | Year Ended December 31, 2017 | Year Ended December 31, 2016 | Percentage Change in Revenue: Organic (1) | Acquisition (2) | Foreign Exchange (3) | Total Change |
|---|---|---|---|---|---|---|
| Parts & services revenue | $3,628,906 | $2,915,841 | 5.3 % | 19.8 % | (0.6 )% | 24.5 % |
| Other revenue | 7,905 | 4,629 | 47.6% | 24.8 % | (1.6 )% | 70.8 % |
| Total third party revenue | $3,636,811 | $2,920,470 | 5.3 % | 19.8 % | (0.6 )% | 24.5 % |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1) Parts and services revenue grew organically across all of our aftermarket business units in Europe from both existing locations and new branches. In Eastern Europe and Western Europe, we added 65 and 23 branches, respectively, since the beginning of the prior year, and organic revenue growth includes revenue from those locations. Revenue at our existing locations grew primarily as a result of increased volumes and, to a lesser extent, increased prices. Organic revenue growth for our Europe segment on a per day basis was 5.7% as there was one fewer selling day in 2017 compared to 2016.

(2)

Acquisition related growth for the year ended December 31, 2017 included $216 million, or 7.4%, from our acquisition of Rhiag and $141 million, or 4.8%, from our acquisition of Andrew Page. The remainder of our acquired revenue growth included revenue from our acquisitions of 23 wholesale businesses in our Europe segment since the beginning of 2016 through the one-year anniversary of the acquisitions.

(3) Compared to the prior year, exchange rates reduced our revenue growth by $18 million, or 0.6%, primarily due to the stronger U.S. dollar against the pound sterling during 2017 relative to 2016, partially offset by the weaker U.S. dollar against the euro during 2017 relative to 2016.

Segment EBITDA. Segment EBITDA increased $36 million, or 12.5%, in 2017 compared to the prior year. Our Europe Segment EBITDA included a negative year over year impact of $3 million related to the translation of local currency results into U.S. dollars at lower exchange rates than those experienced during 2016. On a constant currency basis (i.e. excluding the translation impact), Segment EBITDA increased by $39 million, or 13.7%, compared to the prior year. Refer to the Foreign Currency Impact discussion within the Results of Operations - Consolidated section above for further detail regarding foreign currency impact on our results for the year ended December 31, 2017.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Europe segment:

| Europe | Percentage of Total Segment Revenue | |
|---|---|---|
| Segment EBITDA for the year ended December 31, 2016 | 9.7 % | |
| (Decrease) increase due to: | | |
| Change in gross margin | (0.4 )% | (1) |
| Change in segment operating expenses | (0.8 )% | (2) |
| Change in other expense, net | 0.3 % | (3) |
| Segment EBITDA for the year ended December 31, 2017 | 8.8 % | |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1) The decline in gross margin was due to (i) a 0.6% decrease due to our U.K. operations primarily as a result of an increase in inventory reserves and incremental costs related to the Tamworth distribution facility, which shifted from operating expenses to cost of goods sold when the facility went live, (ii) a 0.3% decrease due to an unfavorable mix impact as a result of generating a higher proportion of our revenue from our Rhiag operations, which have lower gross margins than our other Europe operations, (iii) a 0.3% decrease due to an acquisition in Eastern Europe during the year which has lower gross margins than our other Europe operations, partially offset by (iv) a 0.6% increase in gross margin in our Benelux operations primarily due to increased private label sales, which have higher gross margins, and (v) a 0.2% increase due to a favorable impact related to an increase in supplier rebates as a result of centralized procurement for our Europe segment. The remaining change in gross margin was attributable to individually insignificant fluctuations in gross margin across our other Europe operations.

(2) The increase in segment operating expenses as a percentage of revenue reflected (i) an increase of 0.8% in operating expenses as a result of the acquisition of Andrew Page, which has higher operating expenses as a percentage of revenue than our other Europe operations and (ii) an increase of 0.4% in operating expenses in our Benelux operations, primarily due to increased personnel costs related to distribution, partially offset by (iii) a 0.2% favorable mix impact due to our acquisition of Rhiag, which has lower operating expenses as a percentage of revenue than our other Europe operations. The remaining decrease in segment operating expenses reflected a number of individually insignificant fluctuations in operating expenses as a percentage of revenue.

(3) Approximately half of the decrease in other expense, net was due to the impact of foreign currency transaction gains and losses, primarily due to unrealized mark-to-market gains and losses on foreign currency forward contracts used to hedge the purchases of inventory in our U.K. operations, which were favorable in 2017 relative to the prior year. The remaining decrease in other expense, net reflected a number of individually insignificant fluctuations in other expense, net as a percentage of revenue.

Specialty

Third Party Revenue. The following table summarizes the changes in third party revenue by category in our Specialty segment (in thousands):

| Specialty | Year Ended December 31, 2017 | Year Ended December 31, 2016 | Percentage Change in Revenue: Organic (1) | Acquisition (2) | Foreign Exchange | Total Change |
|---|---|---|---|---|---|---|
| Parts & services revenue | $1,301,197 | $1,219,675 | 4.7% | 1.9 % | 0.1 % | 6.7 % |
| Other revenue | — | — | — % | — % | — % | — % |
| Total third party revenue | $1,301,197 | $1,219,675 | 4.7% | 1.9 % | 0.1 % | 6.7 % |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1) Organic growth in parts & services revenue was driven by increased sales volumes of Truck, Towing and RV parts sales. This organic growth was fueled by favorable economic conditions in most of our primary selling regions, as well as increased sales volumes of light trucks and RVs. Organic revenue growth for our Specialty segment on a per day basis was 5.1%, as there was one fewer selling day in 2017 compared to 2016.

(2) Acquisition related growth in 2017 included $20 million, or 1.7%, from our acquisition of Warn. The remainder of our acquired revenue growth reflected revenue from our acquisition of 3 wholesale businesses from the beginning of 2016 up to the one-year anniversary of the acquisition dates.

Segment EBITDA. Segment EBITDA increased $11 million, or 8.2%, in 2017 compared to the prior year.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Specialty segment:

| Specialty | Percentage of Total Segment Revenue | |
|---|---|---|
| Segment EBITDA for the year ended December 31, 2016 | 10.7 % | |
| (Decrease) increase due to: | | |
| Change in gross margin | (0.5 )% | (1) |
| Change in segment operating expenses | 0.8 % | (2) |
| Change in other expense, net | (0.1 )% | |
| Segment EBITDA for the year ended December 31, 2017 | 10.9 % | |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding.

(1) The decline in gross margin primarily reflected a 0.5% decrease due to higher overhead costs in inventory, which was driven by warehouse costs for two new distribution centers that became fully functional in 2016.

(2) The decrease in segment operating expenses reflected (i) favorable facility expenses of 0.7% primarily related to the integration of The Coast Distribution System, Inc. ("Coast") facilities and (ii) favorable personnel costs of 0.2% as a result of synergies realized on the integration of Coast facilities.

## Liquidity and Capital Resources

The following table summarizes liquidity data as of the dates indicated (in thousands):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents | $ 331,761 | $ 279,766 |
| Total debt (1) | 4,347,697 | 3,428,280 |
| Current maturities (2) | 122,117 | 129,184 |
| Capacity under credit facilities (3) | 3,260,000 | 2,850,000 |
| Availability under credit facilities (3) | 1,697,698 | 1,395,081 |

| | | |
|---|---|---|
| Total liquidity (cash and cash equivalents plus availability under credit facilities) | 2,029,459 | 1,674,847 |

(1) Debt amounts reflect the gross values to be repaid (excluding debt issuance costs of $37 million and $24 million as of December 31, 2018 and December 31, 2017, respectively).

