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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2019
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to
Commission File Number: 000-50404

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

Delaware	**36-4215970**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
500 West Madison Street, Suite 2800	
Chicago Illinois	**60661**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (312) 621-1950
Securities registered pursuant to Section 12(b) of the Act:

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

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-accelerated Filer	☐	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 ☒

At October 25, 2019, the registrant had outstanding an aggregate of 306,461,589 shares of Common Stock.

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

LKQ CORPORATION AND SUBSIDIARIES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	$ 3,147,773	$ 3,122,378	$ 9,496,249	$ 8,873,893
Cost of goods sold	1,947,444	1,925,180	5,840,469	5,460,845
Gross margin	1,200,329	1,197,198	3,655,780	3,413,048
Selling, general and administrative expenses	892,124	879,150	2,687,024	2,472,085
Restructuring and acquisition related expenses	8,929	6,614	20,613	26,546
Impairment of net assets held for sale	(3,601)	—	44,919	—
Depreciation and amortization	71,513	76,701	213,349	196,322
Operating income	231,364	234,733	689,875	718,095
Other expense (income):				
Interest expense, net of interest income	31,976	40,860	103,949	107,647
Other income, net	(5,939)	(6,959)	(15,523)	(9,414)
Total other expense, net	26,037	33,901	88,426	98,233
Income from continuing operations before provision for income taxes	205,327	200,832	601,449	619,862
Provision for income taxes	57,747	46,068	165,122	156,427
Equity in earnings (losses) of unconsolidated subsidiaries	4,232	(20,284)	(33,745)	(18,326)
Income from continuing operations	151,812	134,480	402,582	445,109
Net income from discontinued operations	781	—	1,179	—
Net income	152,593	134,480	403,761	445,109
Less: net (loss) income attributable to continuing noncontrolling interest	(46)	378	2,321	1,040
Less: net income attributable to discontinued noncontrolling interest	376	—	568	—
Net income attributable to LKQ stockholders	$ 152,263	$ 134,102	$ 400,872	$ 444,069
Basic earnings per share: [1]				
Income from continuing operations	$ 0.49	$ 0.42	$ 1.29	$ 1.42
Net income from discontinued operations	0.00	—	0.00	—
Net income	0.50	0.42	1.30	1.42
Less: net (loss) income attributable to continuing noncontrolling interest	(0.00)	0.00	0.01	0.00
Less: net income attributable to discontinued noncontrolling interest	0.00	—	0.00	—
Net income attributable to LKQ stockholders	$ 0.50	$ 0.42	$ 1.29	$ 1.42
Diluted earnings per share: [1]				
Income from continuing operations	$ 0.49	$ 0.42	$ 1.29	$ 1.41
Net income from discontinued operations	0.00	—	0.00	—
Net income	0.50	0.42	1.29	1.41
Less: net (loss) income attributable to continuing noncontrolling interest	(0.00)	0.00	0.01	0.00
Less: net income attributable to discontinued noncontrolling interest	0.00	—	0.00	—
Net income attributable to LKQ stockholders	$ 0.49	$ 0.42	$ 1.28	$ 1.41

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

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

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Comprehensive Income
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 152,593	$ 134,480	$ 403,761	$ 445,109
Less: net (loss) income attributable to continuing noncontrolling interest	(46)	378	2,321	1,040
Less: net income attributable to discontinued noncontrolling interest	376	—	568	—
Net income attributable to LKQ stockholders	152,263	134,102	400,872	444,069
Other comprehensive (loss) income:				
Foreign currency translation, net of tax	(69,819)	(20,951)	(74,112)	(77,630)
Net change in unrealized gains/losses on cash flow hedges, net of tax	(1,261)	304	(9,648)	5,964
Net change in unrealized gains/losses on pension plans, net of tax	(2,353)	1,274	(2,134)	(154)
Net change in other comprehensive income from unconsolidated subsidiaries	1,240	643	98	2,160
Other comprehensive loss	(72,193)	(18,730)	(85,796)	(69,660)
Comprehensive income	80,400	115,750	317,965	375,449
Less: comprehensive (loss) income attributable to continuing noncontrolling interest	(46)	378	2,321	1,040
Less: comprehensive income attributable to discontinued noncontrolling interest	376	—	568	—
Comprehensive income attributable to LKQ stockholders	$ 80,070	$ 115,372	$ 315,076	$ 374,409

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

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 433,391	$ 331,761
Receivables, net	1,223,197	1,154,083
Inventories	2,582,188	2,836,075
Prepaid expenses and other current assets	245,082	199,030
Total current assets	4,483,858	4,520,949
Property, plant and equipment, net	1,184,188	1,220,162
Operating lease assets, net	1,303,260	—
Intangible assets:		
Goodwill	4,309,822	4,381,458
Other intangibles, net	837,272	928,752
Equity method investments	144,009	179,169
Other noncurrent assets	149,281	162,912
Total assets	$ 12,411,690	$ 11,393,402
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 997,874	$ 942,398
Accrued expenses:		
Accrued payroll-related liabilities	162,152	172,005
Refund liability	100,327	104,585
Other accrued expenses	326,634	288,425
Other current liabilities	113,349	61,109
Current portion of operating lease liabilities	225,572	—
Current portion of long-term obligations	128,143	121,826
Total current liabilities	2,054,051	1,690,348
Long-term operating lease liabilities, excluding current portion	1,129,423	—
Long-term obligations, excluding current portion	3,737,112	4,188,674
Deferred income taxes	296,199	311,434
Other noncurrent liabilities	322,205	364,194
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 319,598,334 shares issued and 306,402,419 shares outstanding at September 30, 2019; 318,417,821 shares issued and 316,146,114 shares outstanding at December 31, 2018	3,196	3,184
Additional paid-in capital	1,427,382	1,415,188
Retained earnings	3,999,748	3,598,876
Accumulated other comprehensive loss	(260,746)	(174,950)
Treasury stock, at cost; 13,195,915 shares at September 30, 2019 and 2,271,707 shares at December 31, 2018	(351,813)	(60,000)
Total Company stockholders' equity	4,817,767	4,782,298
Noncontrolling interest	54,933	56,454
Total stockholders' equity	4,872,700	4,838,752
Total liabilities and stockholders' equity	$ 12,411,690	$ 11,393,402

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

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 403,761	$ 445,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	230,239	210,977
Impairment of Mekonomen equity method investment	39,551	22,715
Impairment of net assets held for sale	44,919	—
Stock-based compensation expense	20,837	17,544
Other	(13,320)	(7,187)
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Receivables, net	(102,381)	(70,797)
Inventories	148,237	(71,058)
Prepaid income taxes/income taxes payable	40,711	7,262
Accounts payable	90,879	(71,997)
Other operating assets and liabilities	61,738	38,599
Net cash provided by operating activities	965,171	521,167
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(165,551)	(171,763)
Acquisitions, net of cash acquired	(14,517)	(1,206,067)
Proceeds from disposal of businesses	19,505	—
Investments in unconsolidated subsidiaries	(6,894)	(11,066)
Receipts of deferred purchase price on receivables under factoring arrangements	—	9,410
Other investing activities, net	7,368	7,970
Net cash used in investing activities	(160,089)	(1,371,516)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt issuance costs	—	(16,938)
Proceeds from issuance of Euro Notes (2026/28)	—	1,232,100
Purchase of treasury stock	(291,813)	—
Borrowings under revolving credit facilities	390,275	1,025,496
Repayments under revolving credit facilities	(613,758)	(1,110,035)
Repayments under term loans	(6,563)	(114,800)
Borrowings under receivables securitization facility	36,600	—
Repayments under receivables securitization facility	(146,600)	—
Payment of notes issued from acquisitions	(19,123)	—
Repayments of other debt, net	(31,587)	(38,695)
Other financing activities, net	(7,125)	2,186
Net cash (used in) provided by financing activities	(689,694)	979,314
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(9,702)	(67,385)
Net increase in cash, cash equivalents and restricted cash	105,686	61,580
Cash, cash equivalents and restricted cash of continuing operations, beginning of period	337,250	279,766
Cash, cash equivalents and restricted cash of continuing and discontinued operations, end of period	442,936	341,346
Less: Cash and cash equivalents of discontinued operations, end of period	4,328	—
Cash, cash equivalents and restricted cash, end of period	$ 438,608	$ 341,346
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	$ 433,391	$ 341,346
Restricted cash included in Other noncurrent assets	5,217	—
Cash, cash equivalents and restricted cash, end of period	$ 438,608	$ 341,346

Supplemental disclosure of cash paid for:				
Income taxes, net of refunds	$	134,998	$	158,740
Interest		86,525		74,417
Supplemental disclosure of noncash investing and financing activities:				
Stock issued in acquisitions	$	—	$	251,334
Noncash property, plant and equipment additions		6,597		11,010
Notes payable and other financing obligations, including notes issued, debt assumed and settlement of pre-existing balances in connection with business acquisitions		45,311		82,664

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

Notes issued in connection with purchase of noncontrolling interest	14,196	—
Contingent consideration liabilities	5,377	3,107

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

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Stockholders' Equity
(In thousands)

	LKQ Stockholders								
	Common Stock		Treasury Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
BALANCE, July 1, 2019	319,010	$ 3,190	(9,315)	$ (250,762)	$ 1,429,129	$ 3,847,485	$ (188,553)	$ 69,259	$ 4,909,748
Net income	—	—	—	—	—	152,263	—	330	152,593
Other comprehensive loss	—	—	—	—	—	—	(72,193)	—	(72,193)
Purchase of treasury stock	—	—	(3,881)	(101,051)	—	—	—	—	(101,051)
Vesting of restricted stock units, net of shares withheld for employee tax	313	3	—	—	(650)	—	—	—	(647)
Stock-based compensation expense	—	—	—	—	7,178	—	—	—	7,178
Exercise of stock options	370	4	—	—	3,594	—	—	—	3,598
Tax withholdings related to net share settlements of stock-based compensation awards	(95)	(1)	—	—	(3,105)	—	—	—	(3,106)
Capital contributions from, net of dividends declared to, noncontrolling interest shareholder	—	—	—	—	—	—	—	(4,644)	(4,644)
Acquired noncontrolling interest [1]	—	—	—	—	—	—	—	104	104
Purchase of noncontrolling interest [2]	—	—	—	—	(8,764)	—	—	(10,116)	(18,880)
BALANCE, September 30, 2019	319,598	$ 3,196	(13,196)	$ (351,813)	$ 1,427,382	$ 3,999,748	$ (260,746)	$ 54,933	$ 4,872,700

[1] The amount acquired during 2019 relates to discontinued operations. See Note 3, "Discontinued Operations," for further details.

[2] The amount recorded in 2019 relates to the purchase of noncontrolling interest unrelated to a business combination. Refer to "Stockholders' Equity" in Note 4, "Financial Statement Information" for further information.

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Stockholders' Equity
(In thousands)

	LKQ Stockholders						
	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
BALANCE, July 1, 2018	317,821	$ 3,178	$ 1,403,630	$ 3,428,725	$ (116,061)	$ 57,503	$ 4,776,975
Net income	—	—	—	134,102	—	378	134,480
Other comprehensive loss	—	—	—	—	(18,730)	—	(18,730)
Vesting of restricted stock units, net of shares withheld for employee tax	256	3	(937)	—	—	—	(934)
Stock-based compensation expense	—	—	5,700	—	—	—	5,700
Exercise of stock options	120	1	849	—	—	—	850
Capital contributions from, net of dividends to, noncontrolling interest shareholder	—	—	—	—	—	(925)	(925)
BALANCE, September 30, 2018	318,197	$ 3,182	$ 1,409,242	$ 3,562,827	$ (134,791)	$ 56,956	$ 4,897,416

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

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Stockholders' Equity
(In thousands)

	LKQ Stockholders								
	Common Stock		Treasury Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
BALANCE, January 1, 2019	318,418	$ 3,184	(2,272)	$ (60,000)	$ 1,415,188	$ 3,598,876	$ (174,950)	$ 56,454	$ 4,838,752
Net income	—	—	—	—	—	400,872	—	2,889	403,761
Other comprehensive loss	—	—	—	—	—		(85,796)		(85,796)
Purchase of treasury stock	—	—	(10,924)	(291,813)	—	—	—	—	(291,813)
Vesting of restricted stock units, net of shares withheld for employee tax	684	7	—	—	(1,808)	—	—	—	(1,801)
Stock-based compensation expense	—	—	—	—	20,837	—	—	—	20,837
Exercise of stock options	606	6	—	—	5,462	—	—	—	5,468
Tax withholdings related to net share settlements of stock-based compensation awards	(110)	(1)	—	—	(3,533)	—	—	—	(3,534)
Capital contributions from, net of dividends declared to, noncontrolling interest shareholder	—	—	—	—	—	—	—	(4,659)	(4,659)
Acquired noncontrolling interest (1)	—	—	—	—	—	—	—	10,365	10,365
Purchase of noncontrolling interest (2)	—	—	—	—	(8,764)	—	—	(10,116)	(18,880)
BALANCE, September 30, 2019	319,598	$ 3,196	(13,196)	$ (351,813)	$ 1,427,382	$ 3,999,748	$ (260,746)	$ 54,933	$ 4,872,700

(1) The amount acquired during 2019 relates to discontinued operations. See Note 3, "Discontinued Operations," for further details.

(2) The amount recorded in 2019 relates to the purchase of noncontrolling interest unrelated to a business combination. Refer to "Stockholders' Equity" in Note 4, "Financial Statement Information" for further information.

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Stockholders' Equity
(In thousands)

	LKQ Stockholders						
	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Stockholders' Equity
BALANCE, January 1, 2018	309,127	$ 3,091	$ 1,141,451	$ 3,124,103	$ (70,476)	$ 8,484	$ 4,206,653
Net income	—	—	—	444,069	—	1,040	445,109
Other comprehensive loss	—	—	—	—	(69,660)	—	(69,660)
Stock issued in acquisitions	8,056	81	251,253	—	—	—	251,334
Vesting of restricted stock units, net of shares withheld for employee tax	600	6	(3,717)	—	—	—	(3,711)
Stock-based compensation expense	—	—	17,544	—	—	—	17,544
Exercise of stock options	441	4	3,768	—	—	—	3,772
Shares withheld for net share settlement of stock option awards	(27)	—	(1,057)	—	—	—	(1,057)
Adoption of ASU 2018-02 (see Note 9)	—	—	—	(5,345)	5,345	—	—
Capital contributions from, net of dividends to, noncontrolling interest shareholder	—	—	—	—	—	3,182	3,182
Acquired noncontrolling interest	—	—	—	—	—	44,250	44,250
BALANCE, September 30, 2018	318,197	$ 3,182	$ 1,409,242	$ 3,562,827	$ (134,791)	$ 56,956	$ 4,897,416

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

Note 1. Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements represent the consolidation of LKQ Corporation, a Delaware corporation, and its subsidiaries. LKQ Corporation is a holding company and all operations are conducted by subsidiaries. When the terms "LKQ," "the Company," "we," "us," or "our" are used in this document, those terms refer to LKQ Corporation and its consolidated subsidiaries.

We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial statements. Accordingly, certain information related to our significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normally recurring adjustments) necessary to fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented.

Operating results for interim periods are not necessarily indicative of the results that can be expected for any subsequent interim period or for a full year. These interim financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on March 1, 2019 ("2018 Form 10-K").

