LKQ CORP
Form 10-Q
May 01, 2014

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

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to
Commission File Number: 000-50404

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
At April 25, 2014, the registrant had issued and outstanding an aggregate of 301,859,994 shares of Common Stock.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and equivalents	$113,246	$150,488
Receivables, net	577,212	458,094
Inventory	1,255,804	1,076,952
Deferred income taxes	73,822	63,938
Prepaid expenses and other current assets	73,397	50,345
Total Current Assets	2,093,481	1,799,817
Property and Equipment, net	593,867	546,651
Intangible Assets:		
Goodwill	2,197,255	1,937,444
Other intangibles, net	229,352	153,739
Other Assets	95,873	81,123
Total Assets	$5,209,828	$4,518,774
Liabilities and Stockholders’ Equity		
Current Liabilities:		
Accounts payable	$384,102	$349,069
Accrued expenses:		
Accrued payroll-related liabilities	74,804	58,695
Other accrued expenses	169,033	140,074
Income taxes payable	27,922	17,440
Contingent consideration liabilities	52,035	52,465
Other current liabilities	32,913	18,675
Current portion of long-term obligations	35,106	41,535
Total Current Liabilities	775,915	677,953
Long-Term Obligations, Excluding Current Portion	1,695,627	1,264,246
Deferred Income Taxes	161,998	133,822
Other Noncurrent Liabilities	105,261	92,008
Commitments and Contingencies		
Stockholders’ Equity:		
Common stock, $0.01 par value,1,000,000,000 shares authorized, 301,811,389 and 300,805,276 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	3,018	3,008
Additional paid-in capital	1,021,510	1,006,084
Retained earnings	1,426,295	1,321,642
Accumulated other comprehensive income	20,204	20,011
Total Stockholders’ Equity	2,471,027	2,350,745
Total Liabilities and Stockholders’ Equity	$5,209,828	$4,518,774

See notes to unaudited condensed consolidated financial statements.

LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Income
(In thousands, except per share data)

	Three Months Ended March 31,	
	2014	2013
Revenue	$1,625,777	$1,195,997
Cost of goods sold	973,893	694,048
Gross margin	651,884	501,949
Facility and warehouse expenses	126,159	100,246
Distribution expenses	137,329	103,857
Selling, general and administrative expenses	184,530	137,056
Restructuring and acquisition related expenses	3,321	1,505
Depreciation and amortization	26,711	17,697
Operating income	173,834	141,588
Other expense (income):		
Interest expense, net	16,118	8,595
Loss on debt extinguishment	324	—
Change in fair value of contingent consideration liabilities	(1,222)	823
Other (income) expense, net	(96)	402
Total other expense, net	15,124	9,820
Income before provision for income taxes	158,710	131,768
Provision for income taxes	54,021	47,176
Equity in earnings of unconsolidated subsidiaries	(36)	—
Net income	$104,653	$84,592
Earnings per share:		
Basic	$0.35	$0.28
Diluted	$0.34	$0.28

Unaudited Condensed Consolidated Statements of Comprehensive Income
(In thousands)

	Three Months Ended March 31,	
	2014	2013
Net income	$104,653	$84,592
Other comprehensive income (loss), net of tax:		
Foreign currency translation	(563)	(18,980)
Net change in unrecognized gains/losses on derivative instruments, net of tax	793	732
Change in unrealized gain on pension plan, net of tax	(37)	—
Total other comprehensive income (loss)	193	(18,248)
Total comprehensive income	$104,846	$66,344

See notes to unaudited condensed consolidated financial statements.
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LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$104,653	$84,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,846	19,040
Stock-based compensation expense	6,246	4,949
Excess tax benefit from stock-based payments	(6,813)	(3,002)
Other	545	1,716
Changes in operating assets and liabilities, net of effects from acquisitions:		
Receivables	(49,615)	(47,973)
Inventory	(19,021)	9,580
Prepaid income taxes/income taxes payable	39,104	41,838
Accounts payable	(9,336)	(7,911)
Other operating assets and liabilities	3,400	3,604
Net cash provided by operating activities	97,009	106,433
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(33,716)	(21,461)
Proceeds from sales of property and equipment	1,405	432
Investments in unconsolidated subsidiaries	(2,240)	—
Acquisitions, net of cash acquired	(486,736)	(13,264)
Net cash used in investing activities	(521,287)	(34,293)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	2,377	2,840
Excess tax benefit from stock-based payments	6,813	3,002
Debt issuance costs	(3,753)	—
Borrowings under revolving credit facility	700,123	82,152
Repayments under revolving credit facility	(390,000)	(116,082)
Borrowings under term loans	11,250	—
Repayments under term loans	—	(5,625)
Borrowings under receivables securitization facility	80,000	1,500
Repayments under receivables securitization facility	—	(1,500)
Repayments of other long-term debt	(8,952)	(2,608)
Settlement of foreign currency forward contract	(9,639)	—
Payments of other obligations	(2,006)	(31,592)
Net cash provided by (used in) financing activities	386,213	(67,913)
Effect of exchange rate changes on cash and equivalents	823	(1,000)
Net (decrease) increase in cash and equivalents	(37,242)	3,227
Cash and equivalents, beginning of period	150,488	59,770
Cash and equivalents, end of period	$113,246	$62,997
Supplemental disclosure of cash paid for:		
Income taxes, net of refunds	$14,539	$5,365
Interest	8,087	7,241
Supplemental disclosure of noncash investing and financing activities:		
	$48,308	$4,997

Notes payable and long-term obligations, including notes issued in connection with business acquisitions		
Contingent consideration liabilities	4,317	2,389
Non-cash property and equipment additions	4,859	3,632

See notes to unaudited condensed consolidated financial statements.

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

	Common Stock					
	Shares Issued	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
BALANCE, December 31, 2013	300,805	$3,008	$ 1,006,084	$1,321,642	$ 20,011	$2,350,745
Net income	—	—	—	104,653	—	104,653
Other comprehensive income	—	—	—	—	193	193
Restricted stock units vested	523	5	(5)	—	—	—
Stock-based compensation expense	—	—	6,246	—	—	6,246
Exercise of stock options	483	5	2,372	—	—	2,377
Excess tax benefit from stock-based payments	—	—	6,813	—	—	6,813
BALANCE, March 31, 2014	301,811	$3,018	$ 1,021,510	$1,426,295	$ 20,204	$2,471,027

See notes to unaudited condensed consolidated financial statements.

LKQ CORPORATION AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Interim Financial Statements
The unaudited financial statements presented in this report represent the consolidation of LKQ Corporation, a Delaware corporation, and its subsidiaries. LKQ Corporation is a holding company and all operations are conducted by subsidiaries. When the terms "LKQ," "the Company," "we," "us," or "our" are used in this document, those terms refer to LKQ Corporation and its consolidated subsidiaries.
We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial statements. Accordingly, certain information related to our significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normally recurring adjustments) necessary to fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented.
Operating results for interim periods are not necessarily indicative of the results that can be expected for any subsequent interim period or for a full year. These interim financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our most recent Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on March 3, 2014.
As described in Note 8, "Business Combinations," on January 3, 2014, we completed our acquisition of Keystone Automotive Holdings, Inc. ("Keystone Specialty"), a distributor and marketer of specialty aftermarket equipment and accessories in North America. With our acquisition of Keystone Specialty, we present an additional reportable segment, Specialty. Our unaudited condensed consolidated financial statements reflect the impact of Keystone Specialty from the date of acquisition through the end of the quarter.