(2) Debt amounts reflect the gross values to be repaid (excluding an immaterial amount of debt issuance costs as of December 31, 2018 and $3 million as of December 31, 2017).

(3) Capacity under credit facilities includes our revolving credit facilities and our receivables securitization facility. Availability under credit facilities is reduced by our outstanding letters of credit.

We assess our liquidity in terms of our ability to fund our operations and provide for expansion through both internal development and acquisitions. Our primary sources of liquidity are cash flows from operations and our credit facilities. We utilize our cash flows from operations to fund working capital and capital expenditures, with the excess amounts going towards funding acquisitions or paying down outstanding debt. As we have pursued acquisitions as part of our growth strategy, our cash flows from operations have not always been sufficient to cover our investing activities. To fund our acquisitions, we have accessed various forms of debt financing, including revolving credit facilities, senior notes and our receivables securitization facility.

As of December 31, 2018, we had debt outstanding and additional available sources of financing as follows:

- Senior secured credit facilities maturing in January 2024, composed of term loans totaling $350 million ($350 million outstanding at December 31, 2018) and $3.15 billion in revolving credit ($1.4 billion outstanding at December 31, 2018), bearing interest at variable rates (although a portion of the outstanding debt is hedged through interest rate swap contracts), with availability reduced by $65 million of amounts outstanding under letters of credit
- U.S. Notes (2023) totaling $600 million, maturing in May 2023 and bearing interest at a 4.75% fixed rate
- Euro Notes (2024) totaling $573 million (€500 million), maturing in April 2024 and bearing interest at a 3.875% fixed rate
- Euro Notes (2026/28) totaling $1.1 billion (€1.0 billion), consisting of (i) €750 million maturing in April 2026 and bearing interest at a 3.625% fixed rate, and (ii) €250 million maturing in April 2028 and bearing interest at a 4.125% fixed rate
- Receivables securitization facility with availability up to $110 million ($110 million outstanding as of December 31, 2018), maturing in November 2021 and bearing interest at variable commercial paper rates

From time to time, we may undertake financing transactions to increase our available liquidity, such as (i) our November 2018 amendment to our senior secured credit facility and (ii) the issuance of the Euro Notes (2026/28) in April 2018 related to the Stahlgruber acquisition. Given the long-term nature of our investment in Stahlgruber, combined with favorable interest rates, we decided to fund the acquisition primarily through long-term, fixed rate notes. We believe this approach provides financial flexibility to execute our long-term growth strategy while maintaining availability under our revolver. If we see an attractive acquisition opportunity, we have the ability to use our revolver to move quickly and have certainty of funding up to the amount of our then-available liquidity.

The enterprise value for the Stahlgruber acquisition was €1.5 billion, which was financed with the proceeds from the €1.0 billion of Euro Notes (2026/28), 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.

As of December 31, 2018, we had approximately $1.7 billion available under our credit facilities. Combined with approximately $332 million of cash and cash equivalents at December 31, 2018, we had approximately $2.0 billion in available liquidity, an increase of $355 million over our available liquidity as of December 31, 2017.

We believe that our current liquidity and cash expected to be generated by operating activities in future periods will be sufficient to meet our current operating and capital requirements, although such sources may not be sufficient for future acquisitions depending on their size. While we believe that we have adequate capacity, from time to time we may need to raise additional funds through public or private financing, strategic relationships or other arrangements, as noted above regarding the Stahlgruber transaction. There can be no assurance that additional funding, or refinancing of our credit facilities, if needed, will be available on terms attractive to us, or at all. Furthermore, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants or higher interest costs. Our failure to raise capital if and when needed could have a material adverse impact on our business, operating results, and financial condition.

Borrowings under the credit agreement accrue interest at variable rates which are tied to the LIBOR or the Canadian Dollar Offered Rate ("CDOR"), depending on the currency and the duration of the borrowing, plus an applicable margin rate

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which is subject to change quarterly based on our reported leverage ratio. We hold interest rate swaps to hedge the variable rates on a portion of our credit agreement borrowings, with the effect of fixing the interest rates on the respective notional amounts. In addition, in 2016 and 2018, we entered into cross currency swaps that contain an interest rate swap component and a foreign currency forward contract component that, when combined with related intercompany financing arrangements, effectively convert variable rate U.S. dollar-denominated borrowings into fixed rate euro-denominated borrowings. These derivative transactions are described in Note 11, "Derivative Instruments and Hedging Activities" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K. After giving effect to these contracts, the weighted average interest rate on borrowings outstanding under our credit agreement at December 31, 2018 was 1.9%. Including our senior notes and the borrowings under our receivables securitization program, our overall weighted average interest rate on borrowings was 3.1% at December 31, 2018.

Cash interest payments were $138 million for the year ended December 31, 2018, including $52 million in semi-annual interest payments on our U.S. Notes (2023) and our Euro Notes (2024). Interest payments on our U.S. Notes (2023) are made in May and November, and interest payments on our Euro Notes (2024) are scheduled for April and October. Beginning in the fourth quarter of 2018, we began making semi-annual interest payments of $22 million on our Euro Notes (2026/28). Interest payments on our Euro Notes (2026/28) are made in April and October.

We had outstanding credit agreement borrowings of $1.7 billion and $2.0 billion at December 31, 2018 and December 31, 2017, respectively. Of these amounts, $9 million and $18 million was classified as current maturities at December 31, 2018 and 2017, respectively.

The scheduled maturities of long-term obligations outstanding at December 31, 2018 are as follows (in thousands):

| Years ending December 31: | |
|---|---|
| 2019 | $122,117 |
| 2020 | 49,193 |
| 2021 | 137,192 |
| 2022 | 24,410 |
| 2023 | 621,560 |
| Thereafter | 3,393,225 |
| Total debt (1) | $4,347,697 |

(1) The total debt amounts presented above reflect the gross values to be repaid (excluding debt issuance costs of $37 million as of December 31, 2018).

Our credit agreement contains 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. We were in compliance with all restrictive covenants under our credit agreement as of December 31, 2018.

The following summarizes our required debt covenants and our actual ratios with respect to those covenants as calculated per the credit agreement as of December 31, 2018:

| | Covenant Level | Ratio Achieved as of December 31, 2018 |
|---|---|---|
| Maximum net leverage ratio | 4.5:1.0 | 2.9 |
| Minimum interest coverage ratio | 3.0:1.0 | 9.0 |

The terms net leverage ratio and minimum interest coverage ratio used in the credit agreement are specifically calculated per the credit agreement and differ in specified ways from comparable GAAP or common usage terms.

As of December 31, 2018, the Company had cash and cash equivalents of $332 million, of which $274 million was held by foreign subsidiaries. In general, it is our practice and intention to permanently reinvest the undistributed earnings of our foreign subsidiaries, and that position has not changed following the enactment of the Tax Act and the related imposition of the transition tax. Distributions of dividends from our foreign subsidiaries, if any, would be generally exempt from further U.S. taxation, either as a result of the new 100% participation exemption under the Tax Act, or due to the previous taxation of

foreign earnings under the transition tax. In July 2018, to lower our average borrowing cost, we elected to unwind several financing entities in Europe, restructure and increase related Europe borrowings and repatriate cash to reduce U.S. borrowings.

We believe that we have sufficient cash flow and liquidity to meet our financial obligations in the U.S. without repatriating our foreign earnings. We may, from time to time, choose to selectively repatriate foreign earnings if doing so supports our financing or liquidity objectives. As a result of the Tax Act, we had significantly lower income tax payments in 2018 due to the lower tax rate and the immediate deduction of capital expenditures, partially offset by the first payment with respect to the transition tax.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

The procurement of inventory is the largest operating use of our funds. We normally pay for aftermarket product purchases at the time of shipment or on standard payment terms, depending on the manufacturer and the negotiated payment terms. We normally pay for salvage vehicles acquired at salvage auctions and under direct procurement arrangements at the time that we take possession of the vehicles.