Note 2. Business Combinations

During the nine months ended September 30, 2019, we completed five acquisitions, including one wholesale business and one self service business in North America, and three wholesale businesses in Europe. These acquisitions were not material to our results of operations or financial position as of and for the three and nine months ended September 30, 2019. Total acquisition date fair value of the consideration for our acquisitions for the nine months ended September 30, 2019 was $48 million, composed of $17 million of cash paid (net of cash acquired), $5 million for the estimated value of contingent payments to former owners (with maximum payments totaling $7 million), $1 million of other purchase price obligations (non-interest bearing), $21 million of notes payable, and $4 million of pre-existing balances considered to be effectively settled as a result of the acquisitions. In addition, we assumed $8 million of existing debt as of the acquisition dates.

On May 30, 2018, we acquired Stahlgruber GmbH ("Stahlgruber"), a leading European wholesale distributor of aftermarket spare parts for passenger cars, tools, capital equipment and accessories with operations in Germany, Austria, Italy, Slovenia, and Croatia, with further sales to Switzerland. Total acquisition date fair value of the consideration for our Stahlgruber acquisition was €1.2 billion ($1.4 billion), composed of €1.0 billion ($1.1 billion) of cash paid (net of cash acquired), and €215 million ($251 million) of newly issued shares of LKQ common stock. We financed the acquisition with the proceeds from €1.0 billion ($1.2 billion) of senior notes, the direct issuance to Stahlgruber's owner of 8,055,569 newly issued shares of LKQ common stock, and borrowings under our existing revolving credit facility. We recorded $915 million ($908 million in 2018 and $7 million of adjustments in the six months ended June 30, 2019) of goodwill related to our acquisition of Stahlgruber.

On May 3, 2018, the European Commission cleared the acquisition of Stahlgruber for the entire European Union, except with respect to the wholesale automotive parts business in the Czech Republic. The acquisition of Stahlgruber’s Czech Republic wholesale business was referred to the Czech Republic competition authority for review. On May 10, 2019, the Czech Republic competition authority approved our acquisition of Stahlgruber’s Czech Republic wholesale business subject to the requirement that we divest certain of the acquired locations. We acquired Stahlgruber’s Czech Republic wholesale business on May 29, 2019 and decided to divest all of the acquired locations. We immediately classified the business as discontinued operations because the business was never integrated into our Europe segment; see Note 3, "Discontinued Operations" for further information. The Czech Republic wholesale business represents an immaterial portion of Stahlgruber's revenue and profitability. There was no additional consideration beyond the previously remitted amounts for the Stahlgruber transaction required to complete the acquisition of the Czech Republic wholesale business.

In addition to our acquisition of Stahlgruber, during the year ended December 31, 2018, we completed acquisitions of four wholesale businesses in North America and nine wholesale businesses in Europe. Total acquisition date fair value of the consideration for these acquisitions was $99 million, composed of $85 million of cash paid (net of cash and restricted cash acquired), $11 million of notes payable, and $3 million for the estimated value of contingent payments to former owners (with maximum potential payments totaling $5 million). During the year ended December 31, 2018, we recorded $68 million of goodwill related to these acquisitions.

Our acquisitions are accounted for under the purchase method of accounting and are included in our consolidated financial statements from the dates of acquisition. The purchase prices were allocated to the net assets acquired based upon estimated fair values at the dates of acquisition. The purchase price allocations for the acquisitions made during the nine months ended September 30, 2019 and the last three months of the year ended December 31, 2018 are preliminary as we are in the process of determining the following: 1) valuation amounts for certain receivables, inventories and fixed assets acquired; 2) valuation amounts for certain intangible assets acquired; 3) the acquisition date fair value of certain liabilities assumed; and 4) the tax basis of the entities acquired. We have recorded preliminary estimates for certain of the items noted above and will record adjustments, if any, to the preliminary amounts upon finalization of the valuations.

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

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

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

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

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

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

The fair value of our intangible assets is based on a number of inputs, including projections of future cash flows, discount rates, assumed royalty rates and customer attrition rates, all of which are Level 3 inputs. We used the relief-from-royalty method to value trade names, trademarks, software and other technology assets, and we used the multi-period excess earnings method to value customer relationships. The relief-from-royalty method assumes that the intangible asset has value to the extent that its owner is relieved of the obligation to pay royalties for the benefits received from the intangible asset. The multi-period excess earnings method is based on the present value of the incremental after-tax cash flows attributable only to the customer relationship after deducting contributory asset charges. The fair value of our property, plant and equipment is determined using inputs such as market comparables and current replacement or reproduction costs of the asset, adjusted for physical, functional and economic factors; these adjustments to arrive at fair value use unobservable inputs in which little or no market data exists, and therefore, these inputs are considered to be Level 3 inputs. See Note 12, "Fair Value Measurements" for further information regarding the tiers in the fair value hierarchy.

The acquisition of Stahlgruber expanded LKQ's geographic presence in continental Europe and serves as an additional strategic hub for our European operations. In addition, the acquisition of Stahlgruber should allow for continued improvement in procurement, logistics and infrastructure optimization. The primary objectives of our other acquisitions made during the nine months ended September 30, 2019 and the year ended December 31, 2018 were to create economic value for our stockholders by enhancing our position as a leading source for alternative collision and mechanical repair products and to expand into other product lines and businesses that may benefit from our operating strengths.

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

The following pro forma summary presents the effect of the businesses acquired during the nine months ended September 30, 2019 as though the businesses had been acquired as of January 1, 2018, and the businesses acquired during the year ended December 31, 2018 as though they had been acquired as of January 1, 2017. We have excluded the May 29, 2019 acquisition of the Czech Republic wholesale business as the business was never integrated into our Europe segment. The pro forma adjustments are based upon unaudited financial information of the acquired entities (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenue, as reported	$ 3,147,773	$ 3,122,378	$ 9,496,249	$ 8,873,893
Revenue of purchased businesses for the period prior to acquisition:				
Stahlgruber	—	—	—	815,405
Other acquisitions	—	33,708	16,481	133,545
Pro forma revenue	$ 3,147,773	$ 3,156,086	$ 9,512,730	$ 9,822,843
Income from continuing operations, as reported (1)	$ 151,812	$ 134,480	$ 402,582	$ 445,109
Income from continuing operations of purchased businesses for the period prior to acquisition, and pro forma purchase accounting adjustments:				
Stahlgruber	4,368	5,624	10,484	14,114
Other acquisitions	314	1,863	2,161	4,780
Acquisition related expenses, net of tax (2)	1,174	681	1,498	13,986
Pro forma income from continuing operations	157,668	142,648	416,725	477,989
Less: Net (loss) income attributable to continuing noncontrolling interest, as reported	(46)	378	2,321	1,040
Less: Pro forma net income attributable to continuing noncontrolling interest	—	—	—	2,799
Pro forma net income from continuing operations attributable to LKQ stockholders (3)	$ 157,714	$ 142,270	$ 414,404	$ 474,150

(1) 2018 amounts include interest expense for the period from April 9, 2018 through September 30, 2018 recorded on the senior notes issued in connection with our acquisition of Stahlgruber.

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

(3) Excludes our acquisition of the Czech Republic wholesale business which is classified as discontinued operations.

Unaudited pro forma supplemental information is based upon accounting estimates and judgments that we believe are reasonable. The unaudited pro forma supplemental information includes the effect of purchase accounting adjustments, such as the adjustment of inventory acquired to fair value, adjustments to depreciation on acquired property, plant and equipment, adjustments to rent expense for above or below market leases, adjustments to amortization on acquired intangible assets, adjustments to interest expense, and the related tax effects. The pro forma impact of our acquisitions also reflects the elimination of acquisition related expenses, net of tax. Refer to Note 6, "Restructuring and Acquisition Related Expenses," for further information regarding our acquisition related expenses. These pro forma results are not necessarily indicative of what would have occurred if the acquisitions had been in effect for the periods presented or of future results.

Note 3. Discontinued Operations

As described in Note 2, "Business Combinations," we classified the acquired Stahlgruber Czech Republic wholesale business as discontinued operations. We intend to divest the business within the next year, and thus, the net assets are reflected on the Unaudited Condensed Consolidated Balance Sheet at the lower of fair value less cost to sell or carrying value. As of September 30, 2019, the assets held for sale, liabilities held for sale, and noncontrolling interest are recorded within Prepaid expenses and other current assets, Other current liabilities, and Noncontrolling interest, respectively, on the Unaudited Condensed Consolidated Balance Sheet. As of the acquisition date, we acquired $5 million of cash and assumed $6 million of existing debt.

Fair value was based on the estimated selling price, the inputs of which included projected market multiples and any reasonable offers. Due to the uncertainties in the estimation process, it is possible that actual results could differ from the estimates used in the Company's analysis. The inputs utilized in the fair value estimate are classified as Level 3 within the fair value hierarchy. The fair value of the net assets was measured on a non-recurring basis as of September 30, 2019.

Note 4. Financial Statement Information

Allowance for Doubtful Accounts

We have a reserve for uncollectible accounts, which was approximately $50 million and $57 million at September 30, 2019 and December 31, 2018, respectively.

Inventories

Inventories consist of the following (in thousands):

	September 30, 2019	December 31, 2018
Aftermarket and refurbished products	$ 2,117,275	$ 2,309,458
Salvage and remanufactured products	438,845	503,199
Manufactured products	26,068	23,418
Total inventories	$ 2,582,188	$ 2,836,075

Aftermarket and refurbished products and salvage and remanufactured products are primarily composed of finished goods. As of September 30, 2019, manufactured products inventory was composed of $17 million of raw materials, $3 million of work in process, and $6 million of finished goods. As of December 31, 2018, manufactured products inventory was composed of $17 million of raw materials, $2 million of work in process, and $4 million of finished goods.

Net Assets Held for Sale

During the first six months of 2019, we committed to plans to sell certain businesses in our North America and Europe segments. As a result, these businesses were classified as net assets held for sale and were required to be adjusted to the lower of fair value less cost to sell or carrying value, resulting in impairment charges totaling $49 million through the six months ended June 30, 2019 (presented in Impairment of net assets held for sale in the Unaudited Condensed Consolidated Statement of Income). In the third quarter of 2019, we completed the sales of two of these businesses, our aviation business in North America and a wholesale business in Bulgaria. The proceeds exceeded our prior fair value estimates, resulting in a net $4 million reduction of previously reported impairment charges for the three months ended September 30, 2019 and a net

$45 million impairment charge for the nine months ended September 30, 2019. The disposed businesses were immaterial, generating annualized revenue of approximately $55 million during the twelve-month period ended September 30, 2019.

Excluding the Stahlgruber Czech Republic wholesale business discussed in Note 3, "Discontinued Operations," as of September 30, 2019, there were $13 million of assets held for sale, including $3 million of goodwill that was reclassified as held for sale related to our Europe segment, and $4 million of liabilities held for sale, which were recorded within Prepaid expenses and other current assets and Other current liabilities, respectively, on the Unaudited Condensed Consolidated Balance Sheet. We expect the remaining assets held for sale to be disposed of during the next twelve months. The remaining assets held for sale generated annualized revenue of approximately $84 million during the twelve-month period ended September 30, 2019.

We are required to record net assets of our held for sale businesses at the lower of fair value less cost to sell or carrying value. Fair values were based on projected discounted cash flows and/or estimated selling prices. Management's assumptions for our discounted cash flow analysis of the businesses were based on projected revenues and profits, tax rates, capital expenditures, working capital requirements and discount rates. For businesses for which we utilized estimated selling prices to calculate the fair value, the inputs to our estimates included projected market multiples and any reasonable offers. Due to uncertainties in the estimation process, it is possible that actual results could differ from the estimates used in our analysis. The inputs utilized in the fair value estimates are classified as Level 3 within the fair value hierarchy. The fair values of the net assets were measured on a non-recurring basis as of September 30, 2019.

Investments in Unconsolidated Subsidiaries

Our investment in unconsolidated subsidiaries was $144 million and $179 million as of September 30, 2019 and December 31, 2018, respectively.

Europe Segment

Our investment in unconsolidated subsidiaries in Europe was $127 million and $163 million as of September 30, 2019 and December 31, 2018, respectively. We recorded equity in earnings of $4 million and equity in losses of $35 million during the three and nine months ended September 30, 2019, respectively, and equity in losses of $20 million and $18 million during the three and nine months ended September 30, 2018, respectively, related to our investments in unconsolidated subsidiaries in our Europe segment, mainly related to our investment in Mekonomen AB ("Mekonomen").

On December 1, 2016, we acquired a 26.5% equity interest in Mekonomen for an aggregate purchase price of $181 million. In October 2018, we acquired an additional $48 million of equity in Mekonomen at a discounted share price as part of its rights issue, increasing our equity interest to 26.6%. We are accounting for our interest in Mekonomen using the equity method of accounting, as our investment gives us the ability to exercise significant influence, but not control, over the investee. As of September 30, 2019, our share of the book value of Mekonomen's net assets exceeded the book value of our investment in Mekonomen by $5 million; this difference is primarily related to Mekonomen's Accumulated Other Comprehensive Income balance as of our acquisition date in 2016. We are recording our equity in the net earnings of Mekonomen on a one quarter lag.

During the three months ended March 31, 2019 and September 30, 2018, we recognized other-than-temporary impairment charges of $40 million and $23 million, respectively, which represented the difference in the carrying value and the fair value of our investment in Mekonomen. The fair value of our investment in Mekonomen was determined using the Mekonomen share prices of SEK 65 and SEK 126 as of March 31, 2019 and September 30, 2018, respectively. The impairment charges are recorded in Equity in earnings (losses) of unconsolidated subsidiaries in our Unaudited Condensed Consolidated Statements of Income.

In May 2018, we received a cash dividend of $8 million (SEK 67 million) related to our investment in Mekonomen. Mekonomen announced in February 2019 that the Mekonomen Board of Directors has proposed no dividend payment in 2019. The Level 1 fair value of our equity investment in the publicly traded Mekonomen common stock at September 30, 2019 was $126 million (using the Mekonomen share price of SEK 83 as of September 30, 2019) compared to a carrying value of $115 million.

In 2018, we participated in a rights issue with preferential rights for Mekonomen's existing shareholders, who were given the right to subscribe for four new Mekonomen shares per seven existing owned shares at a discounted share price. As of September 30, 2018, we recorded a derivative instrument of $29 million in Other noncurrent assets on our Unaudited Condensed Consolidated Balance Sheets, which represented our right to acquire Mekonomen shares at a discount. We measured the derivative instrument at fair value, and we recorded a $3 million gain on our fair value remeasurement during the three months ended September 30, 2018; the gain was recorded in Other income, net in the Unaudited Condensed Consolidated Statements of Income.

North America Segment

Our investment in unconsolidated subsidiaries in the North America segment was $17 million and $16 million as of September 30, 2019 and December 31, 2018, respectively. The equity in earnings for the North America equity investments was immaterial during each of the three and nine months ended September 30, 2019 and 2018.

Warranty Reserve

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

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

Balance as of December 31, 2018	$	23,262
Warranty expense		43,883
Warranty claims		(39,969)
Balance as of September 30, 2019	$	27,176

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.

Stockholders' Equity

Treasury Stock

On October 25, 2018, our Board of Directors authorized a stock repurchase program under which we may purchase up to $500 million of our common stock from time to time through October 25, 2021. Repurchases under the program may be made in the open market or in privately negotiated transactions, with the amount and timing of repurchases depending on market conditions and corporate needs. The repurchase program does not obligate us to acquire any specific number of shares and may be suspended or discontinued at any time. Delaware law imposes restrictions on stock repurchases. During the nine months ended September 30, 2019, we repurchased 10.9 million shares of common stock for an aggregate price of $292 million. During 2018, we repurchased 2.3 million shares of common stock for an aggregate price of $60 million. As of September 30, 2019, there was $148 million of remaining capacity under our repurchase program. Repurchased shares are accounted for as treasury stock using the cost method.