Note 2. Financial Statement Information
Revenue Recognition
The majority of our revenue is derived from the sale of vehicle parts. Revenue is recognized when the products are shipped, delivered to or picked up by customers and title has transferred, subject to an allowance for estimated returns, discounts and allowances that we estimate based upon historical information. We recorded a reserve for estimated returns, discounts and allowances of approximately $29.9 million and $26.6 million at March 31, 2014 and December 31, 2013, respectively. We present taxes assessed by governmental authorities collected from customers on a net basis. Therefore, the taxes are excluded from revenue on our Unaudited Condensed Consolidated Statements of Income and are shown as a current liability on our Unaudited Condensed Consolidated Balance Sheets until remitted. We recognize revenue from the sale of scrap, cores and other metals when title has transferred, which typically occurs upon delivery to the customer.
Allowance for Doubtful Accounts
We recorded a reserve for uncollectible accounts of approximately $17.7 million and $14.4 million at March 31, 2014 and December 31, 2013, respectively.
Inventory
Inventory consists of the following (in thousands):

	March 31, 2014	December 31, 2013
Aftermarket and refurbished products	$880,371	$706,600
Salvage and remanufactured products	375,433	370,352
	$1,255,804	$1,076,952

Our acquisitions completed during the first quarter of 2014 and adjustments to preliminary valuations of inventory for certain of our 2013 acquisitions contributed $151.7 million of the increase in our aftermarket and refurbished products inventory and $9.4 million of the increase in our salvage and remanufactured products inventory during the three months ended March 31, 2014. See Note 8, "Business Combinations," for further information on our acquisitions.

Intangible Assets

Intangible assets consist primarily of goodwill (the cost of purchased businesses in excess of the fair value of the identifiable net assets acquired) and other specifically identifiable intangible assets, such as trade names, trademarks, customer relationships, software and other technology related assets and covenants not to compete.

The changes in the carrying amount of goodwill by reportable segment during the three months ended March 31, 2014 are as follows (in thousands):

	North America	Europe	Specialty	Total
Balance as of January 1, 2014	$1,358,937	$578,507	$—	$1,937,444
Business acquisitions and adjustments to previously recorded goodwill	25,272	(601)	236,645	261,316
Exchange rate effects	(4,494)	2,987	2	(1,505)
Balance as of March 31, 2014	$1,379,715	$580,893	$236,647	$2,197,255

The components of other intangibles are as follows (in thousands):

	March 31, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trade names and trademarks	$165,716	$(29,885)	$135,831	$143,577	$(27,950)	$115,627
Customer relationships	63,824	(14,137)	49,687	29,583	(10,770)	18,813
Software and other technology related assets	47,200	(4,860)	42,340	20,384	(2,718)	17,666
Covenants not to compete	4,042	(2,548)	1,494	3,979	(2,346)	1,633
	$280,782	$(51,430)	$229,352	$197,523	$(43,784)	$153,739

During the three months ended March 31, 2014, we recorded preliminary intangible asset valuations resulting from our 2014 acquisitions and adjustments to certain preliminary intangible asset valuations from our 2013 acquisitions, which included $21.8 million of trade names, $34.2 million of customer relationships, $26.8 million of software and other technology related assets and $0.1 million of covenants not to compete. The trade names, customer relationships, and software and technology related assets recorded in the three months ended March 31, 2014 included $20.9 million, $23.1 million and $26.8 million, respectively related to our acquisition of Keystone Specialty, as discussed in Note 8, "Business Combinations."

Trade names and trademarks are amortized over a useful life ranging from 10 to 30 years on a straight-line basis. Customer relationships are amortized over the expected period to be benefited (5 to 15 years) on either a straight-line or accelerated basis. Software and other technology related assets are amortized on a straight-line basis over the expected period to be benefited (five to six years). Covenants not to compete are amortized over the lives of the respective agreements, which range from one to five years, on a straight-line basis. Amortization expense for intangibles was $7.4 million and $2.3 million during the three month periods ended March 31, 2014 and 2013, respectively. Estimated amortization expense for each of the five years in the period ending December 31, 2018 is $30.2 million, $27.3 million, $24.4 million, $22.4 million and $17.9 million, respectively.

Warranty Reserve

Some of our salvage mechanical products are sold with a standard six month warranty against defects. Additionally, some of our remanufactured engines are sold with a standard three year warranty against defects. We also provide a limited lifetime warranty for certain of our aftermarket products that is supported by certain of the suppliers of those products. We record the estimated warranty costs at the time of sale using historical warranty claim information to project future warranty claims activity. The changes in the warranty reserve during the three month period ended March 31, 2014 were as follows (in thousands):

Balance as of January 1, 2014	$12,447
Warranty expense	7,691
Warranty claims	(6,601)

Balance as of March 31, 2014	$13,537

Investments in Unconsolidated Subsidiaries

As of March 31, 2014, the carrying value of our investments in unconsolidated subsidiaries was $10.7 million; of this amount, $9.0 million relates to our investment in ACM Parts Pty Ltd ("ACM Parts"). In August 2013, we entered into an agreement with Suncorp Group, a leading general insurance group in Australia and New Zealand, to develop ACM Parts, an alternative vehicle replacement parts business in those countries. We hold a 49% equity interest in the entity and will contribute our experience to help establish automotive parts recycling operations and to facilitate the procurement of aftermarket parts; Suncorp Group holds a 51% equity interest and will supply salvage vehicles to the venture as well as assist in establishing relationships with repair shops as customers. We are accounting for our interest in this subsidiary using the equity method of accounting, as our investment gives us the ability to exercise significant influence, but not control, over the investee. The total of our investment in ACM Parts is included within Other Assets on our Unaudited Condensed Consolidated Balance Sheets. Our equity in the net earnings of the investee for the three months ended March 31, 2014 was not material.

Depreciation Expense

Included in Cost of Goods Sold on the Unaudited Condensed Consolidated Statements of Income is depreciation expense associated with our refurbishing, remanufacturing, and furnace operations and our distribution centers.

Note 3. Equity Incentive Plans

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

RSUs

RSUs vest over periods of up to five years. RSUs may contain either a time-based vesting condition or a combination of a performance-based vesting condition and a time-based vesting condition, in which case, both conditions must be met before any RSUs vest. For RSUs containing a performance-based vesting condition, the Company must report positive diluted earnings per share, subject to certain adjustments, during any fiscal year period within five years following the grant date. Each RSU converts into one share of LKQ common stock on the applicable vesting date. The grant date fair value of RSUs is based on the market price of LKQ stock on the grant date.