The following table sets forth a summary of our aftermarket and manufactured inventory procurement for the years ended December 31, 2018 and 2017 (in thousands):

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | |
| North America | $1,393,700 | $1,367,600 | $26,100 | (1) |
| Europe | 3,635,400 | 2,355,300 | 1,280,100 | (2) |
| Specialty | 1,087,600 | 1,006,600 | 81,000 | (3) |
| Total | $6,116,700 | $4,729,500 | $1,387,200 | |

(1) In North America, aftermarket purchases during the year ended December 31, 2018 increased compared to the comparable prior year period to support growth across our operations.

(2) In our Europe segment, the increase in purchases during the year ended December 31, 2018 was primarily driven by (i) an $821 million increase attributable to inventory purchases at Stahlgruber from the date of acquisition through December 31, 2018, (ii) a $181 million increase primarily attributable to our Eastern Europe operations, of which $73 million was due to incremental inventory purchases in the first seven months of 2018 as a result of our acquisition of an aftermarket parts distribution business in Poland in the third quarter of 2017; the remaining increase was primarily due to branch expansion in Eastern Europe, and (iii) a $146 million increase in purchases at our Benelux operations, of which $41 million was attributable to incremental inventory purchases in the first six months of 2018 as a result of our acquisitions of aftermarket parts distribution businesses in Belgium in the third quarter of 2017. There was also an increase of $88 million in inventory purchases driven by the increase in the value of the euro and pound sterling in 2018 compared to 2017.

(3) In our Specialty segment, the acquisition of Warn in November 2017 added incremental purchases of $71 million during the year ended December 31, 2018, which includes purchases of aftermarket inventory and raw materials used in the manufacturing of specialty products. Specialty inventory purchases also increased during the year ended December 31, 2018 compared to the prior year to support growth in our operations.

The following table sets forth a summary of our global wholesale salvage and self service procurement for the years ended December 31, 2018 and 2017 (in thousands):

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | % Change | | |
| North America wholesale salvage cars and trucks | 310 | 310 | — | % | |
| Europe wholesale salvage cars and trucks | 28 | 25 | 12.0 | % | |
| Self service and "crush only" cars | 562 | 542 | 3.7 | % | (1) |

(1) Compared to the prior year, we have increased the number of self service and "crush only" vehicles purchased in 2018 to support growth in our operations.

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The following table summarizes the components of the year-over-year increase in cash provided by operating activities (in millions):

| | | |
|---|---|---|
| Net cash provided by operating activities for the year ended December 31, 2017 | $519 | |
| Increase (decrease) due to: (1) | | |
| Operating income | 37 | (2) |
| Non-cash depreciation and amortization expense | 64 | (3) |
| Impairment of goodwill | 33 | (4) |
| Cash paid for taxes | 73 | |
| Cash paid for interest | (42 ) | |
| Working capital accounts: (5) | | |
| Accounts receivable | 39 | |
| Inventory | 72 | |
| Accounts payable | (103 ) | (6) |
| Pension funding | (9 ) | (7) |
| Other operating activities | 28 | (8) |
| Net cash provided by operating activities for the year ended December 31, 2018 | $711 | |

(1) Other than discontinued operations, the amounts presented represent increases (decreases) in operating cash flows attributable to our continuing operations only.

(2) Refer to the Results of Operations - Consolidated section for further information on the increase in operating income.

(3) Non-cash depreciation and amortization expense increased compared to the prior year period as discussed in the Results of Operations - Consolidated section.

(4) In the fourth quarter of 2018, we recorded an impairment charge on the goodwill in our Aviation reporting unit. See Note 4, "Summary of Significant Accounting Policies" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information on the impairment charge.

(5) Cash flows related to our primary working capital accounts can be volatile as the purchases, payments and collections can be timed differently from period to period and can be influenced by factors outside of our control.

(6) Includes an outflow of $116 million related to Stahlgruber, primarily resulting from the timing of the acquisition. Due to the timing of processing invoice payments after the closing date, we assumed a larger payable balance but acquired more cash at closing. However, the cash acquired at closing is reflected in the Investing section of the cash flow statement on the Acquisitions, net of cash acquired line.

(7) During the year ended December 31, 2018, we made a special contribution of $9 million to one of our North America pension plans. See Note 14, "Employee Benefit Plans" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information on our pension plans.

(8) Reflects a number of individually insignificant fluctuations in cash paid for other operating activities.

Net cash used in investing activities totaled $1.5 billion for the year ended December 31, 2018, compared to $385 million of cash used in investing activities during the year ended December 31, 2017. We invested $1.2 billion of cash, net of cash acquired, in business acquisitions during the year ended December 31, 2018 compared to $513 million during the year ended December 31, 2017. We received net proceeds from the sale of our glass manufacturing business totaling $301 million during the year ended December 31, 2017; no such proceeds were received in 2018. Property, plant and equipment purchases were $250 million in 2018 compared to $179 million in the prior year. The period over period increase in cash outflows for purchases of property, plant and equipment was primarily related to our North America and Europe segments. We had $28 million of proceeds from the disposals of property, plant and equipment in 2018 compared to $9 million in the prior year; the increase was primarily related to our North America segment. We invested $60 million in unconsolidated subsidiaries in 2018 compared to $8 million in the prior year, primarily due to the $48 million Mekonomen rights issue in the fourth quarter of 2018; there was no rights offering in 2017. During the year ended December 31, 2018, we received $37 million of deferred purchase price proceeds on receivables under our factoring arrangement that was acquired in our Stahlgruber acquisition; no such proceeds were received in 2017. The arrangement was subsequently terminated in December 2018.

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Net cash provided by financing activities totaled $883 million for the year ended December 31, 2018, compared to net cash used in financing activities of $113 million during the year ended December 31, 2017. We received proceeds of $1.2 billion from our issuance of the Euro Notes (2026/28) during the year ended December 31, 2018; no such proceeds were received in the prior year. We repurchased $60 million of our common stock during 2018 following the Board of Directors' authorization of a stock repurchase program in October 2018; we did not repurchase any common stock during 2017. We also paid $21 million of debt issuance costs during 2018, primarily related to the issuance of the Euro Notes (2026/28), compared to $4 million paid during 2017 in connection with our December 2017 amendment of our credit facilities. During the year ended December 31, 2018, net repayments under our credit facilities totaled $206 million compared to $135 million during the year ended December 31, 2017. There were $12 million of cash repayments of other debt in 2018, compared to $20 million of cash proceeds from other debt in 2017. There was $42 million of cash paid for Stahlgruber's assumed debt that matured in 2018, and $13 million of cash paid for notes issued related to our acquisitions of an aftermarket parts distribution businesses in Belgium in the third quarter of 2017.

During the year ended December 31, 2018, foreign exchange rates decreased cash, cash equivalents and restricted cash by $77 million, compared to an increase of $24 million in the prior year. The current year impact was primarily related to a $66 million decrease resulting from the decline in the euro exchange rate between April 9, 2018, the date we received the proceeds from the Euro Notes (2026/28), and May 30, 2018, the date we paid the cash proceeds for the Stahlgruber acquisition.