On October 25, 2019, our Board of Directors authorized an increase to our existing stock repurchase program under which the Company may purchase up to an additional $500 million of our common stock from time to time through October 25, 2022; this extended date also applies to the original repurchase program. With the increase, the Board of Directors has authorized a total of $1.0 billion of common stock repurchases. As of the date of this filing, there was $648 million of remaining capacity under our repurchase program, with the additional $500 million authorization.

Noncontrolling Interest

In July 2019, we purchased substantially all of the noncontrolling interest of a subsidiary acquired in connection with the Stahlgruber acquisition for a purchase price of $19 million, which included the issuance of $14 million of notes payable. This purchase resulted in a net decrease to Noncontrolling interest of $10 million and a decrease to Additional paid-in capital of $9 million in our unaudited condensed consolidated financial statements as of September 30, 2019.

Recent Accounting Pronouncements

Adoption of New Lease Standard

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

ASU 2016-02 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under the prior standard.

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

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

Other Recently Adopted Accounting Pronouncements

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

Recently Issued Accounting Pronouncements

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

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

Note 5. Revenue Recognition

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

Sources of Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
North America	$ 1,145,402	$ 1,109,067	$ 3,466,582	$ 3,447,074
Europe	1,446,392	1,464,049	4,398,185	3,781,091
Specialty	394,204	388,865	1,157,023	1,151,172
Parts and services	2,985,998	2,961,981	9,021,790	8,379,337
Other	161,775	160,397	474,459	494,556
Total revenue	$ 3,147,773	$ 3,122,378	$ 9,496,249	$ 8,873,893

Parts and Services

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

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

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

Balance as of January 1, 2019	$ 24,006
Additional warranty revenue deferred	32,118
Warranty revenue recognized	(29,469)
Balance as of September 30, 2019	$ 26,655

Other Revenue

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

Revenue by Geographic Area

See Note 16, "Segment and Geographic Information" for information related to our revenue by geographic region.

Variable Consideration

The amount of revenue ultimately received from the customer can vary due to variable consideration which includes returns, discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, or other similar items. Under ASC 606 we are required to select the “expected value method” or the “most likely amount” method in order to estimate variable consideration. We utilize both methods in practice depending on the type of variable consideration, with contemplation of any expected reversals in revenue. We recorded a refund liability and return asset for expected returns of $100 million and

$54 million, respectively, as of September 30, 2019, and $105 million and $56 million, respectively, as of December 31, 2018. The refund liability is presented separately on the balance sheet within current liabilities while the return asset is presented within Prepaid expenses and other current assets. Other types of variable consideration consist primarily of discounts, volume rebates, and other customer sales incentives which are recorded in Receivables, net on the Unaudited Condensed Consolidated Balance Sheets. We recorded a reserve for our variable consideration of $106 million and $103 million as of September 30, 2019 and December 31, 2018, respectively. While other customer incentive programs exist, we characterize them as material rights in the context of our sales transactions. We consider these programs to be immaterial to our unaudited condensed consolidated financial statements.

Note 6. Restructuring and Acquisition Related Expenses

Acquisition Related Expenses

Acquisition related expenses, which include external costs such as legal, accounting and advisory fees, were $2 million in each of the three and nine months ended September 30, 2019.

Acquisition related expenses for the three and nine months ended September 30, 2018 were $1 million and $17 million, respectively, which included external costs primarily related to our May 2018 acquisition of Stahlgruber.

Acquisition Integration Plans

During the three and nine months ended September 30, 2019, we incurred $7 million and $13 million of restructuring expenses, respectively, primarily related to our acquisition integration efforts in our Europe segment. These expenses included approximately $4 million and $7 million for the three and nine months ended September 30, 2019, respectively, related to the integration of our acquisition of Andrew Page Limited ("Andrew Page"). The $4 million recorded during the three months ended September 30, 2019 for Andrew Page was recorded within Cost of goods sold in the Unaudited Condensed Consolidated Statement of Income.

During the three and nine months ended September 30, 2018, we incurred $5 million and $10 million of restructuring expenses, respectively. Restructuring expenses for the three months ended September 30, 2018 primarily consisted of $4 million related to the integration of our acquisition of Andrew Page and $1 million related to our Specialty segment; restructuring expenses for the nine months ended September 30, 2018 primarily consisted of $8 million related to the integration of our acquisition of Andrew Page and $2 million related to our Specialty segment. These integration activities included the closure of duplicate facilities and termination of employees.

We expect to incur additional expenses related to the integration of certain of our acquisitions into our existing operations. These integration activities are expected to include the closure of duplicate facilities, rationalization of personnel in connection with the consolidation of overlapping facilities with our existing business, and moving expenses. Future expenses to complete these integration plans are currently expected to be between $5 million and $10 million.

2019 Global Restructuring Program

In the second quarter of 2019, we began implementing a cost reduction initiative, covering all three of our reportable segments, designed to eliminate underperforming assets and cost inefficiencies. We have incurred and expect to incur costs for inventory write-downs, employee severance and other expenditures related to employee terminations; lease exit costs, such as lease termination fees, accelerated amortization of operating lease assets and impairment of operating lease assets; other costs related to facility exits, such as moving expenses to relocate inventory and equipment; and accelerated depreciation of fixed assets to be disposed earlier than the end of the previously estimated use lives.

During the three and nine months ended September 30, 2019, we incurred $18 million and $23 million, respectively, of restructuring expenses primarily related to inventory write-downs, facility exit costs, and employee-related costs. Of these expenses, $13 million, primarily related to Andrew Page branch consolidation and brand rationalization, was recorded within Cost of goods sold in the Unaudited Condensed Consolidated Statement of Income during each of the three and nine months ended September 30, 2019, and $4 million and $10 million, respectively, was recorded within Restructuring and acquisition related expenses. We currently expect to incur additional expenses between $15 million and $20 million through the end of 2020 to complete the program.

1 LKQ Europe Program

In September 2019, we announced a multi-year program called "1 LKQ Europe" which is intended to create structural centralization and standardization of key functions to facilitate the operation of the Europe segment as a single business. Under the 1 LKQ Europe program, we will reorganize our non-customer-facing teams and support systems through various projects including the implementation of a common ERP platform, rationalization of our product portfolio, and creation of a Europe headquarters office and central back office. We currently expect to incur between $45 million and $55 million in personnel and inventory related restructuring charges through 2024 as a result of executing the 1 LKQ Europe program. In future periods, we may identify additional initiatives and projects under the 1 LKQ Europe program that may result in additional restructuring expense, although we are currently unable to estimate the range of charges for such potential future initiatives and projects.

Note 7. Stock-Based Compensation

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

RSUs

The RSUs we have issued vest over periods of up to five years, subject to a continued service condition. Currently outstanding RSUs (other than PSUs, which are described below) contain either a time-based vesting condition or a combination of a performance-based vesting condition and a time-based vesting condition, in which case both conditions must be met before any RSUs vest. For most of the RSUs containing a performance-based vesting condition, the Company must report positive diluted earnings per share, subject to certain adjustments, during any fiscal year period within five years following the grant date; we have an immaterial amount of RSUs containing other performance-based vesting conditions. Each RSU converts into one share of LKQ common stock on the applicable vesting date. The grant date fair value of RSUs is based on the market price of LKQ stock on the grant date. Our 2019 annual grant of RSUs occurred in March 2019. In previous years, the annual grant occurred in mid-January.

Starting with our 2019 grants, participants who are eligible for retirement (defined as a voluntary separation of service from the Company after the participant has attained at least 60 years of age and completed at least five years of service) will continue to vest in their awards; if retirement occurs during the first year of the vesting period (for RSUs subject to a time-based vesting condition) or the first year of the performance period (for RSUs with a performance-based vesting condition), the participant vests in a prorated amount of the RSU grant based on the portion of the year employed. For our RSU grants prior to 2019, participants forfeit their unvested shares upon retirement.

The fair value of RSUs that vested during the nine months ended September 30, 2019 was $20 million; the fair value of RSUs vested is based on the market price of LKQ stock on the date vested.

The following table summarizes activity related to our RSUs under the Equity Incentive Plan for the nine months ended September 30, 2019:

	Number Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Unvested as of January 1, 2019	1,475,682	$ 34.94		
Granted	1,011,623	$ 27.82		
Vested	(753,276)	$ 32.31		
Forfeited / Canceled	(70,851)	$ 33.56		
Unvested as of September 30, 2019	1,663,178	$ 31.86		
Expected to vest after September 30, 2019	1,506,308	$ 31.90	2.7	$ 47,373

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

In 2019, we granted performance-based three-year RSUs ("PSUs") to certain employees, including our executive officers, under our Equity Incentive Plan. As these awards are performance-based, the exact number of shares to be paid out may be up to twice the grant amount, depending on the Company's performance and the achievement of certain performance metrics (adjusted earnings per share, average organic parts and services revenue growth, and average return on invested capital) over the three year period ending December 31, 2021. In 2019, we also granted an immaterial amount of performance-based RSUs to employees that have different performance metrics than those described above.

The following table summarizes activity related to our PSUs under the Equity Incentive Plan for the nine months ended September 30, 2019:

	Number Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Unvested as of January 1, 2019	—	$ —		
Granted (2)	136,170	$ 27.69		
Unvested as of September 30, 2019	136,170	$ 27.69		
Expected to vest after September 30, 2019	136,170	$ 27.69	2.5	$ 4,283

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

(2) Represents the number of PSUs at target payout.

Stock Options

Stock options vest over periods of up to five years, subject to a continued service condition. Stock options expire either six years or ten years from the date they are granted. No options were granted during the nine months ended September 30, 2019. No options vested during the nine months ended September 30, 2019; all of our outstanding options are fully vested.

The following table summarizes activity related to our stock options under the Equity Incentive Plan for the nine months ended September 30, 2019:

	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Balance as of January 1, 2019	1,051,494	$ 10.15		
Exercised	(605,591)	$ 9.03		$ 12,085
Canceled	(8,055)	$ 18.45		
Balance as of September 30, 2019	437,848	$ 11.55	0.3	$ 8,739
Exercisable as of September 30, 2019	437,848	$ 11.55	0.3	$ 8,739

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

Stock-Based Compensation Expense

Pre-tax stock-based compensation expense for RSUs and PSUs totaled $7 million and $21 million for the three and nine months ended September 30, 2019, respectively, and $6 million and $18 million for the three and nine months ended September 30, 2018, respectively. As of September 30, 2019, unrecognized compensation expense related to unvested RSUs and PSUs was $44 million. Stock-based compensation expense related to these awards will be different to the extent that forfeitures are realized and performance under the PSUs differs from target.

Note 8. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Income from continuing operations	$ 151,812	$ 134,480	$ 402,582	$ 445,109
Denominator for basic earnings per share—Weighted-average shares outstanding	307,230	318,082	311,360	313,417
Effect of dilutive securities:				
RSUs	293	333	341	452
PSUs	—	—	—	—
Stock options	437	987	503	1,082
Denominator for diluted earnings per share—Adjusted weighted-average shares outstanding	307,960	319,402	312,204	314,951
Basic earnings per share from continuing operations	$ 0.49	$ 0.42	$ 1.29	$ 1.42
Diluted earnings per share from continuing operations [1]	$ 0.49	$ 0.42	$ 1.29	$ 1.41

(1) Diluted earnings per share from continuing operations was computed using the treasury stock method for dilutive securities.

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 and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Antidilutive securities:				
RSUs	942	375	700	317
Stock options	31	—	32	—

Note 9. Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended September 30, 2019				
	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized (Loss) Gain on Pension Plans	Other Comprehensive (Loss) Income from Unconsolidated Subsidiaries	Accumulated Other Comprehensive (Loss) Income
Beginning balance	$ (181,890)	$ 5,987	$ (7,856)	$ (4,794)	$ (188,553)
Pretax (loss) income	(69,440)	28,594	(3,087)	—	(43,933)
Income tax effect	—	(6,739)	782	—	(5,957)
Reclassification of unrealized (gain) loss	—	(30,256)	(61)	—	(30,317)
Reclassification of deferred income taxes	—	7,140	13	—	7,153
Disposal of business	(379)	—	—	—	(379)
Other comprehensive income from unconsolidated subsidiaries	—	—	—	1,240	1,240
Ending balance	$ (251,709)	$ 4,726	$ (10,209)	$ (3,554)	$ (260,746)

	Three Months Ended September 30, 2018				
	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized (Loss) Gain on Pension Plans	Other Comprehensive Income from Unconsolidated Subsidiaries	Accumulated Other Comprehensive (Loss) Income
Beginning balance	$ (125,753)	$ 19,684	$ (10,200)	$ 208	$ (116,061)
Pretax (loss) income	(23,405)	7,681	1,217	—	(14,507)
Income tax effect	2,454	(1,796)	41	—	699
Reclassification of unrealized (gain) loss	—	(7,284)	21	—	(7,263)
Reclassification of deferred income taxes	—	1,703	(5)	—	1,698
Other comprehensive income from unconsolidated subsidiaries	—	—	—	643	643
Ending balance	$ (146,704)	$ 19,988	$ (8,926)	$ 851	$ (134,791)

	Nine Months Ended September 30, 2019				
	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized (Loss) Gain on Pension Plans	Other Comprehensive (Loss) Income from Unconsolidated Subsidiaries	Accumulated Other Comprehensive (Loss) Income
Beginning balance	$ (177,597)	$ 14,374	$ (8,075)	$ (3,652)	$ (174,950)
Pretax (loss) income	(73,733)	34,769	(3,087)	—	(42,051)
Income tax effect	—	(8,163)	782	—	(7,381)
Reclassification of unrealized (gain) loss	—	(47,431)	229	—	(47,202)
Reclassification of deferred income taxes	—	11,177	(58)	—	11,119
Disposal of business	(379)	—	—	—	(379)
Other comprehensive income from unconsolidated subsidiaries	—	—	—	98	98
Ending balance	$ (251,709)	$ 4,726	$ (10,209)	$ (3,554)	$ (260,746)

	Nine Months Ended September 30, 2018				
	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized (Loss) Gain on Pension Plans	Other Comprehensive (Loss) Income from Unconsolidated Subsidiaries	Accumulated Other Comprehensive (Loss) Income
Beginning balance	$ (71,933)	$ 11,538	$ (8,772)	$ (1,309)	$ (70,476)
Pretax (loss) income	(82,137)	33,901	(102)	—	(48,338)
Income tax effect	4,507	(7,926)	(125)	—	(3,544)
Reclassification of unrealized (gain) loss	—	(26,117)	97	—	(26,020)
Reclassification of deferred income taxes	—	6,106	(24)	—	6,082
Other comprehensive income from unconsolidated subsidiaries	—	—	—	2,160	2,160
Adoption of ASU 2018-02	2,859	2,486	—	—	5,345
Ending balance	$ (146,704)	$ 19,988	$ (8,926)	$ 851	$ (134,791)

The amounts of unrealized gains and losses on our Cash Flow Hedges reclassified to our Unaudited Condensed Consolidated Statements of Income are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Unrealized gains on interest rate swaps (1) (2)	$ 1,863	$ 2,139	$ 6,805	$ 4,748
Unrealized gains on foreign currency forwards (2) (3)	3,667	2,131	10,829	6,287
Unrealized gains on cross currency swaps (4)	24,726	3,014	29,797	15,082
Total	$ 30,256	$ 7,284	$ 47,431	$ 26,117

(1) Inclusive of our interest rate swap agreements and the interest rate swap component of our cross currency swaps.