During the three months ended March 31, 2014, our Board of Directors granted 592,001 RSUs to employees. The fair value of RSUs that vested during the three months ended March 31, 2014 was approximately $15.6 million.

Stock Options

Stock options vest over periods of up to five years, subject to a continued service condition. Stock options expire either 6 or 10 years from the date they are granted. During the three months ended March 31, 2014, our Board of Directors granted 126,755 stock options to employees. The grant date fair value of these options was immaterial to the financial statements.

Restricted Stock

Restricted stock vests over a five year period, subject to a continued service condition. Shares of restricted stock may not be sold, pledged or otherwise transferred until they vest.

A summary of transactions in our stock-based compensation plans is as follows:

		RSUs		Stock Options		Restricted Stock	
	Shares Available For Grant	Number Outstanding	Weighted Average Grant Date Fair Value	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Grant Date Fair Value
Balance, January 1, 2014	13,965,440	2,558,213	$16.63	6,832,331	$7.04	20,000	$9.30
Granted	(718,756)	592,001	32.31	126,755	32.31	—	—
Exercised	—	—	—	(482,844)	4.92	—	—
Vested	—	(523,269)	16.11	—	—	—	—

Canceled	60,326	(28,526)	17.61	(31,800)	7.56	—	—
Balance, March 31, 2014	13,307,010	2,598,419	$ 20.29	6,444,442	$ 7.69	20,000	$ 9.30

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For the 2014 RSU grants that contain both a performance-based vesting condition and a time-based vesting condition, we recognize compensation expense under the accelerated attribution method, pursuant to which expense is recognized over the requisite service period for each separate vesting tranche of the award. During the three months ended March 31, 2014 and 2013, we recognized $2.6 million and $1.4 million of stock based compensation expense, respectively, related to the RSUs containing a performance-based vesting condition. For all other awards, which are subject to only a time-based vesting condition, we recognize compensation expense on a straight-line basis over the requisite service period of the entire award.

In all cases, compensation expense is adjusted to reflect estimated forfeitures. When estimating forfeitures, we consider voluntary and involuntary termination behavior as well as analysis of historical forfeitures.

The components of pre-tax stock-based compensation expense are as follows (in thousands):

	Three Months Ended March 31,	
	2014	2013
RSUs	$5,396	$3,672
Stock options	804	1,209
Restricted stock	46	68
Total stock-based compensation expense	$6,246	$4,949

The following table sets forth the classification of total stock-based compensation expense included in our Unaudited Condensed Consolidated Statements of Income (in thousands):

	Three Months Ended March 31,	
	2014	2013
Cost of goods sold	$103	$98
Facility and warehouse expenses	579	684
Selling, general and administrative expenses	5,564	4,167
	6,246	4,949
Income tax benefit	(2,405)	(1,930)
Total stock-based compensation expense, net of tax	$3,841	$3,019

We have not capitalized any stock-based compensation costs during either of the three month periods ended March 31, 2014 or 2013.

As of March 31, 2014, unrecognized compensation expense related to unvested RSUs, stock options and restricted stock is expected to be recognized as follows (in thousands):

	RSUs	Stock Options	Restricted Stock	Total
Remainder of 2014	$12,989	$2,171	$93	$15,253
2015	13,188	398	—	13,586
2016	8,323	331	—	8,654
2017	4,800	9	—	4,809
2018	2,334	—	—	2,334
2019	101			101
Total unrecognized compensation expense	$41,735	$2,909	$93	$44,737

Note 4. Long-Term Obligations

Long-Term Obligations consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Senior secured credit agreement:		
Term loans payable	$450,000	$438,750
Revolving credit facility	542,230	233,804
Senior notes	600,000	600,000
Receivables securitization facility	80,000	—
Notes payable through October 2018 at weighted average interest rates of 1.0% and 1.1%, respectively	42,309	15,730
Other long-term debt at weighted average interest rates of 3.6% and 3.5%, respectively	16,194	17,497
	1,730,733	1,305,781
Less current maturities	(35,106)	(41,535)
	$1,695,627	$1,264,246

Senior Secured Credit Agreement

On March 27, 2014, LKQ Corporation, LKQ Delaware LLP, and certain other subsidiaries (collectively, the "Borrowers") entered into a third amended and restated credit agreement (the "Credit Agreement") with the several lenders from time to time party thereto, Wells Fargo Bank, National Association, as administrative agent; Bank of America, N.A., as syndication agent; The Bank of Tokyo-Mitsubishi UFJ, LTD. ("BTMU") and RBS Citizens, N.A., as co-documentation agents; and Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, BTMU, and RBS Citizens, N.A., as joint bookrunners and joint lead arrangers. The Credit Agreement retains many of the terms of the Company’s second amended and restated credit agreement dated May 3, 2013 while also modifying certain terms to (1) extend the maturity date by one year to May 3, 2019; (2) increase the total availability under the Credit Agreement from $1.8 billion to $2.3 billion (composed of $1.69 billion in the revolving credit facility's multicurrency component, $165 million in the revolving credit facility's U.S. dollar only component, and $450 million of term loans); (3) reduce the applicable margin on outstanding borrowings under the Credit Agreement; (4) reduce the commitment fee percentage we pay on average daily unused amounts under the revolving credit facility; (5) allow for additional unsecured foreign borrowings; (6) adjust certain limitations on our ability to make restricted payments; and (7) make other immaterial or clarifying modifications and amendments to the terms of the Company's second amended and restated credit agreement. The Credit Agreement allows the Company to increase the amount of the revolving credit facility or obtain incremental term loans up to the greater of $400 million or the amount that may be borrowed while maintaining a senior secured leverage ratio of less than or equal to 2.50 to 1.00, subject to the agreement of the lenders. The proceeds of the Credit Agreement were used to repay outstanding revolver borrowings and to pay fees related to the amendment and restatement.

Amounts under the revolving credit facility are due and payable upon maturity of the Credit Agreement on May 3, 2019. Term loan borrowings are due and payable in quarterly installments equal to 1.25% of the original principal amount beginning on June 30, 2014 with the remaining balance due and payable on the maturity date of the Credit Agreement. We are required to prepay the term loan by amounts equal to proceeds from the sale or disposition of certain assets if the proceeds are not reinvested within twelve months. We also have the option to prepay outstanding amounts under the Credit Agreement without penalty.

The Credit Agreement contains customary representations and warranties, and 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 under which we (i) may not exceed a maximum net leverage ratio of 3.50 to 1.00 except in connection with permitted acquisitions with aggregate consideration in excess of $200 million during any period of four consecutive fiscal quarters in which case the maximum net leverage ratio may increase to 4.00 to 1.00 for the subsequent four fiscal quarters and (ii) are required to maintain a minimum interest coverage ratio of 3.00 to

1.00.