We intend to continue to evaluate markets for potential growth through the internal development of distribution centers, processing and sales facilities, and warehouses, through further integration of our facilities, and through selected business acquisitions. Our future liquidity and capital requirements will depend upon numerous factors, including the costs and timing of our internal development efforts and the success of those efforts, the costs and timing of expansion of our sales and marketing activities, and the costs and timing of future business acquisitions.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

The following table sets forth a summary of our aftermarket and manufactured inventory procurement for 2017 and 2016 (in thousands):

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2017 | 2016 | Change | |
| North America | $1,367,600 | $1,198,556 | $169,044 | (1) |
| Europe | 2,355,300 | 2,012,804 | 342,496 | (2) |
| Specialty | 1,006,600 | 934,119 | 72,481 | (3) |
| Total | $4,729,500 | $4,145,479 | $584,021 | |

(1) In North America, aftermarket purchases during the year ended December 31, 2017 increased compared to the prior year as we decided to expand our inventory as a result of procurement initiatives to support growth across our operations. The remaining increase is primarily as a result of our acquisition of PGW autoglass in April 2016, which added incremental purchases of $72 million in 2017.

(2) In our Europe segment, the increase in purchases during the year ended December 31, 2017 is primarily related to our acquisition of Rhiag in March 2016, which added incremental purchases of $181 million in 2017. Purchases for our U.K. operations increased in 2017 compared to the prior year primarily as a result of our acquisition of Andrew Page in October 2016, which added incremental purchases of $107 million in 2017, partially offset by the devaluation of the pound sterling in 2017 compared to the prior year. Purchases for our Benelux operations increased by $71 million in 2017 compared to the prior year primarily as a result of our acquisition of the aftermarket parts distribution businesses in Belgium in July 2017, which had purchases of $46 million in 2017. The remaining increase in our Benelux operations was primarily due to incremental inventory purchases to achieve supplier purchase rebates.

(3) The increase in Specialty inventory purchases during 2017 compared to the prior year is primarily due to increased sales volumes for Truck, Towing and RV parts. Additionally, the acquisition of Warn in November 2017 added incremental purchases of $11 million, which includes purchases of aftermarket inventory and raw materials used in

the manufacturing of specialty products.

The following table sets forth a summary of our global salvage and self service procurement for 2017 and 2016 (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | % Change |
| North America wholesale salvage cars and trucks | 310 | 291 | 6.5 % (1) |
| Europe wholesale salvage cars and trucks | 25 | 23 | 8.7 % |
| Self service and "crush only" cars | 542 | 524 | 3.4 % (2) |

(1) The number of salvage cars and trucks purchased during the year ended December 31, 2017 increased primarily due to a decision to increase the number of salvage cars and trucks dismantled compared to the prior year.
(2) With the increase in scrap prices compared to the prior year period, we have increased the number of self service and "crush only" vehicles purchased.

The following table summarizes the components of the year-over-year decrease in cash provided by operating activities (in millions):

| | | |
|---|---|---|
| Net cash provided by operating activities for the year ended December 31, 2016 | $635 | |
| Increase (decrease) due to: (1) | | |
| Discontinued operations | (68) | (2) |
| Operating income | 82 | (3) |
| Non-cash depreciation and amortization expense | 32 | (4) |
| Cash paid for taxes | (43) | (5) |
| Cash paid for interest | (10) | (6) |
| Working capital accounts: (7) | | |
| Inventory | (133) | (8) |
| Accounts payable | 8 | |
| Accounts receivable | 27 | |
| Other operating activities | (11) | (9) |
| Net cash provided by operating activities for the year ended December 31, 2017 | $519 | |

(1) Other than discontinued operations, the amounts presented represent increases (decreases) in operating cash flows attributable to our continuing operations only.
(2) Represents the change in cash flows for our glass manufacturing business, which was acquired in April 2016 and disposed of on March 1, 2017.
(3) During 2017, our operating income increased compared to the prior year due to both acquisition related growth and organic growth.
(4) Non-cash depreciation and amortization expense increased compared to the prior year as discussed in the Results of Operations - Consolidated section.
(5) Cash paid for taxes increased during 2017 compared to the prior year as a result of growth in the business from both organic growth and acquisitions, and the timing of tax payments.
(6) Cash paid for interest increased compared to the prior year primarily as a result of interest payments related to our Euro Notes (2024), which were issued in April 2016. In the prior year, we made one semi-annual interest payment related to these notes, whereas in 2017 we made two semi-annual interest payments.
(7) Cash flows related to our primary working capital accounts can be volatile as the purchases, payments and collections can be timed differently from period to period and can be influenced by factors outside of our control. However, we expect that the net change in these working capital items will generally be a cash outflow as we expect to grow our business each year.

(8) The period over period increase in cash outflows for inventory was primarily related to our North America segment as described in the procurement section above.
(9) Reflects a number of individually insignificant fluctuations in cash paid for other operating activities.

Net cash used in investing activities totaled $385 million for the year ended December 31, 2017, compared to $1.7 billion in 2016. We invested $513 million of cash, net of cash acquired, in business acquisitions during 2017 compared to $1.3 billion in 2016, which included $601 million for our Rhiag acquisition and $662 million for our PGW acquisition. We received proceeds from the sale of our glass manufacturing business totaling $301 million in 2017; no such proceeds were received in 2016. We paid $8 million for investments in unconsolidated subsidiaries in 2017, compared to cash payments of $186 million in 2016, primarily related to our investment in Mekonomen. In 2016, we entered into foreign currency contracts to fund the purchase price of the Rhiag acquisition, which generated $18 million of cash proceeds; we had no such contracts in 2017. Property, plant and equipment purchases were $179 million in the year ended December 31, 2017 compared to $207 million in the prior year. The period over period decrease in cash outflows for purchases of property, plant and equipment was primarily related to our discontinued operations (down $21 million compared to the prior year), Europe and Specialty segments, partially offset by an increase in our North America segment.

Net cash used in financing activities totaled $113 million for the year ended December 31, 2017, compared to $1.2 billion provided by financing activities during 2016. During 2017, net repayments under our credit facilities totaled $135 million, as we used the proceeds from the sale of our glass manufacturing business and cash flows from operations to repay outstanding revolver borrowings; during 2016, we had net borrowings of $1.3 billion primarily to fund our acquisitions. In April 2016, we issued the Euro Notes (2024) generating proceeds of $563 million. The proceeds from the Euro Notes (2024) were used to repay a portion of the borrowings on the revolving credit facility. Additionally, we repaid $543 million of Rhiag acquired debt and debt related liabilities during 2016. In connection with our December 2017 amendment of our credit facilities, we paid $4 million of debt issuance costs; in 2016, we paid $17 million of debt issuance costs related to our January and December 2016 amendments of our credit facilities, our April 2016 issuance of the Euro Notes (2024), and our November 2016 amendment to our receivables securitization facility. There were $18 million of cash proceeds from other debt in 2017, compared to $33 million in 2016. Cash provided by other financing activities totaled $7 million in 2017, primarily as a result of proceeds from the sale of noncontrolling interest; no such activity occurred in 2016.

Off-Balance Sheet Arrangements and Future Commitments

We do not have any off-balance sheet arrangements or undisclosed borrowings or debt that would be required to be disclosed pursuant to Item 303 of Regulation S-K under the Securities Exchange Act of 1934. Additionally, we do not have any synthetic leases.

The following table represents our future commitments under contractual obligations as of December 31, 2018 (in millions):

| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
|---|---|---|---|---|---|
| Contractual obligations | | | | | |
| Long-term debt (1) | $5,093.4 | $260.7 | $459.3 | $899.7 | $3,473.7 |
| Capital lease obligations (2) | 53.7 | 10.7 | 16.6 | 8.3 | 18.1 |
| Operating leases (3) | 1,828.5 | 294.3 | 466.8 | 290.2 | 777.2 |
| Purchase obligations (4) | 645.6 | 530.3 | 115.3 | — | — |
| Other long-term obligations (5) | 297.9 | 163.8 | 85.3 | 23.2 | 25.6 |
| Total | $7,919.1 | $1,259.8 | $1,143.3 | $1,221.4 | $4,294.6 |

(1) Our long-term debt under contractual obligations above includes interest of $786 million on the balances outstanding as of December 31, 2018. The long-term debt balance excludes debt issuance costs, as these expenses have already been paid. Interest on our senior notes, notes payable, and other long-term debt is calculated based on the respective stated rates. Interest on our variable rate credit facilities is calculated based on the weighted average rates, including the impact of interest rate swaps through their respective expiration dates, in effect for each tranche

of borrowings as of December 31, 2018. Future estimated interest expense for the next year, one to three years, and three to five years is $147 million, $288 million and $261 million, respectively. Estimated interest expense beyond five years is $90 million.