(2) Amounts reclassified to Interest expense, net of interest income in our Unaudited Condensed Consolidated Statements of Income.

(3) Related to the foreign currency forward component of our cross currency swaps.

(4) Amounts reclassified to Other income, net in our Unaudited Condensed Consolidated Statements of Income. These gains and losses offset the impact of the remeasurement of the underlying contracts.

Net unrealized losses related to our pension plans were reclassified to Other income, net in our Unaudited Condensed Consolidated Statements of Income during each of the nine months ended September 30, 2019 and 2018. Our policy is to reclassify the income tax effect from Accumulated other comprehensive income (loss) to the Provision for income taxes when the related gains and losses are released to the Unaudited Condensed Consolidated Statements of Income.

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

Note 10. Long-Term Obligations

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

	September 30, 2019	December 31, 2018
Senior secured credit agreement:		
Term loans payable	$ 343,438	$ 350,000
Revolving credit facilities	1,145,781	1,387,177
U.S. Notes (2023)	600,000	600,000
Euro Notes (2024)	544,950	573,350
Euro Notes (2026/28)	1,089,900	1,146,700
Receivables securitization facility	—	110,000
Notes payable through October 2030 at weighted average interest rates of 2.9% and 2.0%, respectively	34,325	23,056
Finance lease obligations	39,113	39,966
Other debt at weighted average interest rates of 1.9% and 1.8%, respectively	99,215	117,448
Total debt	3,896,722	4,347,697
Less: long-term debt issuance costs	(31,184)	(36,906)
Less: current debt issuance costs	(283)	(291)
Total debt, net of debt issuance costs	3,865,255	4,310,500
Less: current maturities, net of debt issuance costs	(128,143)	(121,826)
Long term debt, net of debt issuance costs	$ 3,737,112	$ 4,188,674

Senior Secured Credit Agreement

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

Amounts under the revolving credit facility are due and payable upon maturity of the Credit Agreement on January 29, 2024. Term loan borrowings, which totaled $343 million as of September 30, 2019, are due and payable in quarterly installments equal to $2 million on the last day of each of the first four fiscal quarters ending on or after March 31, 2019 and approximately $4 million on the last day of each fiscal quarter thereafter, with the remaining balance due and payable on January 29, 2024.

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

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

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

Borrowings under the Credit Agreement bear interest at variable rates, which depend on the currency and duration of the borrowing elected, plus an applicable margin. The applicable margin is subject to change in increments of 0.25% depending on our net leverage ratio. Interest payments are due on the last day of the selected interest period or quarterly in arrears depending on the type of borrowing. Including the effect of the interest rate swap agreements described in Note 11, "Derivative Instruments and Hedging Activities," the weighted average interest rates on borrowings outstanding under the Credit Agreement at September 30, 2019 and December 31, 2018 were 1.6% and 1.9%, respectively. We also pay a commitment fee based on the average daily unused amount of the revolving credit facilities. The commitment fee is subject to change in increments of 0.05% depending on our net leverage ratio. In addition, we pay a participation commission on outstanding letters of credit at an applicable rate based on our net leverage ratio, and a fronting fee of 0.125% to the issuing bank, which are due quarterly in arrears.

Of the total borrowings outstanding under the Credit Agreement, there were $15 million classified as current maturities at September 30, 2019 compared to $9 million at December 31, 2018. As of September 30, 2019, there were letters of credit outstanding in the aggregate amount of $69 million. The amounts available under the revolving credit facilities are reduced by the amounts outstanding under letters of credit, and thus availability under the revolving credit facilities at September 30, 2019 was $1.9 billion.

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

U.S. Notes (2023)

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

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

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

The U.S. Notes (2023) are redeemable, in whole or in part, at any time on or after May 15, 2018 at the respective redemption prices specified in the U.S. Notes (2023) Indenture, plus accrued and unpaid interest, if any. We may be required to make an offer to purchase the U.S. Notes (2023) upon the sale of certain assets, subject to certain exceptions, and upon a change of control.

Euro Notes (2024)

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

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

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

The Euro Notes (2024) are redeemable, in whole or in part, at any time at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date plus a "make whole" premium. On or after January 1, 2024, we may redeem some or all of the Euro Notes (2024) at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. We may be required to make an offer to purchase the Euro Notes (2024) upon the sale of certain assets, subject to certain exceptions, and upon a change of control. In addition, in the event of certain developments affecting taxation or under certain other circumstances which, in any case, require the payment of certain additional amounts, we may redeem the Euro Notes (2024) in whole, but not in part, at any time at a redemption price of 100% of the principal amount thereof plus accrued but unpaid interest, if any, and such certain additional amounts, if any, to the redemption date.

Euro Notes (2026/28)

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

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

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

The Euro Notes (2026/28) are redeemable, in whole or in part, at any time at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date plus a "make whole" premium. On or after April 1, 2021, we may redeem some or all of the 2026 notes at the applicable redemption prices set forth in the Euro Notes (2026/28) Indenture. On or after April 1, 2023, we may redeem some or all of the 2028 notes at the applicable redemption prices set forth in the Euro Notes (2026/28) Indenture. We also may redeem up to 35% of 2026 notes and up to 35% of the 2028 notes before April 1, 2021 with the net cash proceeds from certain equity offerings. We may be required to make an offer to purchase the Euro Notes (2026/28) upon the sale of certain assets, subject to certain exceptions, and upon a change of control. In addition, in the event of certain developments affecting taxation or under certain other circumstances which, in any case, require the payment of certain additional amounts, we may redeem the Euro Notes (2026/28) in whole, but not in part, at any time at a redemption price of 100% of the principal amount thereof, plus accrued but unpaid interest, if any, and such certain additional amounts, if any, to the redemption date.

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

Receivables Securitization Facility

On December 20, 2018, we amended the terms of our receivables securitization facility with MUFG Bank, Ltd. ("MUFG") (formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd.) to: (i) extend the term of the facility to November 8, 2021; (ii) increase the maximum amount available to $110 million; and (iii) make other clarifying and updating changes. Under the facility, LKQ sells an ownership interest in certain receivables, related collections and security interests to MUFG for the benefit of conduit investors and/or financial institutions for cash proceeds. Upon payment of the receivables by customers, rather than remitting to MUFG the amounts collected, LKQ retains such collections as proceeds for the sale of new receivables generated by certain of the ongoing operations of the Company.

The sale of the ownership interest in the receivables is accounted for as a secured borrowing on our Unaudited Condensed Consolidated Balance Sheets, under which the receivables included in the program collateralize the amounts invested by MUFG, the conduit investors and/or financial institutions (the "Purchasers"). The receivables are held by LKQ Receivables Finance Company, LLC ("LRFC"), a wholly owned bankruptcy-remote special purpose subsidiary of LKQ, and therefore, the receivables are available first to satisfy the creditors of LRFC, including the Purchasers. While there were no borrowings on our receivables securitization facility as of September 30, 2019, $120 million of net receivables were available as collateral for the investment under the receivables facility, compared to $132 million as of December 31, 2018.

Under the receivables facility, we pay variable interest rates plus a margin on the outstanding amounts invested by the Purchasers. The variable rates are based on (i) commercial paper rates, (ii) London Interbank Offered Rate ("LIBOR"), or (iii) base rates, and are payable monthly in arrears. The commercial paper rate is the applicable variable rate unless conduit investors are not available to invest in the receivables at commercial paper rates. In such case, financial institutions will invest at the LIBOR rate or at base rates. We also pay a commitment fee on the excess of the investment maximum over the average daily outstanding investment, payable monthly in arrears. The outstanding balance was $110 million as of December 31, 2018 and there was no outstanding balance as of September 30, 2019. At December 31, 2018, we classified the outstanding balance 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 11. Derivative Instruments and Hedging Activities

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

Cash Flow Hedges

We hold interest rate swap agreements to hedge a portion of the variable interest rate risk on our variable rate borrowings under our Credit Agreement, with the objective of minimizing the impact of interest rate fluctuations and stabilizing cash flows. Under the terms of the interest rate swap agreements, we pay the fixed interest rate and receive payment at a variable rate of interest based on LIBOR for the respective currency of each interest rate swap agreement’s notional amount. Changes in the fair value of the interest rate swap agreements are recorded in Accumulated Other Comprehensive Income (Loss) and are reclassified to Interest expense, net of interest income when the underlying interest payment has an impact on earnings. Our interest rate swap contracts have maturity dates ranging from January to June 2021.

From time to time, we may hold foreign currency forward contracts related to certain foreign currency denominated intercompany transactions, with the objective of minimizing the impact of fluctuating exchange rates on these future cash flows. Under the terms of the foreign currency forward contracts, we will sell the foreign currency in exchange for U.S. dollars at a fixed rate on the maturity dates of the contracts. Changes in the fair value of the foreign currency forward contracts are recorded in Accumulated Other Comprehensive Income (Loss) and reclassified to Other income, net when the underlying transaction has an impact on earnings.

In 2016, we entered into three cross currency swap agreements for a total notional amount of $422 million (€400 million). The notional amount steps down by €15 million annually through 2020 with the remainder maturing in January 2021. These cross currency swaps contain an interest rate swap component and a foreign currency forward contract component that, combined with related intercompany financing arrangements, effectively convert variable rate U.S. dollar-denominated borrowings into fixed rate euro-denominated borrowings. The swaps are intended to minimize the impact of fluctuating exchange rates and interest rates on the cash flows resulting from the related intercompany financing arrangements. The changes in the fair value of the derivative instruments are recorded in Accumulated Other Comprehensive Income (Loss) and are reclassified to Interest expense, net of interest income when the underlying transactions have an impact on earnings.

In October 2018, we entered into two cross currency swap agreements for a total notional amount of $184 million (€160 million). Half of the notional amount matured in October 2019 with the remainder in October 2020. The purpose of, and accounting for, the swaps are similar to those described in the previous paragraph.

The activity related to our cash flow hedges is presented in operating activities in our Unaudited Condensed Consolidated Statements of Cash Flows.

The following tables summarize the notional amounts and fair values of our designated cash flow hedges as of September 30, 2019 and December 31, 2018 (in thousands):

	Notional Amount	Fair Value at September 30, 2019 (USD)			
	September 30, 2019	**Other Current Assets**	**Other Noncurrent Assets**	**Other Accrued Expenses**	**Other Noncurrent Liabilities**
Interest rate swap agreements					
USD denominated	$ 480,000	$ —	$ 3,634	$ —	$ —
Cross currency swap agreements					
USD/euro	$ 562,418	4,678	5,766	53	14,544
Total cash flow hedges		$ 4,678	$ 9,400	$ 53	$ 14,544

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

While certain derivative instruments executed with the same counterparty are subject to master netting arrangements, we present our cash flow hedge derivative instruments on a gross basis on our Unaudited Condensed Consolidated Balance Sheets. The impact of netting the fair values of these contracts would result in a decrease to Other Noncurrent Assets and Other Noncurrent Liabilities on our Unaudited Condensed Consolidated Balance Sheets of $6 million and $14 million at September 30, 2019 and December 31, 2018, respectively.

The activity related to our cash flow hedges is included in Note 9, "Accumulated Other Comprehensive Income (Loss)." As of September 30, 2019, we estimate that $2 million of derivative gains (net of tax) included in Accumulated Other Comprehensive Income (Loss) will be reclassified into our Unaudited Condensed Consolidated Statements of Income within the next 12 months.

Other Derivative Instruments

We hold other short-term derivative instruments, including foreign currency forward contracts, to manage our exposure to variability related to inventory purchases denominated in a non-functional currency. We have elected not to apply hedge accounting for these transactions, and therefore the contracts are adjusted to fair value through our results of operations as of each balance sheet date, which could result in volatility in our earnings. The notional amount and fair value of these contracts at September 30, 2019 and December 31, 2018, along with the effect on our results of operations during the three and nine months ended September 30, 2019 and 2018, were immaterial.

Note 12. Fair Value Measurements

Financial Assets and Liabilities Measured at Fair Value

We use the market and income approaches to estimate the fair value of our financial assets and liabilities, and during the three and nine months ended September 30, 2019, there were no significant changes in valuation techniques or inputs related to the financial assets or liabilities that we have historically recorded at fair value. The tiers in the fair value hierarchy include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as significant unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following tables present information about our financial assets and liabilities measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation inputs we utilized to determine such fair value as of September 30, 2019 and December 31, 2018 (in thousands):

	Balance as of September 30, 2019	Fair Value Measurements as of September 30, 2019		
		Level 1	Level 2	Level 3
Assets:				
Cash surrender value of life insurance	$ 56,278	$ —	$ 56,278	$ —
Interest rate swaps	3,634	—	3,634	—
Cross currency swap agreements	10,444	—	10,444	—
Total Assets	$ 70,356	$ —	$ 70,356	$ —
Liabilities:				
Contingent consideration liabilities	$ 9,873	$ —	$ —	$ 9,873
Deferred compensation liabilities	59,846	—	59,846	—
Cross currency swap agreements	14,597	—	14,597	—
Total Liabilities	$ 84,316	$ —	$ 74,443	$ 9,873

	Balance as of December 31, 2018	Fair Value Measurements as of December 31, 2018		
		Level 1	Level 2	Level 3
Assets:				
Cash surrender value of life insurance	$ 47,649	$ —	$ 47,649	$ —
Interest rate swaps	14,967	—	14,967	—
Cross currency swap agreements	7,880	—	7,880	—
Total Assets	$ 70,496	$ —	$ 70,496	$ —
Liabilities:				
Contingent consideration liabilities	$ 5,209	$ —	$ —	$ 5,209
Deferred compensation liabilities	48,984	—	48,984	—
Cross currency swap agreements	40,997	—	40,997	—
Total Liabilities	$ 95,190	$ —	$ 89,981	$ 5,209

The cash surrender value of life insurance is included in Other noncurrent assets on our Unaudited Condensed Consolidated Balance Sheets. The current portion of deferred compensation is included in Accrued payroll-related liabilities and the current portion of contingent consideration liabilities is included in Other current liabilities on our Unaudited Condensed Consolidated Balance Sheets; the noncurrent portion of these amounts is included in 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 cross currency swap agreements is presented in Note 11, "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 other 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. 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.

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 both September 30, 2019 and December 31, 2018, the fair value of our credit agreement borrowings reasonably approximated the carrying values of $1.5 billion and $1.7 billion, respectively. In addition, based on market conditions, the fair value of the outstanding borrowings under the receivables facility reasonably approximated the carrying value of $110 million at December 31, 2018; as of September 30, 2019, there were no outstanding borrowings under the receivables facility. As of September 30, 2019 and December 31, 2018, the fair values of the U.S. Notes (2023) were approximately $609 million and $574 million, respectively, compared to a carrying value of $600 million at each date. As of September 30, 2019 and December 31, 2018, the fair values of the Euro Notes (2024) were approximately $618 million and $586 million compared to carrying values of $545 million and $573 million, respectively. As of September 30, 2019, the fair value of the Euro Notes (2026/28) was $1.2 billion compared to a carrying value of $1.1 billion; as of December 31, 2018, the fair value of the Euro Notes (2026/28) approximated the carrying value of $1.1 billion.