Borrowings under the Credit Agreement bear interest at variable rates, which depend on the currency and duration of the borrowing elected, plus an applicable margin. The applicable margin is subject to change in increments of 0.25% depending on our net leverage ratio. Interest payments are due on the last day of the selected interest period or quarterly in arrears depending on the type of borrowing. Including the effect of the interest rate swap agreements described in Note 5, "Derivative Instruments and Hedging Activities," the weighted average interest rates on borrowings outstanding against the Credit

Agreement at March 31, 2014 and December 31, 2013 were 2.23% and 3.05%, respectively. We also pay a commitment fee based on the average daily unused amount of the revolving credit facility. The commitment fee is subject to change in increments of 0.05% depending on our net leverage ratio. In addition, we pay a participation commission on outstanding letters of credit at an applicable rate based on our net leverage ratio, as well as a fronting fee of 0.125% to the issuing bank, which are due quarterly in arrears. Borrowings under the Credit Agreement totaled $992.2 million and $672.6 million at March 31, 2014 and December 31, 2013, respectively, of which $22.5 million were classified as current maturities at both March 31, 2014 and December 31, 2013. As of March 31, 2014, there were letters of credit outstanding in the aggregate amount of $60.4 million. The amounts available under the revolving credit facility are reduced by the amounts outstanding under letters of credit, and thus availability under the revolving credit facility at March 31, 2014 was $1.2 billion.

Related to the execution of the Credit Agreement, we incurred $3.8 million of fees, of which $3.5 million were capitalized within Other Assets on our Unaudited Condensed Consolidated Balance Sheet and are amortized over the term of the agreement. The remaining $0.3 million of fees were expensed in the three months ended March 31, 2014 as a loss on debt extinguishment.

Senior Notes

On May 9, 2013, we completed an offering of $600 million aggregate principal amount of senior notes due May 15, 2023 (the "Notes") in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933. The Notes are governed by the Indenture dated as of May 9, 2013 among LKQ Corporation, certain of our subsidiaries (the "Guarantors") and U.S. Bank National Association, as trustee.

The Notes bear interest at a rate of 4.75% per year from the date of the original issuance or from the most recent payment date on which interest has been paid or provided for. Interest on the Notes is payable in arrears on May 15 and November 15 of each year. The first interest payment was made on November 15, 2013. The Notes are fully and unconditionally guaranteed, jointly and severally, by the Guarantors.

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

On March 28, 2014, we commenced our offer to exchange (the "Exchange Offer") up to $600 million aggregate principal amount of registered 4.75% Senior Notes due 2023 (the "Exchange Notes") for any and all of our $600 million aggregate principal amount of unregistered Senior Notes due 2023 that were issued in the private placement on May 9, 2013 (the "Original Notes"). The Exchange Offer was made pursuant to a Registration Rights Agreement dated as of May 9, 2013 that was entered into in connection with the sale of the Original Notes with the Guarantors and the representative of the initial purchasers of the Notes identified therein. The Exchange Notes are substantially identical to the Original Notes, except the Exchange Notes are registered under the Securities Act of 1933, as amended, and the transfer restrictions and registration rights, and related additional interest provisions, applicable to the Original Notes will not apply to the Exchange Notes. The Exchange Notes represent the same debt as the Original Notes and were issued under the same indenture under which the Original Notes were issued. As with the Original Notes, the Exchange Notes are fully and unconditionally guaranteed, jointly and severally, by the guarantors of the Original Notes. The Exchange Offer expired at 5:00 p.m., New York City time, on April 25, 2014 (such date and time, the "Expiration Date"). Promptly following the Expiration Date, we completed the Exchange Offer and issued Exchange Notes for all of the Original Notes.

Receivables Securitization Facility

On September 28, 2012, we entered into a three year receivables securitization facility with BTMU as Administrative Agent. Under the facility, LKQ sells an ownership interest in certain receivables, related collections and security interests to BTMU for the benefit of conduit investors and/or financial institutions for up to $80 million in cash proceeds. Upon payment of the receivables by customers, rather than remitting to BTMU the amounts collected, LKQ retains such collections as proceeds for the sale of new receivables generated by certain of the ongoing operations of the Company.

The sale of the ownership interest in the receivables is accounted for as a secured borrowing in our Unaudited Condensed Consolidated Balance Sheets, under which the receivables included in the program collateralize the amounts invested by BTMU, the conduit investors and/or financial institutions (the "Purchasers"). The receivables are held by LKQ Receivables Finance Company, LLC ("LRFC"), a wholly owned bankruptcy-remote special purpose subsidiary of LKQ, and therefore, the receivables are available first to satisfy the creditors of LRFC, including the investors. As of March 31, 2014, $127.3 million of net receivables were collateral for the investment under the receivables facility. There were no borrowings outstanding under the receivables facility as of December 31, 2013.

Under the receivables facility, we pay variable interest rates plus a margin on the outstanding amounts invested by the Purchasers. The variable rates are based on (i) commercial paper rates, (ii) the London InterBank Offered Rate ("LIBOR") plus 1.25%, or (iii) base rates, and are payable monthly in arrears. Commercial paper rates will be the applicable variable rate unless conduit investors are not available to invest in the receivables at commercial paper rates. In such case, financial institutions will invest at the LIBOR rate plus 1.25% or at base rates. We also pay a commitment fee on the excess of the investment maximum over the average daily outstanding investment, payable monthly in arrears. As of March 31, 2014, the interest rate under the receivables facility was based on commercial paper rates and was 1.00%. The outstanding balance of $80 million as of March 31, 2014 was classified as long-term on the Unaudited Condensed Consolidated Balance Sheets because we have the ability and intent to refinance these borrowings on a long-term basis.

Note 5. Derivative Instruments and Hedging Activities

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

Cash Flow Hedges

At March 31, 2014, we had interest rate swap agreements in place to hedge a portion of the variable interest rate risk on our variable rate borrowings under our Credit Agreement, with the objective of minimizing the impact of interest rate fluctuations and stabilizing cash flows. Under the terms of the interest rate swap agreements, we pay the fixed interest rate and receive payment at a variable rate of interest based on LIBOR or the Canadian Dealer Offered Rate (“CDOR”) for the respective currency of each interest rate swap agreement’s notional amount. The effective portion of changes in the fair value of the interest rate swap agreements is recorded in Accumulated Other Comprehensive Income (Loss) and is reclassified to interest expense when the underlying interest payment has an impact on earnings. The ineffective portion of changes in the fair value of the interest rate swap agreements is reported in interest expense. Our interest rate swap contracts have maturity dates ranging from 2015 through 2016.

From time to time, we may hold foreign currency forward contracts related to certain foreign currency denominated intercompany transactions, with the objective of minimizing the impact of changing exchange rates on these future cash flows, as well as minimizing the impact of fluctuating exchange rates on our results of operations through the respective dates of settlement. Under the terms of the foreign currency forward contracts, we will sell the foreign currency in exchange for U.S. dollars at a fixed rate on the maturity dates of the contracts. The effective portion of the changes in fair value of the foreign currency forward contracts is recorded in Accumulated Other Comprehensive Income (Loss) and reclassified to other income (expense) when the underlying transaction has an impact on earnings. In January 2014, we settled our £70 million foreign currency forward contract for $9.6 million as well as the underlying intercompany debt transaction. Our €150 million forward contract expires in the second quarter of 2014.