Interest on capital lease obligations of $14 million is included based on incremental borrowing or implied rates.

(2) Future estimated interest expense for the next year, one to three years, and three to five years is $2 million, $2 million and $1 million, respectively. Estimated interest expense beyond five years is $9 million.

(3) The operating lease payments above do not include certain tax, insurance and maintenance costs, which are also required contractual obligations under our operating leases but are generally not fixed and can fluctuate from year to year.

(4) Our purchase obligations include open purchase orders for aftermarket inventory.

(5) Our other long-term obligations consist of estimated payments for our self-insurance reserves of $94 million, outstanding letters of credit of $65 million, and outstanding estimated payments of $33 million on the repatriation of earnings as a result of the Tax Act, with the remaining $106 million representing primarily other asset purchase commitments and payments for deferred compensation plans.

The table above excludes amounts related to our defined benefit pension plans. As of December 31, 2018, the projected benefit obligation for our defined benefit pension plans was $201 million, and the fair value of the related plan assets was $92 million. Total expected contributions to our pension plans, including amounts that we expect to pay in benefits directly to participants, are $4 million for the year ended December 31, 2019. Benefit payments for our funded plans will be made from plan assets, whereas benefit payments for our unfunded plans are made from cash flows from operating activities. See Note 14, "Employee Benefit Plans" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information related to our pension plans, including information related to expected benefit payments for the next 10 years and the plan assets available to satisfy those benefit payments.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks arising from adverse changes in:

- foreign exchange rates;
- interest rates; and
- commodity prices.

### Foreign Exchange Rates

Foreign currency fluctuations may impact the financial results we report for the portions of our business that operate in functional currencies other than the U.S. dollar. Our operations outside of the U.S. represented 47.9% and 41.8% of our revenue during 2018 and 2017, respectively. An increase or decrease in the strength of the U.S. dollar against these currencies by 10% would result in a 4.8% change in our consolidated revenue and a 2.9% change in our operating income for the year ended December 31, 2018. See our Results of Operations discussion in Part II, Item 7 of this Annual Report on Form 10-K for additional information regarding the impact of fluctuations in exchange rates on our year over year results.

Additionally, we are exposed to foreign currency fluctuations with respect to the purchase of aftermarket products from foreign countries, primarily in Europe and Asia. To the extent that our inventory purchases are not denominated in the functional currency of the purchasing location, we are exposed to exchange rate fluctuations. In several of our operations, we purchase inventory from manufacturers in Taiwan in U.S. dollars, which exposes us to fluctuations in the relationship between the local functional currency and the U.S. dollar, as well as fluctuations between the U.S. dollar and the Taiwan dollar. We hedge our exposure to foreign currency fluctuations related to a portion of inventory purchases in our Europe operations, but the notional amount and fair value of these foreign currency forward contracts at December 31, 2018 were immaterial. We do not currently attempt to hedge foreign currency exposure related to our foreign currency denominated inventory purchases in our North America operations, and we may not be able to pass on any resulting price increases to our customers.

Other than with respect to a portion of our foreign currency denominated inventory purchases, we do not hold derivative contracts to hedge foreign currency risk. Our net investment in foreign operations is partially hedged by the foreign currency denominated borrowings we use to fund foreign acquisitions; however, our ability to use foreign currency denominated borrowings to finance our foreign operations may be limited based on local tax laws. We have elected not to hedge the foreign currency risk related to the interest payments on foreign borrowings as we generate cash flows in the local currencies that can be used to fund debt payments. As of December 31, 2018, we had outstanding borrowings of €500 million under our Euro Notes (2024), €1.0 billion under our Euro Notes (2026/28), and £290 million, €163 million, CAD $130 million, and SEK 275 million under our revolving credit facilities. As of December 31, 2017, we had outstanding borrowings of €500 million under our Euro Notes (2024), and £124 million, CAD $130 million, SEK 250 million, and €132 million under our revolving credit facilities. The interest payments on our €1.0 billion Euro Notes (2026/28) are funded primarily by cash flows generated by Stahlgruber.

Interest Rates

Our results of operations are exposed to changes in interest rates primarily with respect to borrowings under our credit facilities, where interest rates are tied to the prime rate, LIBOR or CDOR. Therefore, we implemented a policy to manage our exposure to variable interest rates on a portion of our outstanding variable rate debt instruments through the use of interest rate swap contracts. These contracts convert a portion of our variable rate debt to fixed rate debt, matching the currency, effective dates and maturity dates to specific debt instruments. Net interest payments or receipts from interest rate swap contracts are included as adjustments to interest expense. All of our interest rate swap contracts have been executed with banks that we believe are creditworthy (Wells Fargo Bank, N.A.; Bank of America, N.A.; Citizens, N.A.; HSBC Bank USA, N.A.; and Banco Bilbao Vizcaya Argentaria, S.A.).

As of December 31, 2018, we held eight interest rate swap contracts representing a total of $480 million of U.S. dollar-denominated notional amount debt. Our interest rate swap contracts are designated as cash flow hedges and modify the variable rate nature of that portion of our variable rate debt. These swaps have maturity dates ranging from January 2021 through June 2021. As of December 31, 2018, the fair value of the interest rate swap contracts was an asset of $15 million. The values of such contracts are subject to changes in interest rates.

In addition to these interest rate swaps, as of December 31, 2018 we held five cross currency swap agreements for a total notional amount of $574 million (€530 million) with maturity dates in October 2019, October 2020, and 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 reduce uncertainty in cash flows in U.S. dollars and euros in connection with intercompany financing arrangements. The cross currency swaps were also executed with banks we believe are creditworthy (Wells Fargo Bank, N.A.; Bank of America, N.A.; MUFG Bank, Ltd. ("MUFG") (formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd.); and SunTrust Bank). As of December 31, 2018, the fair value of the interest rate swap components of the cross currency swaps was an asset of $7 million and a liability of $1 million, and the fair value of the foreign currency forward components was an asset of $1 million and a liability of $40 million. The values of these contracts are subject to changes in interest rates and foreign currency exchange rates.

In total, we had 57% of our variable rate debt under our credit facilities at fixed rates at December 31, 2018 compared to 48% at December 31, 2017. See Note 10, "Long-Term Obligations" and Note 11, "Derivative Instruments and Hedging Activities" to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for additional information.

At December 31, 2018, we had approximately $793 million of variable rate debt that was not hedged. Using sensitivity analysis, a 100 basis point movement in interest rates would change interest expense by $8 million over the next twelve months.

Commodity Prices

We are exposed to market risk related to price fluctuations in scrap metal and other metals. Market prices of these metals affect the amount that we pay for our inventory and the revenue that we generate from sales of these metals. As both our revenue and costs are affected by the price fluctuations, we have a natural hedge against the changes. However, there is typically a lag between the effect on our revenue from metal price fluctuations and inventory cost changes, and there is no guarantee that the vehicle costs will decrease or increase at the same rate as the metals prices. Therefore, we can experience positive or negative gross margin effects in periods of rising or falling metals prices, particularly when such prices move rapidly. Additionally, if market prices were to change at a greater rate than our vehicle acquisition costs, we could experience a positive or negative effect on our operating margin. The average of scrap metal prices for 2018 has increased 18% over the average for 2017.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of LKQ Corporation:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of LKQ Corporation and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity, for each of the three years in the period ended December 31, 2018, and the related notes and the financial statement schedule listed in the Index at Item 15. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois

March 1, 2019

We have served as the Company's auditor since 1998.