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 at September 30, 2019 to assume these obligations. The fair value of our U.S. Notes (2023) is classified as Level 1 within the fair value hierarchy since it is determined based upon observable market inputs including quoted market prices in an active market. The fair values of our Euro Notes (2024) and Euro Notes (2026/28) are determined based upon observable market inputs including quoted market prices in markets that are not active, and therefore are classified as Level 2 within the fair value hierarchy.

Note 13. Leases

We lease certain warehouses, distribution centers, retail stores, office space, land, vehicles and equipment.

We determine if an arrangement is a lease at inception. Operating lease right-of-use ("ROU") assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. As the implicit rate for most of our leases is not readily determinable, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Upon adoption of the new lease standard, we utilized the incremental borrowing rate as of the date of adoption. We determine our incremental borrowing rate by analyzing yield curves with consideration of lease term, and country and company specific factors. The operating lease ROU asset also includes any lease prepayments and excludes lease incentives.

Many of our leases include one or more options to renew, with renewal terms that can extend the lease term from 1 to 40 years or more. For each lease, we consider whether we are reasonably certain to exercise these options to extend. Other contracts may contain termination options which we assess to determine whether we are reasonably certain not to exercise those options. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Some of our lease agreements include rental payments adjusted periodically for inflation. Most of these adjustments are considered variable lease costs. Other variable lease costs consist of certain non-lease components that are disclosed as lease costs due to our election of the practical expedient to combine lease and non-lease components and include items such as variable payments for utilities, property taxes, common area maintenance, sales taxes, and insurance.

For leases with an initial term of 12 months or less, we have not recognized an operating lease ROU asset or operating lease liability on the Unaudited Condensed Consolidated Balance Sheets; we recognize lease expense for these leases on a straight-line basis over the lease terms.

We guarantee the residual values for the majority of our vehicles. The residual values decline over the lease terms to a defined percentage of original cost. In the event the lessor does not realize the residual value when a vehicle is sold, we would be responsible for a portion of the shortfall. Similarly, if the lessor realizes more than the residual value when a vehicle is sold, we would be paid the amount realized over the residual value. Had we terminated all of our operating leases subject to these guarantees at September 30, 2019, our portion of the guaranteed residual value would have totaled approximately $71 million.

Other than the residual value guarantees associated with our vehicles discussed above, we do not have any other material residual value guarantees or restrictive covenants.

The amounts recorded on the Unaudited Condensed Consolidated Balance Sheet as of September 30, 2019 related to our lease agreements are as follows (in thousands):

Leases	Classification		September 30, 2019
Assets			
Operating lease assets, net	Operating lease assets, net	$	1,303,260
Finance lease assets, net	Property, plant and equipment, net		39,504
Total leased assets		$	1,342,764
Liabilities			
Current			
Operating	Current portion of operating lease liabilities	$	225,572
Finance	Current portion of long-term obligations		10,361
Noncurrent			
Operating	Long-term operating lease liabilities		1,129,423
Finance	Long-term obligations, excluding current portion		28,752
Total lease liabilities		$	1,394,108

The components of lease expense are as follows (in thousands):

Lease Cost	Classification		Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019
Operating lease cost	Cost of goods sold	$	7,265	$	16,977
Operating lease cost	Selling, general and administrative expenses		75,371		225,794
Short-term lease cost	Selling, general and administrative expenses		3,006		7,472
Variable lease cost	Selling, general and administrative expenses		20,521		71,711
Finance lease cost					
Amortization of leased assets	Depreciation and amortization		2,675		7,897
Interest on lease liabilities	Interest expense, net of interest income		413		1,266
Sublease income	Other income, net		(782)		(1,208)
Net lease cost		$	108,469	$	329,909

The future minimum lease commitments under our noncancelable operating leases at December 31, 2018 were as follows (in thousands):

Years ending December 31:		
2019	$	294,269
2020		256,172
2021		210,632
2022		158,763
2023		131,518
Thereafter		777,165
Future Minimum Lease Payments	$	1,828,519

The future minimum lease commitments under our leases at September 30, 2019 are as follows (in thousands):

	Operating leases	Finance leases (1)	Total
Three months ending December 31, 2019	$ 76,438	$ 2,904	$ 79,342
Years ending December 31:			
2020	283,138	10,528	293,666
2021	242,333	9,105	251,438
2022	192,731	6,731	199,462
2023	160,862	2,940	163,802
2024	132,269	2,615	134,884
Thereafter	758,111	15,657	773,768
Future minimum lease payments	1,845,882	50,480	1,896,362
Less: Interest	490,887	11,367	502,254
Present value of lease liabilities	$ 1,354,995	$ 39,113	$ 1,394,108

(1) Amounts are included in the scheduled maturities of long-term obligations in the “Liquidity and Capital Resources” section of Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this Quarterly Report on Form 10-Q.

As of September 30, 2019, we have additional minimum operating lease payments for leases that have not yet commenced of $30 million. These operating leases will commence between October 1, 2019 and December 31, 2020 with lease terms of 1 to 20 years. Most of these leases have not commenced as the assets are in the process of being constructed. We have appropriately considered the build-to-suit and sale-leaseback guidance where appropriate on these leases. No significant build-to-suit or sale-leaseback transactions have been identified.

Other information related to leases was as follows:

Lease Term and Discount Rate	September 30, 2019
Weighted-average remaining lease term (years)	
Operating leases	9.6
Finance leases	8.6
Weighted-average discount rate	
Operating leases	5.4%
Finance leases	4.5%

Supplemental cash flows information (in thousands)	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash outflows from operating leases	$ 222,798
Financing cash outflows from finance leases	8,521
Leased assets obtained in exchange for new finance lease liabilities	9,639
Leased assets obtained in exchange for new operating lease liabilities	126,336

Note 14. Employee Benefit Plans

We have funded and unfunded defined benefit plans covering certain employee groups in the U.S. and various European countries. Local statutory requirements govern many of our European plans. The defined benefit plans are mostly closed to new participants and, in some cases, existing participants no longer accrue benefits. As of September 30, 2019 and December 31, 2018, the aggregate funded status of the defined benefit plans was a liability of $111 million and $110 million, respectively, and is reported in Other noncurrent liabilities and Accrued payroll-related liabilities on our Unaudited Condensed Consolidated Balance Sheets.

On June 28, 2019, we approved an amendment to terminate our primary defined benefit plan in the U.S. (the "U.S. Plan") and freeze all related benefit accruals, effective June 30, 2019. The distribution of the U.S. Plan assets pursuant to the termination will not be made until the plan termination satisfies all regulatory requirements, which is expected to be completed in 2020. U.S. Plan participants will receive their full accrued benefits from plan assets by electing either lump sum distributions or annuity contracts with a qualifying third-party annuity provider. The resulting settlement effect of the U.S. Plan termination will be determined based on prevailing market conditions, the lump sum offer participation rate of eligible participants, the actual lump sum distributions, and annuity purchase rates at the date of distribution. As a result, we are currently unable to reasonably estimate either the timing or the final amount of such settlement charges. Based on the valuation performed as of June 28, 2019, the U.S. Plan has an underfunded status of $3 million.

Net periodic benefit cost for our defined benefit plans included the following components for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Service cost	$ 551	$ 628	$ 2,212	$ 1,612
Interest cost	959	996	2,954	2,442
Expected return on plan assets	(455)	(720)	(1,795)	(2,220)
Amortization of actuarial (gain) loss	(61)	21	229	97
Net periodic benefit cost	$ 994	$ 925	$ 3,600	$ 1,931

For the three and nine months ended September 30, 2019 and 2018, the service cost component of net periodic benefit cost was classified in Selling, general and administrative expenses, while the other components of net periodic benefit cost were classified in Other income, net in our Unaudited Condensed Consolidated Statements of Income.

Note 15. 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 nine months ended September 30, 2019 was 27.5%, compared to 25.2% for the comparable prior year period. The increase was primarily attributable to the impact of a favorable discrete item of $10 million for the nine months ended September 30, 2018, reflecting an adjustment to the Tax Act transition tax. The increase was also partially attributable to the impact of a favorable discrete item of approximately $4 million for the nine months ended September 30, 2018, for excess tax benefits from stock-based payments; there were $1 million of excess tax benefits from stock-based payments for the nine months ended September 30, 2019. The year over year change for these discrete items increased the effective tax rate by 2.1% compared to the prior year period, while remaining discrete items increased the effective tax rate by an immaterial amount compared to the prior year period.

Note 16. Segment and Geographic Information

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. Our reportable segments are organized based on a combination of geographic areas served and type of product lines offered. The reportable segments are managed separately as each business serves different customers (i.e. geographic in the case of North America and Europe and product type in the case of Specialty) and is affected by different economic conditions. Therefore, we present three reportable segments: North America, Europe and Specialty.

The following tables present our financial performance by reportable segment for the periods indicated (in thousands):

	North America		Europe		Specialty		Eliminations		Consolidated	
Three Months Ended September 30, 2019										
Revenue:										
Third Party	$	1,302,086	$	1,451,483	$	394,204	$	—	$	3,147,773
Intersegment		61		—		1,110		(1,171)		—
Total segment revenue	$	1,302,147	$	1,451,483	$	395,314	$	(1,171)	$	3,147,773
Segment EBITDA	$	166,310	$	124,712	$	45,464	$	—	$	336,486
Depreciation and amortization (1)		23,593		47,302		6,983		—		77,878
Three Months Ended September 30, 2018										
Revenue:										
Third Party	$	1,262,657	$	1,470,856	$	388,865	$	—	$	3,122,378
Intersegment		142		—		1,196		(1,338)		—
Total segment revenue	$	1,262,799	$	1,470,856	$	390,061	$	(1,338)	$	3,122,378
Segment EBITDA	$	154,049	$	129,358	$	42,937	$	—	$	326,344
Depreciation and amortization (1)		22,151		52,139		7,183		—		81,473

	North America		Europe		Specialty		Eliminations		Consolidated	
Nine Months Ended September 30, 2019										
Revenue:										
Third Party	$	3,925,962	$	4,413,264	$	1,157,023	$	—	$	9,496,249
Intersegment		260		—		3,664		(3,924)		—
Total segment revenue	$	3,926,222	$	4,413,264	$	1,160,687	$	(3,924)	$	9,496,249
Segment EBITDA	$	532,994	$	346,291	$	135,790	$	—	$	1,015,075
Depreciation and amortization (1)		68,257		141,087		20,895		—		230,239
Nine Months Ended September 30, 2018										
Revenue:										
Third Party	$	3,927,282	$	3,795,439	$	1,151,172	$	—	$	8,873,893
Intersegment		526		—		3,554		(4,080)		—
Total segment revenue	$	3,927,808	$	3,795,439	$	1,154,726	$	(4,080)	$	8,873,893
Segment EBITDA	$	506,772	$	315,785	$	140,974	$	—	$	963,531
Depreciation and amortization (1)		64,985		124,697		21,295		—		210,977

(1) Amounts presented include depreciation and amortization expense recorded within cost of goods sold.

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 (which includes restructuring expenses recorded in Cost of goods sold), 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 charges. EBITDA, which is the basis for Segment EBITDA, is calculated as net income, less net income (loss) attributable to continuing and discontinued noncontrolling interest, excluding discontinued operations and discontinued noncontrolling interest, depreciation, amortization, interest (which includes gains and losses on debt extinguishment) and income tax expense.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 152,593	$ 134,480	$ 403,761	$ 445,109
Less: net (loss) income attributable to continuing noncontrolling interest	(46)	378	2,321	1,040
Less: net income attributable to discontinued noncontrolling interest	376	—	568	—
Net income attributable to LKQ stockholders	152,263	134,102	400,872	444,069
Subtract:				
Net income from discontinued operations	781	—	1,179	—
Net income attributable to discontinued noncontrolling interest	(376)	—	(568)	—
Net income from continuing operations attributable to LKQ stockholders	151,858	134,102	400,261	444,069
Add:				
Depreciation and amortization	71,513	76,701	213,349	196,322
Depreciation and amortization - cost of goods sold	5,223	4,772	15,748	14,655
Depreciation and amortization - restructuring expenses - cost of goods sold	168	—	168	—
Depreciation and amortization - restructuring expenses	974	—	974	—
Interest expense, net of interest income	31,976	40,860	103,949	107,647
Provision for income taxes	57,747	46,068	165,122	156,427
EBITDA	319,459	302,503	899,571	919,120
Subtract:				
Equity in earnings (losses) of unconsolidated subsidiaries (1)	4,232	(20,284)	(33,745)	(18,326)
Fair value gain on Mekonomen derivative instrument (1)	—	2,509	—	2,509
Gains on bargain purchase	—	—	—	328
Add:				
Restructuring and acquisition related expenses (2)	7,955	6,614	19,639	26,546
Restructuring expenses - cost of goods sold (3)	17,130	—	17,130	—
Inventory step-up adjustment - acquisition related	—	—	—	403
Impairment of net assets held for sale (4) (5)	(3,601)	—	44,919	2,438
Change in fair value of contingent consideration liabilities	(225)	(548)	71	(465)
Segment EBITDA	$ 336,486	$ 326,344	$ 1,015,075	$ 963,531

(1) Refer to "Investments in Unconsolidated Subsidiaries" in Note 4, "Financial Statement Information," for further information.

(2) Excludes $1 million of depreciation expense that is reported in Restructuring and acquisition related expenses in our Unaudited Condensed Consolidated Statements of Income. Refer to Note 6, "Restructuring and Acquisition Related Expenses," for further information.

(3) Refer to Note 6, "Restructuring and Acquisition Related Expenses," for further information.

(4) Refer to "Net Assets Held for Sale" in Note 4, "Financial Statement Information," for further information.

(5) In 2018, amounts were recorded in Other income, net in our Unaudited Condensed Consolidated Statements of Income.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Capital Expenditures				
North America	$ 29,430	$ 27,996	$ 83,833	$ 86,864
Europe	30,916	23,904	72,333	69,582
Specialty	3,937	4,442	9,385	15,317
Total capital expenditures	$ 64,283	$ 56,342	$ 165,551	$ 171,763

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

	September 30, 2019	December 31, 2018
Receivables, net		
North America	$ 405,218	$ 411,818
Europe	705,031	649,174
Specialty	112,948	93,091
Total receivables, net	1,223,197	1,154,083
Inventories		
North America	975,561	1,076,306
Europe	1,274,483	1,410,264
Specialty	332,144	349,505
Total inventories	2,582,188	2,836,075
Property, plant and equipment, net		
North America	582,157	570,508
Europe	516,106	562,600
Specialty	85,925	87,054
Total property, plant and equipment, net	1,184,188	1,220,162
Operating lease assets, net (1)		
North America	813,412	—
Europe	404,444	—
Specialty	85,404	—
Total operating lease assets, net	1,303,260	—
Equity method investments		
North America	17,275	16,404
Europe (2)	126,734	162,765
Total equity method investments	144,009	179,169
Other unallocated assets	5,974,848	6,003,913
Total assets	$ 12,411,690	$ 11,393,402

(1) Refer to Note 13, "Leases," for further information.

(2) Refer to "Investments in Unconsolidated Subsidiaries" in Note 4, "Financial Statement Information," for further information.

We report net receivables; inventories; net property, plant and equipment; net operating lease assets; and equity method investments 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 and cash equivalents, prepaid and other current and noncurrent assets, goodwill and other intangibles.