The following table summarizes the notional amounts and fair values of our designated cash flow hedges as of March 31, 2014 and December 31, 2013 (in thousands):

	Notional Amount		Fair Value at March 31, 2014 (USD)		Fair Value at December 31, 2013 (USD)	
	March 31, 2014	December 31, 2013	Other Accrued Expenses	Other Noncurrent Liabilities	Other Accrued Expenses	Other Noncurrent Liabilities
Interest rate swap agreements						
USD denominated	$ 420,000	$ 420,000	$—	$7,234	$—	$8,099
GBP denominated	£ 50,000	£ 50,000	—	469	—	345
CAD denominated	C$25,000	C$25,000	—	57	—	26
Foreign currency forward contracts						
EUR denominated	€ 149,976	€ 149,976	11,533	—	11,632	—
GBP denominated	£ —	£ 70,000	—	—	10,186	—

Total cash flow hedges	$11,533	$7,760	$21,818	$8,470

While our derivative instruments executed with the same counterparty are subject to master netting arrangements, we present our cash flow hedge derivative instruments on a gross basis in our Unaudited Condensed Consolidated Balance Sheets.

The impact of netting the fair values of these contracts would not have a material effect on our Unaudited Condensed Consolidated Balance Sheets at March 31, 2014 or December 31, 2013.
The activity related to our cash flow hedges is included in Note 12, "Accumulated Other Comprehensive Income (Loss)." Ineffectiveness related to our cash flow hedges was immaterial to our results of operations during the three month periods ended March 31, 2014 and March 31, 2013. We do not expect future ineffectiveness related to our cash flow hedges to have a material effect on our results of operations.
As of March 31, 2014, we estimate that $3.7 million of derivative losses (net of tax) included in Accumulated Other Comprehensive Income will be reclassified into our consolidated statements of income within the next 12 months.
Other Derivative Instruments
We hold other short-term derivative instruments, including foreign currency forward contracts and commodity forward contracts, to manage our exposure to variability related to purchases of inventory invoiced in a non-functional currency and to metals prices in certain of our operations. We have elected not to apply hedge accounting for these transactions, and therefore the contracts are adjusted to fair value through our results of operations as of each balance sheet date, which could result in volatility in our earnings. The notional amount and fair value of these contracts at March 31, 2014 and December 31, 2013, along with the effect on our results of operations during each of the three month periods ended March 31, 2014 and March 31, 2013, were immaterial.

Note 6. Fair Value Measurements
Financial Assets and Liabilities Measured at Fair Value
We use the market and income approaches to value our financial assets and liabilities, and during the three months ended March 31, 2014, there were no significant changes in valuation techniques or inputs related to the financial assets or liabilities that we have historically recorded at fair value. The tiers in the fair value hierarchy include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following tables present information about our financial assets and liabilities measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation inputs we utilized to determine such fair value as of March 31, 2014 and December 31, 2013 (in thousands):

	Balance as of March 31, 2014	Fair Value Measurements as of March 31, 2014		
		Level 1	Level 2	Level 3
Assets:				
Cash surrender value of life insurance	$26,296	$—	$26,296	$—
Total Assets	$26,296	$—	$26,296	$—
Liabilities:				
Contingent consideration liabilities	$57,091	$—	$—	$57,091
Deferred compensation liabilities	26,169	—	26,169	—
Foreign currency forward contract	11,533	—	11,533	—
Interest rate swaps	7,760	—	7,760	—
Total Liabilities	$102,553	$—	$45,462	$57,091

	Balance as of December 31, 2013	Fair Value Measurements as of December 31, 2013		
		Level 1	Level 2	Level 3
Assets:				
Cash surrender value of life insurance	$25,745	$—	$25,745	$—
Total Assets	$25,745	$—	$25,745	$—
Liabilities:				
Contingent consideration liabilities	$55,653	$—	$—	$55,653
Deferred compensation liabilities	25,232	—	25,232	—
Foreign currency forward contracts	21,818	—	21,818	—
Interest rate swaps	8,470	—	8,470	—
Total Liabilities	$111,173	$—	$55,520	$55,653

The cash surrender value of life insurance and deferred compensation liabilities are included in Other Assets and Other Noncurrent Liabilities, respectively, on our Unaudited Condensed Consolidated Balance Sheets. The contingent consideration liabilities are classified as a separate line item in current liabilities and within Other Noncurrent Liabilities on our Unaudited Condensed Consolidated Balance Sheets based on the expected timing of the related payments. The balance sheet classification of the interest rate swaps and foreign currency forward contracts is presented in Note 5, "Derivative Instruments and Hedging Activities."

Our Level 2 assets and liabilities are valued using inputs from third parties and market observable data. We obtain valuation data for the cash surrender value of life insurance and deferred compensation liabilities from third party sources, which determine the net asset values for our accounts using quoted market prices, investment allocations and reportable trades. We value our derivative instruments using a third party valuation model that performs a discounted cash flow analysis based on the terms of the contracts and market observable inputs such as current and forward interest rates and current and forward foreign exchange rates.

Our contingent consideration liabilities are related to our business acquisitions as further described in Note 8, "Business Combinations." Under the terms of the contingent consideration agreements, payments may be made at specified future dates depending on the performance of the acquired business subsequent to the acquisition. The liabilities for these payments are classified as Level 3 liabilities because the related fair value measurement, which is determined using an income approach, includes significant inputs not observable in the market. These unobservable inputs include internally-developed assumptions of the probabilities of achieving specified targets, which are used to determine the resulting cash flows and the applicable discount rate. Our Level 3 fair value measurements are established and updated quarterly by our corporate accounting department using current information about these key assumptions, with the input and oversight of our operational and executive management teams. We evaluate the

performance of the business during the period compared to our previous expectations, along with any changes to our future projections, and update the estimated cash flows accordingly. In addition, we consider changes to our cost of capital and changes to the probability of achieving the earnout payment targets when updating our discount rate on a quarterly basis.

The significant unobservable inputs used in the fair value measurements of our Level 3 contingent consideration liabilities were as follows:

Unobservable Input	March 31, 2014	December 31, 2013
	(Weighted Average)	
Probability of achieving payout targets	96.4 %	70.6 %
Discount rate	6.7 %	6.5 %

A significant decrease in the assessed probabilities of achieving the targets or a significant increase in the discount rate, in isolation, would result in a significantly lower fair value measurement. Changes in the values of the liabilities are recorded in Change in Fair Value of Contingent Consideration Liabilities within Other Expense (Income) on our Unaudited Condensed Consolidated Statements of Income.