LKQ CORPORATION AND SUBSIDIARIES

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Revenue | $11,876,674 | $9,736,909 | $8,584,031 |
| Cost of goods sold | 7,301,817 | 5,937,286 | 5,232,328 |
| Gross margin | 4,574,857 | 3,799,623 | 3,351,703 |
| Selling, general and administrative expenses (1), (2) | 3,352,731 | 2,715,407 | 2,359,110 |
| Restructuring and acquisition related expenses | 32,428 | 19,672 | 37,762 |
| Impairment of goodwill | 33,244 | — | — |
| Depreciation and amortization | 274,213 | 219,546 | 191,433 |
| Operating income | 882,241 | 844,998 | 763,398 |
| Other expense (income): | | | |
| Interest expense | 146,377 | 101,640 | 88,263 |
| Loss on debt extinguishment | 1,350 | 456 | 26,650 |
| Gains on foreign exchange contracts - acquisition related | — | — | (18,342) |
| Gains on bargain purchases | (2,418) | (3,870) | (8,207) |
| Interest income and other income, net (2) | (6,499) | (19,855) | (2,247) |
| Total other expense, net | 138,810 | 78,371 | 86,117 |
| Income from continuing operations before provision for income taxes | 743,431 | 766,627 | 677,281 |
| Provision for income taxes | 191,395 | 235,560 | 220,566 |
| Equity in (losses) earnings of unconsolidated subsidiaries | (64,471) | 5,907 | (592) |
| Income from continuing operations | 487,565 | 536,974 | 456,123 |
| Net (loss) income from discontinued operations | (4,397) | (6,746) | 7,852 |
| Net income | 483,168 | 530,228 | 463,975 |
| Less: net income (loss) attributable to noncontrolling interest | 3,050 | (3,516) | — |
| Net income attributable to LKQ stockholders | $480,118 | $533,744 | $463,975 |
| | | | |
| Basic earnings per share: (3) | | | |
| Income from continuing operations | $1.55 | $1.74 | $1.49 |
| Net (loss) income from discontinued operations | (0.01) | (0.02) | 0.03 |
| Net income | 1.54 | 1.72 | 1.51 |
| Less: net income (loss) attributable to noncontrolling interest | 0.01 | (0.01) | — |
| Net income attributable to LKQ stockholders | $1.53 | $1.73 | $1.51 |
| | | | |
| Diluted earnings per share: (3) | | | |
| Income from continuing operations | $1.54 | $1.73 | $1.47 |
| Net (loss) income from discontinued operations | (0.01) | (0.02) | 0.03 |
| Net income | 1.53 | 1.71 | 1.50 |
| Less: net income (loss) attributable to noncontrolling interest | 0.01 | (0.01) | — |
| Net income attributable to LKQ stockholders | $1.52 | $1.72 | $1.50 |

(1) Selling, general and administrative expenses contain facility and warehouse expenses and distribution expenses that were previously shown separately.
(2) Certain amounts for 2017 have been recast to reflect the 2018 adoption of ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See "Other Recently Adopted Accounting Pronouncements" within Note 4, "Summary of Significant Accounting Policies" for further information.

(3) 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 consolidated financial statements.

LKQ CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
(In thousands)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Net income | $483,168 | $530,228 | $463,975 |
| Less: net income (loss) attributable to noncontrolling interest | 3,050 | (3,516) | — |
| Net income attributable to LKQ stockholders | 480,118 | 533,744 | 463,975 |
| | | | |
| Other comprehensive income (loss): | | | |
| Foreign currency translation, net of tax | (108,523) | 200,596 | (175,639) |
| Net change in unrealized gains/losses on cash flow hedges, net of tax | 350 | 3,447 | 9,023 |
| Net change in unrealized gains/losses on pension plans, net of tax | 697 | (6,035) | 4,911 |
| Net change in other comprehensive loss from unconsolidated subsidiaries | (2,343) | (1,309) | — |
| Other comprehensive (loss) income | (109,819) | 196,699 | (161,705) |
| | | | |
| Comprehensive income | 373,349 | 726,927 | 302,270 |
| Less: comprehensive income (loss) attributable to noncontrolling interest | 3,050 | (3,516) | — |
| Comprehensive income attributable to LKQ stockholders | $370,299 | $730,443 | $302,270 |

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

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

| | December 31, 2018 | 2017 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $331,761 | $279,766 |
| Receivables, net | 1,154,083 | 1,027,106 |
| Inventories | 2,836,075 | 2,380,783 |
| Prepaid expenses and other current assets | 199,030 | 134,479 |
| Total current assets | 4,520,949 | 3,822,134 |
| Property, plant and equipment, net | 1,220,162 | 913,089 |
| Intangible assets: | | |
| Goodwill | 4,381,458 | 3,536,511 |
| Other intangibles, net | 928,752 | 743,769 |
| Equity method investments | 179,169 | 208,404 |
| Other assets | 162,912 | 142,965 |
| Total assets | $11,393,402 | $9,366,872 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $942,398 | $788,613 |
| Accrued expenses: | | |
| Accrued payroll-related liabilities | 172,005 | 143,424 |
| Other accrued expenses | 288,425 | 218,600 |
| Refund liability | 104,585 | — |
| Other current liabilities | 61,109 | 45,727 |
| Current portion of long-term obligations | 121,826 | 126,360 |
| Total current liabilities | 1,690,348 | 1,322,724 |
| Long-term obligations, excluding current portion | 4,188,674 | 3,277,620 |
| Deferred income taxes | 311,434 | 252,359 |
| Other noncurrent liabilities | 364,194 | 307,516 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, $0.01 par value, 1,000,000,000 shares authorized, 318,417,821 shares issued and 316,146,114 shares outstanding at December 31, 2018; 309,126,386 shares issued and outstanding at December 31, 2017 | 3,184 | 3,091 |
| Additional paid-in capital | 1,415,188 | 1,141,451 |
| Retained earnings | 3,598,876 | 3,124,103 |
| Accumulated other comprehensive loss | (174,950) | (70,476) |
| Treasury stock, at cost; 2,271,707 shares at December 31, 2018 | (60,000) | — |
| Total Company stockholders' equity | 4,782,298 | 4,198,169 |
| Noncontrolling interest | 56,454 | 8,484 |
| Total stockholders' equity | 4,838,752 | 4,206,653 |
| Total liabilities and stockholders' equity | $11,393,402 | $9,366,872 |