Our largest countries of operation are the U.S., followed by the U.K. and Germany. Additional European operations are located in the Netherlands, Italy, Czech Republic, Belgium, Poland, Slovakia, Austria, and other European countries. Our operations in other countries include operations in Canada, engine remanufacturing and bumper refurbishing operations in Mexico, an aftermarket parts freight consolidation warehouse in Taiwan, and administrative support functions in India. 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue				
United States	$ 1,579,691	$ 1,535,557	$ 4,735,134	$ 4,716,927
United Kingdom	394,621	408,474	1,217,199	1,294,155
Germany	394,115	415,748	1,196,527	564,698
Other countries	779,346	762,599	2,347,389	2,298,113
Total revenue	$ 3,147,773	$ 3,122,378	$ 9,496,249	$ 8,873,893

The following table sets forth our tangible long-lived assets by geographic area (in thousands):

	September 30, 2019	December 31, 2018
Long-lived assets (1)		
United States	$ 1,485,843	$ 620,125
Germany	295,570	217,476
United Kingdom	306,611	165,145
Other countries	399,424	217,416
Total long-lived assets	$ 2,487,448	$ 1,220,162

(1) The increase in long-lived assets is primarily related to the net operating lease assets added as a result of the adoption of the new lease accounting standard. Refer to Note 13, "Leases," for further information.

Note 17. Condensed Consolidating Financial Information

LKQ Corporation (the "Parent") issued, and the Guarantors have fully and unconditionally guaranteed, jointly and severally, the U.S. Notes (2023) due on May 15, 2023. A Guarantor's guarantee will be unconditionally and automatically released and discharged upon the occurrence of any of the following events: (i) a transfer (including as a result of consolidation or merger) by the Guarantor to any person that is not a Guarantor of all or substantially all assets and properties of such Guarantor, provided the Guarantor is also released from its obligations with respect to indebtedness under the Credit Agreement or other indebtedness of ours, which obligation gave rise to the guarantee of the U.S. Notes (2023); (ii) a transfer (including as a result of consolidation or merger) to any person that is not a Guarantor of the equity interests of a Guarantor or issuance by a Guarantor of its equity interests such that the Guarantor ceases to be a subsidiary, as defined in the U.S. Notes (2023) Indenture, provided the Guarantor is also released from its obligations with respect to indebtedness under the Credit Agreement or other indebtedness of ours, which obligation gave rise to the guarantee of the U.S. Notes (2023); (iii) the release of the Guarantor from its obligations with respect to indebtedness under the Credit Agreement or other indebtedness of ours, which obligation gave rise to the guarantee of the U.S. Notes (2023); and (iv) upon legal defeasance, covenant defeasance or satisfaction and discharge of the U.S. Notes (2023) Indenture, as defined in the U.S. Notes (2023) Indenture.

Presented below are the unaudited condensed consolidating financial statements of the Parent, the Guarantors, the non-guarantor subsidiaries (the "Non-Guarantors"), and the elimination entries necessary to present our financial statements on a consolidated basis as required by Rule 3-10 of Regulation S-X of the Securities Exchange Act of 1934 resulting from the guarantees of the U.S. Notes (2023). Investments in consolidated subsidiaries have been presented under the equity method of accounting. The principal elimination entries eliminate investments in subsidiaries, intercompany balances, and intercompany revenue and expenses. The unaudited condensed consolidating financial statements below have been prepared from our financial information on the same basis of accounting as the unaudited condensed consolidated financial statements, and may not necessarily be indicative of the financial position, results of operations or cash flows had the Parent, Guarantors and Non-Guarantors operated as independent entities.

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Statements of Income
(In thousands)

	For the Three Months Ended September 30, 2019				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenue	$ —	$ 1,593,983	$ 1,593,245	$ (39,455)	$ 3,147,773
Cost of goods sold	—	954,366	1,032,533	(39,455)	1,947,444
Gross margin	—	639,617	560,712	—	1,200,329
Selling, general and administrative expenses	15,015	442,554	434,555	—	892,124
Restructuring and acquisition related expenses	—	426	8,503	—	8,929
Impairment of net assets held for sale	—	(2,339)	(1,262)	—	(3,601)
Depreciation and amortization	285	25,893	45,335	—	71,513
Operating (loss) income	(15,300)	173,083	73,581	—	231,364
Other expense (income):					
Interest expense, net of interest income	12,895	(166)	19,247	—	31,976
Intercompany interest (income) expense, net	(14,899)	7,923	6,976	—	—
Other income, net	(929)	(4,645)	(365)	—	(5,939)
Total other (income) expense, net	(2,933)	3,112	25,858	—	26,037
(Loss) income from continuing operations before (benefit) provision for income taxes	(12,367)	169,971	47,723	—	205,327
(Benefit) provision for income taxes	(2,268)	42,515	17,500	—	57,747
Equity in earnings of unconsolidated subsidiaries	—	393	3,839	—	4,232
Equity in earnings of subsidiaries	161,581	4,098	—	(165,679)	—
Income from continuing operations	151,482	131,947	34,062	(165,679)	151,812
Net income from discontinued operations	781	—	781	(781)	781
Net income	152,263	131,947	34,843	(166,460)	152,593
Less: net loss attributable to continuing noncontrolling interest	—	—	(46)	—	(46)
Less: net income attributable to discontinued noncontrolling interest	—	—	376	—	376
Net income attributable to LKQ stockholders	$ 152,263	$ 131,947	$ 34,513	$ (166,460)	$ 152,263

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Statements of Income
(In thousands)

	For the Three Months Ended September 30, 2018				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenue	$ —	$ 1,550,301	$ 1,609,525	$ (37,448)	$ 3,122,378
Cost of goods sold	—	934,913	1,027,715	(37,448)	1,925,180
Gross margin	—	615,388	581,810	—	1,197,198
Selling, general and administrative expenses	6,725	434,965	437,460	—	879,150
Restructuring and acquisition related expenses	—	1,638	4,976	—	6,614
Depreciation and amortization	34	25,238	51,429	—	76,701
Operating (loss) income	(6,759)	153,547	87,945	—	234,733
Other expense (income):					
Interest expense, net of interest income	16,191	(193)	24,862	—	40,860
Intercompany interest (income) expense, net	(15,121)	10,014	5,107	—	—
Other income, net	(178)	(3,514)	(3,267)	—	(6,959)
Total other expense, net	892	6,307	26,702	—	33,901
(Loss) income before (benefit) provision for income taxes	(7,651)	147,240	61,243	—	200,832
(Benefit) provision for income taxes	(12,008)	41,875	16,201	—	46,068
Equity in losses of unconsolidated subsidiaries	—	(156)	(20,128)	—	(20,284)
Equity in earnings of subsidiaries	129,745	4,467	—	(134,212)	—
Net income	134,102	109,676	24,914	(134,212)	134,480
Less: net income attributable to noncontrolling interest	—	—	378	—	378
Net income attributable to LKQ stockholders	$ 134,102	$ 109,676	$ 24,536	$ (134,212)	$ 134,102

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Statements of Income
(In thousands)

	For the Nine Months Ended September 30, 2019				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenue	$ —	$ 4,774,588	$ 4,836,439	$ (114,778)	$ 9,496,249
Cost of goods sold	—	2,850,011	3,105,236	(114,778)	5,840,469
Gross margin	—	1,924,577	1,731,203	—	3,655,780
Selling, general and administrative expenses	36,744	1,301,827	1,348,453	—	2,687,024
Restructuring and acquisition related expenses	—	5,063	15,550	—	20,613
Impairment of net assets held for sale	—	39,355	5,564	—	44,919
Depreciation and amortization	377	76,142	136,830	—	213,349
Operating (loss) income	(37,121)	502,190	224,806	—	689,875
Other expense (income):					
Interest expense, net of interest income	39,517	(285)	64,717	—	103,949
Intercompany interest (income) expense, net	(44,748)	25,583	19,165	—	—
Other (income) expense, net	(914)	(16,818)	2,209	—	(15,523)
Total other (income) expense, net	(6,145)	8,480	86,091	—	88,426
(Loss) income from continuing operations before (benefit) provision for income taxes	(30,976)	493,710	138,715	—	601,449
(Benefit) provision for income taxes	(7,306)	128,936	43,492	—	165,122
Equity in earnings (losses) of unconsolidated subsidiaries	—	871	(34,616)	—	(33,745)
Equity in earnings of subsidiaries	423,363	13,210	—	(436,573)	—
Income from continuing operations	399,693	378,855	60,607	(436,573)	402,582
Net income from discontinued operations	1,179	—	1,179	(1,179)	1,179
Net income	400,872	378,855	61,786	(437,752)	403,761
Less: net income attributable to continuing noncontrolling interest	—	—	2,321	—	2,321
Less: net income attributable to discontinued noncontrolling interest	—	—	568	—	568
Net income attributable to LKQ stockholders	$ 400,872	$ 378,855	$ 58,897	$ (437,752)	$ 400,872

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Statements of Income
(In thousands)

	For the Nine Months Ended September 30, 2018				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenue	$ —	$ 4,768,292	$ 4,216,417	$ (110,816)	$ 8,873,893
Cost of goods sold	—	2,869,499	2,702,162	(110,816)	5,460,845
Gross margin	—	1,898,793	1,514,255	—	3,413,048
Selling, general and administrative expenses	25,538	1,292,455	1,154,092	—	2,472,085
Restructuring and acquisition related expenses	—	1,968	24,578	—	26,546
Depreciation and amortization	84	74,102	122,136	—	196,322
Operating (loss) income	(25,622)	530,268	213,449	—	718,095
Other expense (income):					
Interest expense, net of interest income	52,004	(94)	55,737	—	107,647
Intercompany interest (income) expense, net	(45,927)	29,559	16,368	—	—
Other (income) expense, net	(1,076)	(13,793)	5,455	—	(9,414)
Total other expense, net	5,001	15,672	77,560	—	98,233
(Loss) income before (benefit) provision for income taxes	(30,623)	514,596	135,889	—	619,862
(Benefit) provision for income taxes	(19,656)	141,295	34,788	—	156,427
Equity in losses of unconsolidated subsidiaries	—	(156)	(18,170)	—	(18,326)
Equity in earnings of subsidiaries	455,036	14,028	—	(469,064)	—
Net income	444,069	387,173	82,931	(469,064)	445,109
Less: net income attributable to noncontrolling interest	—	—	1,040	—	1,040
Net income attributable to LKQ stockholders	$ 444,069	$ 387,173	$ 81,891	$ (469,064)	$ 444,069

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Statements of Comprehensive Income
(In thousands)

	For the Three Months Ended September 30, 2019				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net income	$ 152,263	$ 131,947	$ 34,843	$ (166,460)	$ 152,593
Less: net loss attributable to continuing noncontrolling interest	—	—	(46)	—	(46)
Less: net income attributable to discontinued noncontrolling interest	—	—	376	—	376
Net income attributable to LKQ stockholders	152,263	131,947	34,513	(166,460)	152,263
Other comprehensive (loss) income:					
Foreign currency translation, net of tax	(69,819)	(1,429)	(69,520)	70,949	(69,819)
Net change in unrealized gains/losses on cash flow hedges, net of tax	(1,261)	—	—	—	(1,261)
Net change in unrealized gains/losses on pension plans, net of tax	(2,353)	(2,385)	32	2,353	(2,353)
Net change in other comprehensive income from unconsolidated subsidiaries	1,240	—	1,240	(1,240)	1,240
Other comprehensive loss	(72,193)	(3,814)	(68,248)	72,062	(72,193)
Comprehensive income (loss)	80,070	128,133	(33,405)	(94,398)	80,400
Less: comprehensive loss attributable to continuing noncontrolling interest	—	—	(46)	—	(46)
Less: comprehensive income attributable to discontinued noncontrolling interest	—	—	376	—	376
Comprehensive income (loss) attributable to LKQ stockholders	$ 80,070	$ 128,133	$ (33,735)	$ (94,398)	$ 80,070

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Statements of Comprehensive Income
(In thousands)

	For the Three Months Ended September 30, 2018				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net income	$ 134,102	$ 109,676	$ 24,914	$ (134,212)	$ 134,480
Less: net income attributable to continuing noncontrolling interest	—	—	378	—	378
Net income attributable to LKQ stockholders	134,102	109,676	24,536	(134,212)	134,102
Other comprehensive (loss) income:					
Foreign currency translation, net of tax	(20,951)	1,686	(23,901)	22,215	(20,951)
Net change in unrealized gains/losses on cash flow hedges, net of tax	304	—	—	—	304
Net change in unrealized gains/losses on pension plans, net of tax	1,274	1,246	28	(1,274)	1,274
Net change in other comprehensive income from unconsolidated subsidiaries	643	—	643	(643)	643
Other comprehensive (loss) income	(18,730)	2,932	(23,230)	20,298	(18,730)
Comprehensive income	115,372	112,608	1,684	(113,914)	115,750
Less: comprehensive income attributable to continuing noncontrolling interest	—	—	378	—	378
Comprehensive income attributable to LKQ stockholders	$ 115,372	$ 112,608	$ 1,306	$ (113,914)	$ 115,372

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Statements of Comprehensive Income
(In thousands)

	For the Nine Months Ended September 30, 2019				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net income	$ 400,872	$ 378,855	$ 61,786	$ (437,752)	$ 403,761
Less: net income attributable to continuing noncontrolling interest	—	—	2,321	—	2,321
Less: net income attributable to discontinued noncontrolling interest	—	—	568	—	568
Net income attributable to LKQ stockholders	400,872	378,855	58,897	(437,752)	400,872
Other comprehensive (loss) income:					
Foreign currency translation, net of tax	(74,112)	3,107	(74,900)	71,793	(74,112)
Net change in unrealized gains/losses on cash flow hedges, net of tax	(9,648)	—	—	—	(9,648)
Net change in unrealized gains/losses on pension plans, net of tax	(2,134)	(2,399)	265	2,134	(2,134)
Net change in other comprehensive income from unconsolidated subsidiaries	98	—	98	(98)	98
Other comprehensive (loss) income	(85,796)	708	(74,537)	73,829	(85,796)
Comprehensive income (loss)	315,076	379,563	(12,751)	(363,923)	317,965
Less: comprehensive income attributable to continuing noncontrolling interest	—	—	2,321	—	2,321
Less: comprehensive income attributable to discontinued noncontrolling interest	—	—	568	—	568
Comprehensive income (loss) attributable to LKQ stockholders	$ 315,076	$ 379,563	$ (15,640)	$ (363,923)	$ 315,076

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Statements of Comprehensive Income
(In thousands)

	For the Nine Months Ended September 30, 2018				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net income	$ 444,069	$ 387,173	$ 82,931	$ (469,064)	$ 445,109
Less: net income attributable to continuing noncontrolling interest	—	—	1,040	—	1,040
Net income attributable to LKQ stockholders	444,069	387,173	81,891	(469,064)	444,069
Other comprehensive (loss) income:					
Foreign currency translation, net of tax	(77,630)	(2,800)	(81,456)	84,256	(77,630)
Net change in unrealized gains/losses on cash flow hedges, net of tax	5,964	—	—	—	5,964
Net change in unrealized gains/losses on pension plans, net of tax	(154)	(239)	85	154	(154)
Net change in other comprehensive income from unconsolidated subsidiaries	2,160	—	2,160	(2,160)	2,160
Other comprehensive loss	(69,660)	(3,039)	(79,211)	82,250	(69,660)
Comprehensive income	374,409	384,134	3,720	(386,814)	375,449
Less: comprehensive income attributable to continuing noncontrolling interest	—	—	1,040	—	1,040
Comprehensive income attributable to LKQ stockholders	$ 374,409	$ 384,134	$ 2,680	$ (386,814)	$ 374,409