Changes in the fair value of our contingent consideration obligations are as follows (in thousands):

	Three Months Ended March 31,	
	2014	2013
Beginning Balance	$55,653	$90,009
Contingent consideration liabilities recorded for business acquisitions	4,317	2,389
Payments	(2,006)	(37,768)
(Decrease) increase in fair value included in earnings	(1,222)	823
Exchange rate effects	349	(5,888)
Ending Balance	$57,091	$49,565

The purchase price for our 2011 acquisition of Euro Car Parts Holdings Limited included contingent payments depending on the achievement of certain annual performance targets in 2012 and 2013. The performance target for 2012 was exceeded, and during the three months ended March 31, 2013, we paid £25 million, the maximum contingent payment, through a cash payment of $33.9 million (£22.4 million) and the issuance of notes for $3.9 million (£2.6 million). In April 2014, we settled the liability for the 2013 performance period for the maximum amount of £30 million, including a cash payment of $44.8 million (£26.9 million) and the issuance of notes for $5.1 million (£3.1 million).

Of the amounts included in earnings for the three months ended March 31, 2014 and 2013, $0.7 million of gains and $0.8 million of losses, respectively, were related to contingent consideration obligations outstanding as of March 31, 2014. The changes in the fair value of contingent consideration obligations during the respective periods in 2014 and 2013 are a result of the quarterly assessment of the fair value inputs.

Financial Assets and Liabilities Not Measured at Fair Value

Our debt is reflected on the Unaudited Condensed Consolidated Balance Sheets at cost. Based on market conditions as of March 31, 2014 and December 31, 2013, the fair value of our credit agreement borrowings reasonably approximated the carrying value of $992 million and $673 million, respectively. In addition, based on market conditions, the fair value of the outstanding borrowings under the receivables facility reasonably approximated the carrying value of $80 million at March 31, 2014; we did not have any borrowings outstanding under the receivables facility as of December 31, 2013. As of March 31, 2014, the fair value of our senior notes was approximately $572 million compared to a carrying value of $600 million.

The fair value measurements of the borrowings under our credit agreement and receivables facility are classified as Level 2 within the fair value hierarchy since they are determined based upon significant inputs observable in the market, including interest rates on recent financing transactions with similar terms and maturities. We estimated the fair value by calculating the upfront cash payment a market participant would require to assume these obligations. The fair value of our senior notes, which is determined using quoted market prices in the secondary market, is also classified as Level 2 within the fair value hierarchy because the market for these financial instruments is not considered an active market.

Note 7. Commitments and Contingencies

Operating Leases

We are obligated under noncancelable operating leases for corporate office space, warehouse and distribution facilities, trucks and certain equipment.

The future minimum lease commitments under these leases at March 31, 2014 are as follows (in thousands):

Nine months ending December 31, 2014	$96,262
Years ending December 31:	
2015	117,099
2016	99,206
2017	80,583
2018	65,260
2019	51,656
Thereafter	197,170
Future Minimum Lease Payments	$707,236

Litigation and Related Contingencies

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

Note 8. Business Combinations

On January 3, 2014, we completed our acquisition of Keystone Specialty, which is a leading distributor and marketer of specialty aftermarket equipment and accessories in North America serving the following six product segments: truck and off-road; speed and performance; recreational vehicle; towing; wheels, tires and performance handling; and miscellaneous accessories. Total acquisition date fair value of the consideration for our Keystone Specialty acquisition was $471.9 million, composed of $427.1 million of cash (net of cash acquired), $31.5 million of notes payable and $13.3 million of other purchase price obligations (non-interest bearing). The purchase price is subject to certain adjustments, including an adjustment related to the net working capital amount of Keystone Specialty at closing. We recorded $236.6 million of goodwill related to our acquisition of Keystone Specialty, which we do not expect to be deductible for income tax purposes. In the period between January 3, 2014 and March 31, 2014, Keystone Specialty generated approximately $177.0 million of revenue and $6.2 million of net income.

In addition to our acquisition of Keystone Specialty, we made four acquisitions during the three months ended March 31, 2014, including two wholesale businesses in North America, a wholesale business in Europe and a self service retail operation. Our other acquisitions completed during the three months ended March 31, 2014 enabled us to expand into new product lines and enter new markets. Total acquisition date fair value of the consideration for these additional acquisitions was $66.4 million, composed of $58.6 million of cash (net of cash acquired), $2.7 million of notes payable, $0.9 million of other purchase price obligations (non-interest bearing) and $4.3 million for the estimated value of contingent payments to former owners (with maximum potential payments totaling $5.0 million). During the three months ended March 31, 2014, we recorded $24.7 million of goodwill related to these acquisitions and immaterial adjustments to preliminary purchase price allocations related to certain of our 2013 acquisitions. We expect $13.9 million of the $24.7 million of goodwill recorded to be deductible for income tax purposes. In the period between the acquisition dates and March 31, 2014, these acquisitions generated $20.3 million of revenue and $0.5 million of net income.

In April 2014, we signed letters of intent to acquire five businesses in the Netherlands, all of which are customers of our European operations. The transactions are subject to, among other conditions, negotiation by the parties of definitive agreements and authorization under the Dutch merger control procedures. While we are targeting completion of the acquisitions in the second or third quarter of 2014, there are no assurances that all or any of these transactions will be completed.

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On May 1, 2013, we acquired the shares 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. With the acquisition of Sator, we expanded our geographic presence in the European vehicle mechanical aftermarket products market into continental Europe to complement our existing U.K. operations. Total acquisition date fair value of the consideration for the acquisition of Sator was €209.8 million ($272.8 million) of cash, net of cash acquired. We recorded $142.7 million of goodwill related to our acquisition of Sator, which we do not expect will be deductible for income tax purposes.

In addition to our acquisition of Sator, we made 19 acquisitions during 2013, including 10 wholesale businesses in North America, 7 wholesale businesses in Europe and 2 self service retail operations. Our European acquisitions included five automotive paint distribution businesses in the U.K., which enabled us to expand our collision product offerings. Our other acquisitions completed during 2013 enabled us to expand into new product lines and enter new markets. Total acquisition date fair value of the consideration for these additional 2013 acquisitions was $146.1 million, composed of $134.6 million of cash (net of cash acquired), $7.5 million of notes payable, $0.2 million of other purchase price obligations (non-interest bearing) and $3.9 million for the estimated value of contingent payments to former owners (with maximum potential payments totaling $5.0 million). During the year ended December 31, 2013, we recorded $92.7 million of goodwill related to these acquisitions and immaterial adjustments to preliminary purchase price allocations related to certain of our 2012 acquisitions. We expect $18.3 million of the $92.7 million of goodwill recorded to be deductible for income tax purposes.

Our acquisitions are accounted for under the purchase method of accounting and are included in our unaudited Condensed Consolidated financial statements from the dates of acquisition. The purchase prices were allocated to the net assets acquired based upon estimated fair market values at the dates of acquisition. The purchase price allocations for the acquisitions made during the three months ended March 31, 2014 and the last nine months of 2013 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 final estimation of 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.