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

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | $483,168 | $530,228 | $463,975 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 294,077 | 230,203 | 206,086 |
| Impairment on Mekonomen equity method investment | 70,895 | — | — |
| Impairment of goodwill | 33,244 | — | — |
| Stock-based compensation expense | 22,760 | 22,832 | 22,472 |
| Loss on debt extinguishment | 1,350 | 456 | 26,650 |
| Loss on sale of business | — | 10,796 | — |
| Impairment on net assets of discontinued operations | — | — | 26,677 |
| Gains on foreign exchange contracts - acquisition related | — | — | (18,342) |
| Gains on bargain purchases | (2,418) | (3,870) | (8,207) |
| Deferred income taxes | (2,180) | (46,537) | (16,162) |
| Other | 9,534 | 1,301 | 19,550 |
| Changes in operating assets and liabilities, net of effects from acquisitions and dispositions: | | | |
| Receivables, net | 241 | (55,979) | (50,801) |
| Inventories | (127,153) | (203,857) | (64,114) |
| Prepaid income taxes/income taxes payable | (2,125) | 8,376 | 14,944 |
| Accounts payable | (77,621) | 45,136 | 18,577 |
| Other operating assets and liabilities | 6,967 | (20,185) | (6,291) |
| Net cash provided by operating activities | 710,739 | 518,900 | 635,014 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchases of property, plant and equipment | (250,027) | (179,090) | (207,074) |
| Proceeds from disposals of property, plant and equipment | 27,659 | 8,707 | 3,510 |
| Acquisitions, net of cash and restricted cash acquired | (1,214,995) | (513,088) | (1,349,339) |
| Proceeds from disposals of business/investment | — | 301,297 | 10,304 |
| Investments in unconsolidated subsidiaries | (60,300) | (7,664) | (185,671) |
| Proceeds from foreign exchange contracts | — | — | 18,342 |
| Receipts of deferred purchase price on receivables under factoring arrangements | 36,991 | — | — |
| Other investing activities, net | 1,733 | 5,243 | — |
| Net cash used in investing activities | (1,458,939) | (384,595) | (1,709,928) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from exercise of stock options | 5,303 | 7,470 | 7,963 |
| Taxes paid related to net share settlements of stock-based compensation awards | (5,567) | (5,525) | (4,438) |
| Debt issuance costs | (21,128) | (4,267) | (16,554) |
| Proceeds from issuance of Euro Notes (2024) | — | — | 563,450 |
| Proceeds from issuance of Euro Notes (2026/28) | 1,232,100 | — | — |
| Purchase of treasury stock | (60,000) | — | — |
| Borrowings under revolving credit facilities | 1,667,325 | 839,171 | 2,636,596 |
| Repayments under revolving credit facilities | (1,528,970) | (946,477) | (1,748,664) |
| Borrowings under term loans | — | — | 582,115 |
| Repayments under term loans | (354,800) | (27,884) | (255,792) |
| Borrowings under receivables securitization facility | 10,120 | 11,245 | 106,400 |

| | | | |
|---|---|---|---|
| Repayments under receivables securitization facility | (120 ) | (11,245 ) | (69,400 ) |
| Payment of assumed debt and notes issued from acquisitions | (54,888 ) | — | — |
| (Repayments) borrowings of other debt, net | (11,730 ) | 19,706 | (31,156 ) |
| Payments of Rhiag debt and related payments | — | — | (543,347 ) |
| Other financing activities, net | 5,350 | 5,239 | (1,436 ) |
| Net cash provided by (used in) financing activities | 882,995 | (112,567 ) | 1,225,737 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (77,311 ) | 23,512 | (3,704 ) |
| Net increase in cash, cash equivalents and restricted cash | 57,484 | 45,250 | 147,119 |

The accompanying notes are an integral part of the consolidated financial statements.
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LKQ CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Cash, cash equivalents and restricted cash of continuing operations, beginning of period | 279,766 | 227,400 | 87,397 |
| Add: Cash, cash equivalents and restricted cash of discontinued operations, beginning of period | — | 7,116 | — |
| Cash, cash equivalents and restricted cash of continuing and discontinued operations, beginning of period | 279,766 | 234,516 | 87,397 |
| Cash, cash equivalents and restricted cash of continuing and discontinued operations, end of period | 337,250 | 279,766 | 234,516 |
| Less: Cash, cash equivalents and restricted cash of discontinued operations, end of period | — | — | (7,116) |
| Cash, cash equivalents and restricted cash, end of period | $337,250 | $279,766 | $227,400 |
| | | | |
| Reconciliation of cash, cash equivalents and restricted cash: | | | |
| Cash and cash equivalents | $331,761 | $279,766 | $227,400 |
| Restricted cash included in Other assets | 5,489 | — | — |
| Cash, cash equivalents and restricted cash, end of period | $337,250 | $279,766 | $227,400 |
| | | | |
| Supplemental disclosure of cash paid for: | | | |
| Income taxes, net of refunds | $200,098 | $273,019 | $230,036 |
| Interest | 137,866 | 95,707 | 86,021 |
| Supplemental disclosure of noncash investing and financing activities: | | | |
| Stock issued in acquisitions | $251,334 | $— | $— |
| Contingent consideration liabilities | 3,107 | 6,234 | — |
| Notes payable and other financing obligations, including notes issued and debt assumed in connection with business acquisitions/investment | 105,566 | 59,045 | 568,032 |
| Noncash property, plant and equipment additions | 16,518 | 18,122 | 10,715 |
| Notes and other financing receivables in connection with disposals of business/investment | — | 4,000 | — |

The accompanying notes are an integral part of the consolidated financial statements.
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LKQ CORPORATION AND SUBSIDIARIES
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, 2016 | 305,574 | $3,055 | — | $— | $1,090,713 | $2,126,384 | $(105,470) | $— | $3,114,682 |
| Net income | — | — | — | — | — | 463,975 | — | — | 463,975 |
| Other comprehensive loss | — | — | — | — | — | — | (161,705) | — | (161,705) |
| Vesting of restricted stock units, net of shares withheld for employee tax | 847 | 9 | — | — | (4,447) | — | — | — | (4,438) |
| Stock-based compensation expense | — | — | — | — | 22,472 | — | — | — | 22,472 |
| Exercise of stock options | 1,124 | 11 | — | — | 7,952 | — | — | — | 7,963 |
| BALANCE, December 31, 2016 | 307,545 | $3,075 | — | $— | $1,116,690 | $2,590,359 | $(267,175) | $— | $3,442,949 |
| Net income | — | — | — | — | — | 533,744 | — | (3,516) | 530,228 |
| Other comprehensive income | — | — | — | — | — | — | 196,699 | — | 196,699 |
| Vesting of restricted stock units, net of shares withheld for employee tax | 749 | 7 | — | — | (4,332) | — | — | — | (4,325) |
| Stock-based compensation expense | — | — | — | — | 22,832 | — | — | — | 22,832 |
| Exercise of stock options | 867 | 9 | — | — | 7,461 | — | — | — | 7,470 |
| Tax withholdings related to net share settlements of | (34) | — | — | — | (1,200) | — | — | — | (1,200) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| stock-based compensation awards | | | | | | | | | |
| Sale of subsidiary shares to noncontrolling interest | — | — | — | — | — | — | — | 12,000 | 12,000 |
| BALANCE, December 31, 2017 | 309,127 | $3,091 | — | $— | $1,141,451 | $3,124,103 | $(70,476) | $8,484 | $4,206,653 |
| Net income | — | — | — | — | — | 480,118 | — | 3,050 | 483,168 |
| Other comprehensive loss | — | — | — | — | — | — | (109,819) | — | (109,819) |
| Stock issued in acquisitions | 8,056 | 81 | — | — | 251,253 | — | — | — | 251,334 |
| Purchase of treasury stock | — | — | (2,272) | (60,000) | — | — | — | — | (60,000) |
| Vesting of restricted stock units, net of shares withheld for employee tax | 603 | 6 | — | — | (3,802) | — | — | — | (3,796) |
| Stock-based compensation expense | — | — | — | — | 22,760 | — | — | — | 22,760 |
| Exercise of stock options | 686 | 7 | — | — | 5,296 | — | — | — | 5,303 |
| Tax withholdings related to net share settlements of stock-based compensation awards | (54) | (1) | — | — | (1,770) | — | — | — | (1,771) |
| Adoption of ASU 2018-02 (see Note 4) | — | — | — | — | — | (5,345) | 5,345 | — | — |
| Capital contributions from, net of dividends declared to, noncontrolling interest shareholder | — | — | — | — | — | — | — | 810 | 810 |
| | — | — | — | — | — | — | — | 44,110 | 44,110 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Noncontrolling interests of businesses acquired | | | | | | | | | |
| BALANCE, December 31, 2018 | 318,418 | $3,184 | (2,272) | $(60,000) | $1,415,188 | $3,598,876 | $(174,950) | $56,454 | $4,838,752 |

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

LKQ CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Business
The financial statements presented reflect 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 are a leading provider of alternative vehicle collision replacement products and alternative vehicle mechanical replacement products, with our sales, processing, and distribution facilities reaching most major markets in the United States and Canada. We are also a leading provider of alternative vehicle replacement and maintenance products in the United Kingdom, Germany, the Benelux region (Belgium, Netherlands, and Luxembourg), Italy, Czech Republic, Poland, Slovakia, Austria, and various other European countries. In addition to our wholesale operations, we operate self service retail facilities across the U.S. that sell recycled automotive products from end-of-life-vehicles. We are also a leading distributor of specialty vehicle aftermarket equipment and accessories reaching most major markets in the U.S. and Canada. In total, we operate approximately 1,700 facilities.