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Balance Sheets
(In thousands)

	September 30, 2019				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 141,555	$ 31,533	$ 260,303	$ —	$ 433,391
Receivables, net	—	337,543	885,654	—	1,223,197
Intercompany receivables, net	9,473	—	27,939	(37,412)	—
Inventories	—	1,228,576	1,353,612	—	2,582,188
Prepaid expenses and other current assets	6,347	95,389	143,346	—	245,082
Total current assets	157,375	1,693,041	2,670,854	(37,412)	4,483,858
Property, plant and equipment, net	459	612,127	571,602	—	1,184,188
Operating lease assets, net	3,754	854,956	444,550	—	1,303,260
Intangible assets:					
Goodwill	—	2,001,356	2,308,466	—	4,309,822
Other intangibles, net	629	254,255	582,388	—	837,272
Investment in subsidiaries	5,250,321	127,820	—	(5,378,141)	—
Intercompany notes receivable	1,118,688	108,071	—	(1,226,759)	—
Equity method investments	—	17,275	126,734	—	144,009
Other noncurrent assets	65,679	40,503	43,099	—	149,281
Total assets	$ 6,596,905	$ 5,709,404	$ 6,747,693	$ (6,642,312)	$ 12,411,690
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 2,802	$ 346,907	$ 648,165	$ —	$ 997,874
Intercompany payables, net	—	27,939	9,473	(37,412)	—
Accrued expenses:					
Accrued payroll-related liabilities	6,911	55,803	99,438	—	162,152
Refund liability	—	49,526	50,801	—	100,327
Other accrued expenses	14,965	115,571	196,098	—	326,634
Other current liabilities	5,520	22,723	85,106	—	113,349
Current portion of operating lease liabilities	217	131,719	93,636	—	225,572
Current portion of long-term obligations	15,029	2,936	110,178	—	128,143
Total current liabilities	45,444	753,124	1,292,895	(37,412)	2,054,051
Long-term operating lease liabilities, excluding current portion	3,943	756,450	369,030	—	1,129,423
Long-term obligations, excluding current portion	1,613,249	15,533	2,108,330	—	3,737,112
Intercompany notes payable	—	537,341	689,418	(1,226,759)	—
Deferred income taxes	5,032	139,482	151,685	—	296,199
Other noncurrent liabilities	111,470	82,835	127,900	—	322,205
Stockholders' equity:					
Total Company stockholders' equity	4,817,767	3,424,639	1,953,502	(5,378,141)	4,817,767
Noncontrolling interest	—	—	54,933	—	54,933
Total stockholders' equity	4,817,767	3,424,639	2,008,435	(5,378,141)	4,872,700
Total liabilities and stockholders' equity	$ 6,596,905	$ 5,709,404	$ 6,747,693	$ (6,642,312)	$ 12,411,690

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Balance Sheets
(In thousands)

	December 31, 2018				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 25,633	$ 29,285	$ 276,843	$ —	$ 331,761
Receivables, net	310	316,726	837,047	—	1,154,083
Intercompany receivables, net	6,978	—	12,880	(19,858)	—
Inventories	—	1,343,612	1,492,463	—	2,836,075
Prepaid expenses and other current assets	18,611	99,356	81,063	—	199,030
Total current assets	51,532	1,788,979	2,700,296	(19,858)	4,520,949
Property, plant and equipment, net	1,547	600,054	618,561	—	1,220,162
Intangible assets:					
Goodwill	—	1,973,364	2,408,094	—	4,381,458
Other intangibles, net	260	272,451	656,041	—	928,752
Investment in subsidiaries	5,224,006	111,826	—	(5,335,832)	—
Intercompany notes receivable	1,220,582	10,515	—	(1,231,097)	—
Equity method investments	—	16,404	162,765	—	179,169
Other noncurrent assets	70,283	40,548	52,081	—	162,912
Total assets	$ 6,568,210	$ 4,814,141	$ 6,597,838	$ (6,586,787)	$ 11,393,402
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 2,454	$ 343,116	$ 596,828	$ —	$ 942,398
Intercompany payables, net	—	12,880	6,978	(19,858)	—
Accrued expenses:					
Accrued payroll-related liabilities	6,652	70,267	95,086	—	172,005
Refund liability	—	50,899	53,686	—	104,585
Other accrued expenses	5,454	105,672	177,299	—	288,425
Other current liabilities	283	17,860	42,966	—	61,109
Current portion of long-term obligations	8,459	2,932	110,435	—	121,826
Total current liabilities	23,302	603,626	1,083,278	(19,858)	1,690,348
Long-term obligations, excluding current portion	1,628,677	13,532	2,546,465	—	4,188,674
Intercompany notes payable	—	597,283	633,814	(1,231,097)	—
Deferred income taxes	8,045	135,355	168,034	—	311,434
Other noncurrent liabilities	125,888	99,147	139,159	—	364,194
Stockholders' equity:					
Total Company stockholders' equity	4,782,298	3,365,198	1,970,634	(5,335,832)	4,782,298
Noncontrolling interest	—	—	56,454	—	56,454
Total stockholders' equity	4,782,298	3,365,198	2,027,088	(5,335,832)	4,838,752
Total liabilities and stockholders' equity	$ 6,568,210	$ 4,814,141	$ 6,597,838	$ (6,586,787)	$ 11,393,402

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Statements of Cash Flows
(In thousands)

	For the Nine Months Ended September 30, 2019				
	Parent	Guarantors	Non-Guarantors (1)	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by operating activities	$ 404,790	$ 196,160	$ 451,224	$ (87,003)	$ 965,171
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of property, plant and equipment	(563)	(86,713)	(78,275)	—	(165,551)
Investment and intercompany note activity with subsidiaries	33,838	—	—	(33,838)	—
Acquisitions, net of cash acquired	—	(10,118)	(4,399)	—	(14,517)
Proceeds from disposal of businesses, net	—	19,682	(177)	—	19,505
Investments in unconsolidated subsidiaries	—	(2,550)	(4,344)	—	(6,894)
Receipts of deferred purchase price on receivables under factoring arrangements	—	264,998	—	(264,998)	—
Other investing activities, net	966	2,318	4,084	—	7,368
Net cash provided by (used in) investing activities	34,241	187,617	(83,111)	(298,836)	(160,089)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Purchase of treasury stock	(291,813)	—	—	—	(291,813)
Borrowings under revolving credit facilities	216,000	—	174,275	—	390,275
Repayments under revolving credit facilities	(220,896)	—	(392,862)	—	(613,758)
Repayments under term loans	(6,563)	—	—	—	(6,563)
Borrowings under receivables securitization facility	—	—	36,600	—	36,600
Repayments under receivables securitization facility	—	—	(146,600)	—	(146,600)
Payment of notes issued from acquisitions	(19,123)	—	—	—	(19,123)
Repayments of other debt, net	(747)	(908)	(29,932)	—	(31,587)
Other financing activities, net	33	—	(7,158)	—	(7,125)
Investment and intercompany note activity with parent	—	(29,242)	(4,596)	33,838	—
Dividends	—	(352,001)	—	352,001	—
Net cash used in financing activities	(323,109)	(382,151)	(370,273)	385,839	(689,694)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	622	(10,324)	—	(9,702)
Net increase (decrease) in cash, cash equivalents and restricted cash	115,922	2,248	(12,484)	—	105,686
Cash, cash equivalents and restricted cash of continuing operations, beginning of period	25,633	29,285	282,332	—	337,250
Cash, cash equivalents and restricted cash of continuing and discontinued operations, end of period	141,555	31,533	269,848	—	442,936
Less: Cash and cash equivalents of discontinued operations, end of period	—	—	4,328	—	4,328
Cash, cash equivalents and restricted cash, end of period	$ 141,555	$ 31,533	$ 265,520	$ —	$ 438,608

(1) Restricted cash is only included in the unaudited condensed consolidating financial statements of the Non-Guarantors.

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidating Statements of Cash Flows
(In thousands)

	For the Nine Months Ended September 30, 2018				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by operating activities	$ 334,226	$ 142,626	$ 97,506	$ (53,191)	$ 521,167
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of property, plant and equipment	(315)	(93,063)	(78,385)	—	(171,763)
Investment and intercompany note activity with subsidiaries	73,096	—	—	(73,096)	—
Return of investment in subsidiaries	152,443	—	—	(152,443)	—
Acquisitions, net of cash acquired	—	(2,888)	(1,203,179)	—	(1,206,067)
Investments in unconsolidated subsidiaries	—	(11,066)	—	—	(11,066)
Receipts of deferred purchase price on receivables under factoring arrangements	—	224,753	9,410	(224,753)	9,410
Other investing activities, net	887	2,162	4,921	—	7,970
Net cash provided by (used in) investing activities	226,111	119,898	(1,267,233)	(450,292)	(1,371,516)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Debt issuance costs	(1,354)	—	(15,584)	—	(16,938)
Proceeds from issuance of Euro Notes (2026/28)	—	—	1,232,100	—	1,232,100
Borrowings under revolving credit facilities	304,000	—	721,496	—	1,025,496
Repayments under revolving credit facilities	(732,897)	—	(377,138)	—	(1,110,035)
Repayments under term loans	(114,800)	—	—	—	(114,800)
(Repayments) borrowings of other debt, net	(385)	101	(38,411)	—	(38,695)
Other financing activities, net	(996)	—	3,182	—	2,186
Investment and intercompany note activity with parent	—	(62,763)	(10,333)	73,096	—
Dividends	—	(203,448)	(226,939)	430,387	—
Net cash (used in) provided by financing activities	(546,432)	(266,110)	1,288,373	503,483	979,314
Effect of exchange rate changes on cash and cash equivalents	—	(463)	(66,922)	—	(67,385)
Net increase (decrease) in cash and cash equivalents	13,905	(4,049)	51,724	—	61,580
Cash and cash equivalents, beginning of period	34,360	35,131	210,275	—	279,766
Cash and cash equivalents, end of period	$ 48,265	$ 31,082	$ 261,999	$ —	$ 341,346

Forward-Looking Statements

Statements and information in this Quarterly Report on Form 10-Q 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 that may cause our actual results, performance or achievements to be materially different. 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, uncertainties, assumptions and other factors that could cause actual results to differ from the results predicted or implied by our forward-looking statements include factors discussed in our filings with the SEC, including those disclosed under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2018 Form 10-K and in our subsequent Quarterly Reports on Form 10-Q (including this Quarterly Report).

Item 2. 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 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 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.

During the nine months ended September 30, 2019, we completed five acquisitions, including one wholesale business and one self service business in North America, and three wholesale businesses in Europe.

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 expanded LKQ's geographic presence in continental Europe and serves as an additional strategic hub for our European operations. In addition, this acquisition should allow for continued improvement in procurement, logistics and infrastructure optimization.

In addition to the Stahlgruber acquisition, during the year ended December 31, 2018, we acquired various smaller businesses across our North America and Europe segments.

On December 1, 2016, we acquired a 26.5% equity interest in 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, "Financial Statement Information," to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q 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, diagnostic and repair services, and processing fees related to the secure disposal of vehicles. 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 unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information related to our sources of revenue.

Critical Accounting Policies and Estimates

On January 1, 2019, we adopted ASU 2016-02, which represents FASB ASC 842. We adopted the new guidance using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application with no restatement of comparative periods. The most significant impact was the recognition of lease assets and liabilities for operating leases. Refer to “Recent Accounting Pronouncements–Adoption of New Lease Standard” in Note 4, "Financial Statement Information” and Note 13, "Leases” to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

The discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with 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. Our 2018 Form 10-K includes a summary of the critical accounting policies and estimates we believe are the most important to aid in understanding our financial results. Other than the adoption of ASU 2016-02 described above, there have been no changes to those critical accounting policies or estimates that have had a material impact on our reported amounts of assets, liabilities, revenue or expenses during the nine months ended September 30, 2019.

Recently Issued Accounting Pronouncements

See "Recent Accounting Pronouncements" in Note 4, "Financial Statement Information" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information related to new accounting standards.

Financial Information by Geographic Area

See Note 16, "Segment and Geographic Information" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information related to our revenue and long-lived assets by geographic region.

1 LKQ Europe Program

We have undertaken the 1 LKQ Europe program to create structural centralization and standardization of key functions to facilitate the operation of the Europe segment as a single business. Under this multi-year program, we have recognized to date and expect to continue to recognize the following:

- Restructuring expenses - Non-recurring costs resulting directly from the implementation of the 1 LKQ Europe program from which the business will derive no ongoing benefit. See Note 6, “Restructuring and Acquisition Related Expenses” to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details.
- Transformation expenses - Period costs incurred to execute the 1 LKQ Europe program that are expected to contribute to ongoing benefits to the business (e.g. non-capitalizable implementation costs related to a common ERP system). These expenses are recorded in Selling, general and administrative expenses.
- Transformation capital expenditures - Capitalizable costs for long-lived assets, such as software and facilities, that directly relate to the execution of the 1 LKQ Europe program.

Costs related to the 1 LKQ Europe program incurred to date are reflected in Selling, general and administrative expenses and Purchases of property, plant and equipment in our unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q. We expect that future costs of the program, reflecting all three categories noted above, will range between $135 million and $160 million for the period from 2019 through 2021 with an additional $80 million to $100 million between 2022 and the projected completion date of the project in 2024.

Results of Operations—Consolidated

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	61.9 %	61.7 %	61.5 %	61.5 %
Gross margin	38.1 %	38.3 %	38.5 %	38.5 %
Selling, general and administrative expenses	28.3 %	28.2 %	28.3 %	27.9 %
Restructuring and acquisition related expenses	0.3 %	0.2 %	0.2 %	0.3 %
Impairment of net assets held for sale	(0.1)%	—	0.5 %	—
Depreciation and amortization	2.3 %	2.5 %	2.2 %	2.2 %
Operating income	7.4 %	7.5 %	7.3 %	8.1 %
Other expense, net	0.8 %	1.1 %	0.9 %	1.1 %
Income from continuing operations before provision for income taxes	6.5 %	6.4 %	6.3 %	7.0 %
Provision for income taxes	1.8 %	1.5 %	1.7 %	1.8 %
Equity in earnings (losses) of unconsolidated subsidiaries	0.1 %	(0.6)%	(0.4)%	(0.2)%
Income from continuing operations	4.8 %	4.3 %	4.2 %	5.0 %
Net income from discontinued operations	0.0 %	—	0.0 %	—
Net income	4.8 %	4.3 %	4.3 %	5.0 %
Less: net (loss) income attributable to continuing noncontrolling interest	(0.0)%	0.0 %	0.0 %	0.0 %
Less: net income attributable to discontinued noncontrolling interest	0.0 %	—	0.0 %	—
Net income attributable to LKQ stockholders	4.8 %	4.3 %	4.2 %	5.0 %

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

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

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

	Three Months Ended September 30,		Percentage Change in Revenue			
	2019	2018	Organic	Acquisition	Foreign Exchange	Total Change
Parts & services revenue	$ 2,985,998	$ 2,961,981	2.3%	0.8%	(2.3)%	0.8%
Other revenue	161,775	160,397	0.0%	1.1%	(0.3)%	0.9%
Total revenue	$ 3,147,773	$ 3,122,378	2.2%	0.8%	(2.2)%	0.8%

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

The growth in parts and services revenue of 0.8% represented increases in segment revenue of 3.3% in North America and 1.4% in Specialty and a decrease of segment revenue of 1.2% in Europe. Organic parts and services revenue grew by 2.3%, which included a 1.4% positive effect from one additional selling day in the third quarter of 2019, resulting in an organic growth of 0.9% on a per day basis. The increase in other revenue of 0.9% was primarily driven by a $2 million acquisition 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 third quarter of 2019 compared to the prior year period.