The preliminary purchase price allocations for the acquisitions completed during the three months ended March 31, 2014 and the year ended December 31, 2013 are as follows (in thousands):

	Three Months Ended March 31, 2014			Year Ended December 31, 2013		
	Keystone Specialty	Other Acquisitions	Total	Sator	Other Acquisitions	Total
Receivables	$49,976	$ 25,451	$75,427	$61,639	$ 38,685	$100,324
Receivable reserves	(4,403)	(1,310)	(5,713)	(8,563)	(3,246)	(11,809)
Inventory	151,743	9,392	161,135	71,784	26,455	98,239
Income taxes receivable	13,972	—	13,972	—	—	—
Prepaid expenses and other current assets	8,058	462	8,520	7,184	1,933	9,117
Property and equipment	36,197	878	37,075	19,484	14,015	33,499
Goodwill	236,645	24,671	261,316	142,721	92,726	235,447
Other intangibles	70,830	12,070	82,900	45,293	12,353	57,646
Other assets	7,805	199	8,004	2,049	1,251	3,300
Deferred income taxes	(17,418)	385	(17,033)	(14,100)	(564)	(14,664)
Current liabilities assumed	(67,342)	(3,913)	(71,255)	(49,593)	(36,799)	(86,392)
Debt assumed	—	—	—	—	(664)	(664)
Other noncurrent liabilities assumed	(14,147)	(1,846)	(15,993)	(5,074)	—	(5,074)
Contingent consideration liabilities	—	(4,317)	(4,317)	—	(3,854)	(3,854)

Other purchase price obligations	(13,278)	(855)	(14,133)	—	(214)	(214)
Notes issued	(31,500)	(2,675)	(34,175)	—	(7,482)	(7,482)
Cash used in acquisitions, net of cash acquired	$427,138	$ 58,592	$485,730	$272,824	$ 134,595	$407,419

The primary reason for our acquisitions made during the three months ended March 31, 2014 and the year ended December 31, 2013 was to create economic value for our stockholders by enhancing our position as a leading source for alternative collision and mechanical repair products and expanding into other product lines and businesses that may benefit

from our operating strengths. Our acquisition of Keystone Specialty allows us to enter into new product lines and increase the size of our addressable market. In addition, we believe that the acquisition creates potential cross-selling opportunities and logistics and administrative cost synergies, which contributed to the goodwill recorded on the Keystone Specialty acquisition. Our other acquisitions enabled us to further expand our market presence, including continental Europe through the Sator acquisition, as well as to widen our product offerings such as paint and related equipment in the U.K. We believe that our Sator acquisition will allow for synergies within our European operations, most notably in procurement, warehousing and product management. These projected synergies contributed to the goodwill recorded on the Sator acquisition.
When we identify potential acquisitions, we attempt to target companies with a leading market share, an experienced management team and workforce that provide a fit with our existing operations and strong cash flows. For certain of our acquisitions, we have identified cost savings and synergies as a result of integrating the company with our existing business that provide additional value to the combined entity. In many cases, acquiring companies with these characteristics can result in purchase prices that include a significant amount of goodwill.

The following pro forma summary presents the effect of the businesses acquired during the three months ended March 31, 2014 as though they had been acquired as of January 1, 2013 and the businesses acquired during the year ended December 31, 2013 as though they had been acquired as of January 1, 2012. The pro forma adjustments are based upon unaudited financial information of the acquired entities (in thousands, except per share data):

	Three Months Ended March 31,	
	2014	2013
Revenue, as reported	$1,625,777	$1,195,997
Revenue of purchased businesses for the period prior to acquisition:		
Keystone Specialty	3,433	167,444
Sator	—	95,003
Other acquisitions	411	75,430
Pro forma revenue	$1,629,621	$1,533,874
Net income, as reported	$104,653	$84,592
Net income of purchased businesses for the period prior to acquisition, including pro forma purchase accounting adjustments:		
Keystone Specialty	241	6,695
Sator	—	2,550
Other acquisitions	64	4,035
Pro forma net income	$104,958	$97,872
Earnings per share-basic, as reported	$0.35	$0.28
Effect of purchased businesses for the period prior to acquisition:		
Keystone Specialty	0.00	0.02
Sator	—	0.01
Other acquisitions	0.00	0.01
Pro forma earnings per share-basic [a]	$0.35	$0.33
Earnings per share-diluted, as reported	$0.34	$0.28
Effect of purchased businesses for the period prior to acquisition:		
Keystone Specialty	0.00	0.02
Sator	—	0.01
Other acquisitions	0.00	0.01
Pro forma earnings per share-diluted [a]	$0.34	$0.32

(a) The sum of the individual earnings per share amounts may not equal the total due to rounding.
Unaudited pro forma supplemental information is based upon accounting estimates and judgments that we believe are reasonable. The unaudited pro forma supplemental information includes the effect of purchase accounting adjustments, such as

the adjustment of inventory acquired to net realizable value, adjustments to depreciation on acquired property and equipment, adjustments to rent expense for above or below market leases, adjustments to amortization on acquired intangible assets, adjustments to interest expense, and the related tax effects. The pro forma impact of our Keystone Specialty acquisition reflects the elimination of acquisition related expenses totaling $0.2 million for the three months ended March 31, 2014, which do not have a continuing impact on our operating results. Additionally, the pro forma impact of our other acquisitions reflects the elimination of acquisition related expenses totaling $0.3 million for the three months ended March 31, 2013; the pro forma impact of acquisition related expenses for our other acquisitions was not material for the three months ended March 31, 2014. Refer to Note 9, "Restructuring and Acquisition Related Expenses," for further information on our acquisition related expenses. These pro forma results are not necessarily indicative either of what would have occurred if the acquisitions had been in effect for the periods presented or of future results.

Note 9. Restructuring and Acquisition Related Expenses

Acquisition Related Expenses

Acquisition related expenses, which include external costs such as advisory, legal and accounting fees, totaled $0.2 million and $1.1 million for the three months ended March 31, 2014 and 2013, respectively. Our 2014 expenses were primarily related to our acquisition of Keystone Specialty in January 2014. Our 2013 acquisition related expenses were primarily related to our May 2013 acquisition of Sator. These costs are expensed as incurred.

Acquisition Integration Plans

During the three months ended March 31, 2014 and 2013, we incurred $3.1 million and $0.4 million of restructuring expenses, respectively. Expenses incurred during the three months ended March 31, 2014 were primarily a result of the integration of our acquisition of Keystone Specialty into our existing business. These integration activities included the closure of duplicate facilities, termination of employees in connection with the consolidation of overlapping facilities with our existing business, and moving expenses. Future expenses to complete these integration plans in the first half of 2014, including expenses for additional closures of overlapping facilities and termination of duplicate headcount, are expected to be less than $5.0 million.

During 2014, we expect to incur additional integration expenses related to the integration of certain of our 2013 European acquisitions into our existing operations. These integration activities are expected to include the closure of duplicate facilities, termination of employees in connection with the consolidation of overlapping facilities with our existing business, and moving expenses. Future expenses to complete these integration plans are not expected to exceed $1.0 million.