2. Business Combinations
On May 30, 2018, we acquired 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.
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.
We recorded $908 million of goodwill related to our acquisition of Stahlgruber, of which we expect $300 million to be deductible for income tax purposes. In the period between the acquisition date and December 31, 2018, Stahlgruber, which is reported in our Europe reportable segment, generated third party revenue of $1.1 billion and operating income of $52 million.
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, of which we expect $4 million to be deductible for income tax purposes. In the period between the acquisition dates and December 31, 2018, these acquisitions generated third party revenue of $46 million and operating income of $3 million.
During the year ended December 31, 2017, we completed 26 acquisitions including 6 wholesale businesses in North America, 16 wholesale businesses in Europe and 4 Specialty businesses. Our acquisitions in Europe included the acquisition of four aftermarket parts distribution businesses in Belgium in July 2017. Our Specialty acquisitions included the acquisition of the aftermarket business of Warn, a leading designer, manufacturer and marketer of high performance vehicle equipment and accessories, in November 2017.
Total acquisition date fair value of the consideration for our 2017 acquisitions was $542 million, composed of $510 million of cash paid (net of cash acquired), $6 million for the estimated value of contingent payments to former owners (with maximum potential payments totaling $19 million), $5 million of other purchase price obligations

(non-interest bearing) and $20 million of notes payable. We typically fund our acquisitions using borrowings under our credit facilities or other financing arrangements. During the year ended December 31, 2017, we recorded $307 million of goodwill related to these acquisitions.

On March 18, 2016, we acquired Rhiag, a distributor of aftermarket spare parts for passenger cars and commercial vehicles in Italy, Czech Republic, Slovakia, Switzerland, Hungary, Romania, Ukraine, Bulgaria, Poland and Spain. This acquisition expanded LKQ's geographic presence in continental Europe and provided additional purchasing synergies. Total acquisition date fair value of the consideration for our Rhiag acquisition was €534 million ($602 million), composed of €534 million ($601 million) of cash paid (net of cash acquired) and €1 million ($1 million) of intercompany balances considered to be effectively settled as part of the transaction. In addition, we assumed €489 million ($551 million) of existing Rhiag debt as of the acquisition date. We recorded $591 million ($585 million in 2016 and $5 million in the three months ended March 31, 2017) of goodwill related to our acquisition of Rhiag.
Related to the funding of the purchase price of the Rhiag acquisition, LKQ entered into foreign currency forward contracts in March 2016 to acquire a total of €588 million. The rates locked in under the foreign currency forwards were favorable to the spot rate on the settlement date, and as a result, these derivative contracts generated a gain of $18 million during the year ended December 31, 2016. The gain on the foreign currency forwards was recorded in Gains on foreign exchange contracts - acquisition related on our consolidated statement of income for the year ended December 31, 2016.

On April 21, 2016, we acquired PGW. At acquisition, PGW’s business comprised aftermarket automotive replacement glass distribution services and automotive glass manufacturing. The acquisition expanded our addressable market in North America and created distribution synergies with our existing network. Total acquisition date fair value of the consideration for our PGW acquisition was $662 million, consisting of cash paid (net of cash acquired). We recorded $208 million ($205 million in 2016 and $3 million in the six months ended June 30, 2017) of goodwill related to our acquisition of PGW.

On October 4, 2016, we acquired substantially all of the business assets of Andrew Page, a distributor of aftermarket automotive parts in the U.K., out of receivership. The acquisition was subject to regulatory approval by the CMA in the U.K. The CMA concluded its review on October 31, 2017 and required us to divest less than 10% of the acquired locations. Total acquisition date fair value of the consideration for this acquisition was £16 million ($20 million). In connection with the acquisition, we recorded a gain on bargain purchase of $10 million ($8 million recorded in 2016 and $2 million recorded in 2017), which is reported on a separate line in our consolidated statements of income. We believe that we were able to acquire the net assets of Andrew Page for less than fair value as a result of (i) Andrew Page's financial difficulties that put the company into receivership prior to our acquisition and (ii) a motivated seller that desired to complete the sale in an expedient manner to ensure continuity of the business.

In addition to our acquisitions of Rhiag, PGW and Andrew Page, we acquired seven wholesale businesses in Europe and five wholesale businesses in North America during the year ended December 31, 2016. Total acquisition date fair value of the consideration for these acquisitions was $76 million, composed of $68 million of cash paid (net of cash acquired), $4 million of notes payable and $4 million of other purchase price obligations (non-interest bearing). During the year ended December 31, 2016, we recorded $52 million of goodwill related to these acquisitions and immaterial adjustments to preliminary purchase price allocations related to certain of our 2015 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 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.

From the date of our preliminary allocation for Stahlgruber in the second quarter of 2018 through December 31, 2018, we recorded adjustments based on our valuation procedures, primarily related to current liabilities, inventory, deferred income taxes, debt assumed, and property, plant and equipment that resulted in the allocation of $22 million of goodwill to acquired net assets. From the date of our preliminary allocations for our other acquisitions completed in the first nine months of 2018, we recorded adjustments based on our valuation procedures, primarily related to other intangibles, that resulted in the allocation of $14 million of goodwill to acquired net assets. The income statement effect of these measurement period adjustments for our Stahlgruber acquisition and our other acquisitions completed in the first nine months of 2018 that would have been recorded in previous reporting periods if the adjustments had been recognized as of the acquisition dates was immaterial. The balance sheet impact and income statement effect of other measurement-period adjustments recorded for acquisitions completed in prior periods were immaterial.

The purchase price allocations for the acquisitions completed during the years ended December 31, 2018 and 2017 are as follows (in thousands):

| | Year Ended December 31, 2018 | | | Year Ended December 31, 2017 |
|---|---|---|---|---|
| | Stahlgruber | Other Acquisitions (1) | Total | All Acquisitions (2) |
| Receivables | $144,826 | $ 19,171 | $163,997 | $ 73,782 |
| Receivable reserves | (2,818) | (918) | (3,736) | (7,032) |
| Inventories (3) | 380,238 | 14,021 | 394,259 | 150,342 |
| Prepaid expenses and other current assets | 10,970 | 1,851 | 12,821 | (295) |
| Property, plant and equipment | 271,292 | 5,711 | 277,003 | 41,039 |
| Goodwill | 908,253 | 64,637 | 972,890 | 314,817 |
| Other intangibles | 285,255 | 35,159 | 320,414 | 181,216 |
| Other assets | 16,625 | 37 | 16,662 | 3,257 |
| Deferred income taxes | (78,130) | (5,285) | (83,415) | (65,087) |
| Current liabilities assumed | (346,788) | (20,116) | (366,904) | (111,484) |
| Debt assumed | (79,925) | (4,875) | (84,800) | (33,586) |
| Other noncurrent liabilities assumed (4) | (80,824) | (10,306) | (91,130) | (1,917) |
| Noncontrolling interest | (44,110) | — | (44,110) | — |
| Contingent consideration liabilities | — | | | |