Note 10. Earnings Per Share

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

	Three Months Ended March 31,	
	2014	2013
Net Income	$104,653	$84,592
Denominator for basic earnings per share—Weighted-average shares outstanding	301,406	298,226
Effect of dilutive securities:		
RSUs	931	683
Stock options	3,166	4,003
Restricted stock	11	25
Denominator for diluted earnings per share—Adjusted weighted-average shares outstanding	305,514	302,937
Earnings per share, basic	$0.35	$0.28
Earnings per share, diluted	$0.34	$0.28

The following table sets forth the number of employee stock-based compensation awards outstanding but not included in the computation of diluted earnings per share because their effect would have been antidilutive for the three months ended March 31, 2014 and 2013 (in thousands).

	Three Months Ended March 31,	
	2014	2013
Antidilutive securities:		
Stock Options	127	—

Note 11. Income Taxes

At the end of each interim period, we estimate our annual effective tax rate and apply that rate to our interim earnings. We also record the tax impact of certain unusual or infrequently occurring items, including changes in judgment about valuation allowances and the effects of changes in tax laws or rates, in the interim period in which they occur.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in state and foreign jurisdictions, permanent and temporary differences between book and taxable income, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as the tax environment changes.

Our effective income tax rate for the three months ended March 31, 2014 was 34.0% compared with 35.8% for the comparable prior year period. The lower effective income tax rate for the three months ended March 31, 2014 is primarily as a result of our expanding international operations as a larger proportion of our pretax income was generated in lower tax rate jurisdictions, combined with lower statutory tax rates in effect in the U.K. compared to the prior year.

Note 12. Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended March 31, 2014				Three Months Ended March 31, 2013		
	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Change in Unrealized Gain on Pension Plan	Accumulated Other Comprehensive Income (Loss)	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Beginning balance	$24,906	$ (5,596)	$ 701	$ 20,011	$ 10,850	$ (10,091)	$ 759
Pretax (loss) income	(563)	(642)	—	(1,205)	(18,980)	(503)	(19,483)
Income tax effect	—	168	—	168	—	139	139
Reclassification of unrealized (gain) loss	—	1,960	(47)	1,913	—	1,698	1,698
Reclassification of deferred income taxes	—	(693)	10	(683)	—	(602)	(602)
Ending balance	$24,343	$ (4,803)	$ 664	$ 20,204	$ (8,130)	$ (9,359)	$ (17,489)

Unrealized losses on our interest rate swap contracts totaling $1.5 million were reclassified to interest expense in our Unaudited Condensed Consolidated Statements of Income during the three month period ended March 31, 2014. The

remaining reclassification of unrealized losses related to our foreign currency forward contracts and was recorded to other income in our Unaudited Condensed Consolidated Statements of Income. These losses offset the remeasurement of certain of our intercompany balances as discussed in Note 5, "Derivative Instruments and Hedging Activities." The deferred income taxes related to our cash flow hedges were reclassified from Accumulated Other Comprehensive Income to income tax expense.

Note 13. Segment and Geographic Information

We have four operating segments: Wholesale – North America; Wholesale – Europe; Self Service; and Specialty. Our Specialty operating segment was formed with our January 3, 2014 acquisition of Keystone Specialty, as discussed in Note 8, "Business Combinations." Our Wholesale – North America and Self Service operating segments are aggregated into one

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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.
The following table presents our financial performance by reportable segment for the periods indicated (in thousands):

	North America	Europe	Specialty	Eliminations	Consolidated
Three Months Ended March 31, 2014					
Revenue:					
Third Party	$1,029,266	$419,714	$176,797	$—	$1,625,777
Intersegment	33	—	226	(259)	—
Total segment revenue	$1,029,299	$419,714	$177,023	$(259)	$1,625,777
Segment EBITDA	$146,138	$41,155	$17,804	$—	$205,097
Depreciation and amortization	17,145	6,966	3,735	—	27,846
Three Months Ended March 31, 2013					
Revenue:					
Third Party	$983,388	$212,609	$—	$—	$1,195,997
Intersegment	—	—	—	—	—
Total segment revenue	$983,388	$212,609	$—	$—	$1,195,997
Segment EBITDA	$136,067	$25,664	$—	$—	$161,731
Depreciation and amortization	15,887	3,153	—	—	19,040

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 and administrative expenses are allocated to the segments based on usage, with shared expenses apportioned based on the segment's percentage of consolidated revenue. Segment EBITDA excludes restructuring and acquisition related expenses, depreciation, amortization, interest, change in fair value of contingent consideration liabilities, taxes and equity in earnings of unconsolidated subsidiaries. Loss on debt extinguishment is considered a component of interest in calculating Segment EBITDA, as the write-off of debt issuance costs is similar to the treatment of debt issuance cost amortization.

The table below provides a reconciliation from Segment EBITDA to Net Income (in thousands):

	Three Months Ended March 31,	
	2014	2013
Segment EBITDA	$205,097	$161,731
Deduct:		
Restructuring and acquisition related expenses[1]	3,321	1,505
Change in fair value of contingent consideration liabilities [2]	(1,222)	823
Add:		
Equity in earnings of unconsolidated subsidiaries	(36)	—
EBITDA	202,962	159,403
Depreciation and amortization	27,846	19,040
Interest expense, net	16,118	8,595
Loss on debt extinguishment	324	—
Provision for income taxes	54,021	47,176
Net income	$104,653	$84,592

[1] See Note 9, "Restructuring and Acquisition Related Expenses," for further information.

[2] See Note 6, "Fair Value Measurements," for further information on our contingent consideration liabilities.

The following table presents capital expenditures, which includes additions to property and equipment, by reportable segment (in thousands):

	Three Months Ended , March 31,	
	2014	2013
Capital Expenditures		
North America	$18,921	$17,564
Europe	13,451	3,897
Specialty	1,344	—
	$33,716	$21,461

The following table presents assets by reportable segment (in thousands):

	March 31, 2014	December 31, 2013
Receivables, net		
North America	$309,187	$277,395
Europe	196,680	180,699
Specialty	71,345	—
Total receivables, net	577,212	458,094
Inventory		
North America	748,913	748,167
Europe	341,398	328,785
Specialty	165,493	—
Total inventory	1,255,804	1,076,952
Property and Equipment, net		
North America	447,368	447,528
Europe	109,605	99,123
Specialty	36,894	—
Total property and equipment, net	593,867	546,651
Other unallocated assets	2,782,945	2,437,077
Total assets	$5,209,828	$4,518,774

We report net receivables, inventories, and net property and equipment by segment as that information is used by the chief operating decision maker in assessing segment performance. These assets provide a measure for the operating capital employed in each segment. Unallocated assets include cash, prepaid and other current and noncurrent assets, goodwill, intangibles and income taxes.

Our operations are primarily conducted in the U.S. Our European operations are located in the U.K., the Netherlands, Belgium, and France. Our operations in other countries include recycled and aftermarket operations in Canada, engine remanufacturing and bumper refurbishing operations in Mexico, an aftermarket parts freight consolidation warehouse in Taiwan, and other alternative parts operations in Guatemala and Costa Rica. Our net sales are attributed to geographic area based on the location of the selling operation.

The following table sets forth our revenue by geographic area (in thousands):

	Three Months Ended March 31,	
	2014	2013
Revenue		
United States	$	