Cost of Goods Sold. Cost of goods sold increased to 61.9% of revenue in the three months ended September 30, 2019 from 61.7% of revenue in the three months ended September 30, 2018. Cost of goods sold increased 0.5% primarily due to inventory write-downs in our Europe segment as part of our restructuring programs and 0.2% related to other individually immaterial factors, partially offset by a 0.5% improvement in gross margin in our North America segment. We recorded a $17 million reduction of inventory in our Europe segment related to U.K. branch consolidation and brand rationalization initiated as part of our restructuring programs. See Note 6, "Restructuring and Acquisition Related Expenses" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on our restructuring plans. 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 three months ended September 30, 2019 compared to the three months ended September 30, 2018.

Selling, General and Administrative Expenses. Our selling, general and administrative ("SG&A") expenses as a percentage of revenue increased to 28.3% in the three months ended September 30, 2019 from 28.2% in the three months ended September 30, 2018, primarily as a result of a 0.2% increase from our North America segment, partially offset by a 0.2% decrease from 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 three months ended September 30, 2019 compared to the three months ended September 30, 2018.

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

	Three Months Ended September 30,		
	2019	2018	Change
Restructuring expenses	$ 7,284 (1)	$ 5,445 (2)	$ 1,839
Acquisition related expenses	1,645 (3)	1,169 (4)	476
Total restructuring and acquisition related expenses	$ 8,929	$ 6,614	$ 2,315

(1) Restructuring expenses for the three months ended September 30, 2019 primarily consisted of (i) $4 million related to our 2019 global restructuring program, and (ii) $3 million related to integration costs from acquisitions.

(2) Restructuring expenses for the three months ended September 30, 2018 primarily consisted of $4 million related to the integration of our acquisition of Andrew Page and $1 million related to our Specialty segment. These integration activities included the closure of duplicate facilities and termination of employees.

(3) Acquisition related expenses for the three months ended September 30, 2019 included approximately $1 million of costs related to the acquisition of an immaterial wholesale business in Europe.

(4) Acquisition related expenses for the quarter ended September 30, 2018 included $1 million of costs related to our acquisition of Stahlgruber.

See Note 6, "Restructuring and Acquisition Related Expenses" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on our restructuring and integration plans.

Impairment of Net Assets Held for Sale. We recorded a $4 million net reversal of impairment charges on net assets held for sale in the third quarter of 2019 as the proceeds from our sales of two businesses exceeded our prior fair value estimates, resulting in a net reduction of previously reported impairment charges in the quarter. The net reversal of impairment charges was primarily attributable to our North America segment. See "Net Assets Held for Sale" in Note 4, "Financial Statement Information" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the net reversal of impairment charges.

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

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Change
Depreciation	$ 36,873	$ 34,775	$ 2,098 (1)
Amortization	34,640	41,926	(7,286) (2)
Total depreciation and amortization	$ 71,513	$ 76,701	$ (5,188)

(1) Depreciation expense increased by $1 million in each of our North America and Europe segments, primarily driven by capital expenditures.

(2) The decrease in amortization expense primarily reflected (i) decreases of $4 million and $2 million related to our acquisitions of Stahlgruber and Rhiag, respectively, which had lower amortization expense during the three months ended September 30, 2019 compared to the prior year period as a result of the accelerated amortization on the customer relationship intangible assets, and (ii) a decrease of $1 million related to the impact of foreign currency translation, principally due to a decrease in the euro exchange rate during the three months ended September 30, 2019 compared to the prior year period.

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

Other expense, net for the three months ended September 30, 2018	$ 33,901
(Decrease) increase due to:	
Interest expense, net of interest income	(8,884) (1)
Other income, net	1,020 (2)
Net decrease	(7,864)
Other expense, net for the three months ended September 30, 2019	$ 26,037

(1) The decrease in interest is primarily related to (i) a $3 million decrease from lower interest rates on borrowings under our senior secured credit agreement compared to the prior year period, (ii) a $2 million decrease resulting from lower outstanding debt during the three months ended September 30, 2019 compared to the prior year period, (iii) a $1 million decrease from foreign currency translation, primarily related to a decrease in the euro exchange rate during the three months ended September 30, 2019 compared to the prior year period, and (iv) several individually immaterial factors that decreased interest expense by $3 million in the aggregate.

(2) The decrease in other income primarily consisted of a $3 million fair value gain recorded during the third quarter of 2018 related to a preferential rights issue to subscribe for new shares in Mekonomen at a discounted share price. See "Investments in Unconsolidated Subsidiaries" in Note 4, "Financial Statement Information" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information. Partially offsetting the decrease was a $2 million favorable variance in foreign currency gains and losses.

Provision for Income Taxes. Our effective income tax rate for the three months ended September 30, 2019 was 28.1%, compared to 22.9% for the comparable prior year period. The increase was primarily attributable to the impact of a favorable discrete item of $10 million for the three months ended September 30, 2018, reflecting an adjustment to the Tax Act transition tax. The increase was also partially attributable to the impact of an unfavorable adjustment of $2 million for the three months ended September 30, 2019 due to an increase in our annual estimated tax rate as a result of a shift in our projected geographic blend of earnings.

Equity in Earnings (Losses) of Unconsolidated Subsidiaries. Equity in earnings (losses) of unconsolidated subsidiaries for the three months ended September 30, 2019 and 2018 primarily related to our investment in Mekonomen. During the three months ended September 30, 2018, we recorded a $23 million other-than-temporary impairment related to our investment in Mekonomen. See "Investments in Unconsolidated Subsidiaries" in Note 4, "Financial Statement Information" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the impairment charge.

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 three months ended September 30, 2018, the pound sterling, Czech koruna, and euro rates used to translate the 2019 statements of income decreased by 5.4%, 4.4%, and 4.4%, respectively. The negative translation effect of the change in foreign currencies against the U.S. dollar netted against the positive impact of realized and unrealized currency gains and losses for the three months ended September 30, 2019, resulting in an immaterial impact on diluted earnings per share relative to the prior year period.

Net (Loss) Income Attributable to Continuing and Discontinued Noncontrolling Interest. Net (loss) income attributable to continuing noncontrolling interest for the three months ended September 30, 2019 decreased an immaterial amount compared to the three months ended September 30, 2018 primarily due to the noncontrolling interest of an immaterial subsidiary. Net income attributable to discontinued noncontrolling interest was immaterial for the three months ended September 30, 2019 and related to the Stahlgruber Czech Republic wholesale business. See Note 3, "Discontinued Operations" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on this business.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

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

	Nine Months Ended September 30,		Percentage Change in Revenue			
	2019	**2018**	**Organic**	**Acquisition**	**Foreign Exchange**	**Total Change**
Parts & services revenue	$ 9,021,790	$ 8,379,337	0.1 %	10.2%	(2.7)%	7.7 %
Other revenue	474,459	494,556	(5.0)%	1.2%	(0.3)%	(4.1)%
Total revenue	$ 9,496,249	$ 8,873,893	(0.1)%	9.7%	(2.5)%	7.0 %

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

The growth in parts and services revenue of 7.7% represented increases in segment revenue of 16.3% in Europe (driven by the Stahlgruber acquisition), 0.6% in North America and 0.5% in Specialty. The decrease in other revenue of 4.1% was primarily driven by a $25 million organic decrease, 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 first nine months of 2019 compared to the prior year period.

Cost of Goods Sold. Cost of goods sold was flat in the nine months ended September 30, 2019 compared to the prior year period. Our North America segment generated a 0.5% improvement in gross margin, which was offset by (i) a 0.2% increase in cost of goods sold attributable to mix, (ii) an increase of 0.2% primarily due to inventory write-downs in our Europe segment, and (iii) an increase of 0.2% attributable to our Specialty segment. The mix impact is a result of our Stahlgruber acquisition, as the lower margin Europe segment makes up a larger percentage of the consolidated results and has a dilutive effect on the gross margin percentage. We recorded a $17 million reduction of inventory in our Europe segment related to U.K. branch consolidation and brand rationalization initiated as part of our restructuring program. See Note 6, "Restructuring and Acquisition Related Expenses" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on our restructuring plans. 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 nine months ended September 30, 2019 compared to the nine months ended September 30, 2018.

Selling, General and Administrative Expenses. Our SG&A expenses as a percentage of revenue increased to 28.3% in the nine months ended September 30, 2019 from 27.9% in the nine months ended September 30, 2018, primarily as a result of a 0.3% and 0.2% increase from our Europe and North America segments, respectively. 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 nine months ended September 30, 2019 compared to the nine months ended September 30, 2018.

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

	Nine Months Ended September 30,		
	2019	2018	Change
Restructuring expenses	$ 18,482 (1)	$ 9,577 (2)	$ 8,905
Acquisition related expenses	2,131 (3)	16,969 (4)	(14,838)
Total restructuring and acquisition related expenses	$ 20,613	$ 26,546	$ (5,933)

(1) Restructuring expenses for the nine months ended September 30, 2019 primarily consisted of (i) $10 million related to our 2019 global restructuring program, and (ii) $9 million related to integration costs from acquisitions.

(2) Restructuring expenses for the nine months ended September 30, 2018 primarily consisted of $8 million related to the integration of our acquisition of Andrew Page and $2 million related to our Specialty segment. These integration activities included the closure of duplicate facilities and termination of employees.

(3) Acquisition related expenses for the nine months ended September 30, 2019 included approximately $1 million of costs related to the acquisition of an immaterial wholesale business in Europe.

(4) Acquisition related expenses for the nine months ended September 30, 2018 primarily consisted of $15 million of costs for our acquisition of Stahlgruber. The remaining costs related to other completed acquisitions and acquisitions that were pending as of September 30, 2018.

See Note 6, "Restructuring and Acquisition Related Expenses" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on our restructuring and integration plans.

Impairment of Net Assets Held for Sale. We recorded a $45 million impairment charge on net assets held for sale for the nine months ended September 30, 2019. The impairment charge was primarily attributable to our North America segment. See "Net Assets Held for Sale" in Note 4, "Financial Statement Information" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the impairment charge.

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

	Nine Months Ended September 30,		
	2019	2018	Change
Depreciation	$ 109,245	$ 100,576	$ 8,669 (1)
Amortization	104,104	95,746	8,358 (2)
Total depreciation and amortization	$ 213,349	$ 196,322	$ 17,027

(1) Depreciation expense included an incremental $5 million in our Europe segment, principally due to (i) an $8 million increase in depreciation expense from our acquisition of Stahlgruber, partially offset by (ii) a decrease of $3 million related to the impact of foreign currency translation, primarily due to decreases in the euro and pound sterling exchange rates during the nine months ended September 30, 2019 compared to the prior year period. Depreciation expense also included an incremental $4 million in our North America segment, primarily due to capital expenditures related to new warehouse openings and upgrades to our existing information technology infrastructure.

(2) The increase in amortization expense primarily reflected (i) an incremental $18 million from our acquisition of Stahlgruber, partially offset by (ii) a decrease of $5 million related to the impact of foreign currency translation, principally due to a decrease in the euro exchange rate during the nine months ended September 30, 2019 compared to the prior year period, and (iii) a decrease of $5 million related to our 2016 acquisition of Rhiag, which had lower amortization expense during the nine months ended September 30, 2019 compared to the prior year period as a result of the accelerated amortization on the customer relationship intangible asset.

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

Other expense, net for the nine months ended September 30, 2018	$	98,233
Decrease due to:		
Interest expense, net of interest income		(3,698) (1)
Other income, net		(6,109) (2)
Net decrease		(9,807)
Other expense, net for the nine months ended September 30, 2019	$	88,426

(1) The decrease in interest is primarily related to (i) a $7 million decrease from lower interest rates on borrowings under our senior secured credit agreement compared to the prior year period, and (ii) a $4 million decrease from foreign currency translation, primarily related to a decrease in the euro exchange rate during the first nine months of 2019 compared to the prior year period, partially offset by (iii) an $8 million increase resulting from higher outstanding debt during the nine months ended September 30, 2019 compared to the prior year period (including the borrowings under our Euro Notes (2026/28)).

(2) The increase in other income primarily consisted of (i) a $4 million favorable variance in foreign currency gains and losses, and (ii) $3 million of proceeds received in the first quarter of 2019 related to an insurance settlement in our North America segment.

Provision for Income Taxes. Our effective income tax rate for the nine months ended September 30, 2019 was 27.5%, compared to 25.2% for the comparable prior year period. The increase was primarily attributable to the impact of a favorable discrete item of $10 million for the nine months ended September 30, 2018, reflecting an adjustment to the Tax Act transition tax. The increase was also partially attributable to the impact of a favorable discrete item of approximately $4 million for the nine months ended September 30, 2018, for excess tax benefits from stock-based payments; there were $1 million of excess tax benefits from stock-based payments for the nine months ended September 30, 2019. The year over year change for these discrete items increased the effective tax rate by 2.1% compared to the prior year period, while remaining discrete items increased the effective tax rate by an immaterial amount compared to the prior year period.

Equity in Earnings (Losses) of Unconsolidated Subsidiaries. Equity in earnings (losses) of unconsolidated subsidiaries for the nine months ended September 30, 2019 primarily related to our investment in Mekonomen. During the three months ended March 31, 2019 and September 30, 2018, we recognized other-than-temporary impairment charges of $40 million and $23 million, respectively, related to our investment in Mekonomen. See "Investments in Unconsolidated Subsidiaries" in Note 4, "Financial Statement Information" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the impairment charge.

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 nine months ended September 30, 2018, the Czech koruna, euro, pound sterling and Canadian dollar rates used to translate the 2019 statements of income decreased by 6.4%, 5.9%, 5.8% and 3.2%, respectively. The negative translation effect of the change in foreign currencies against the U.S. dollar netted against the positive impact of realized and unrealized currency gains and losses for the nine months ended September 30, 2019 resulted in a $0.02 negative effect on diluted earnings per share relative to the prior year period.

Net (Loss) Income Attributable to Continuing and Discontinued Noncontrolling Interest. Net (loss) income attributable to continuing noncontrolling interest for the nine months ended September 30, 2019 increased $1 million compared to the nine months ended September 30, 2018 primarily due to the noncontrolling interest of subsidiaries acquired in connection with the Stahlgruber acquisition. Net income attributable to discontinued noncontrolling interest as immaterial for the nine months ended September 30, 2019 and related to the Stahlgruber Czech Republic wholesale business. See Note 3, "Discontinued Operations" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on this business.

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):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	% of Total Segment Revenue	2018	% of Total Segment Revenue	2019	% of Total Segment Revenue	2018	% of Total Segment Revenue
Third Party Revenue								
North America	$ 1,302,086		$ 1,262,657		$ 3,925,962		$ 3,927,282	
Europe	1,451,483		1,470,856		4,413,264		3,795,439	
Specialty	394,204		388,865		1,157,023		1,151,172	
Total third party revenue	$ 3,147,773		$ 3,122,378		$ 9,496,249		$ 8,873,893	
Total Revenue								
North America	$ 1,302,147		$ 1,262,799		$ 3,926,222		$ 3,927,808	
Europe	1,451,483		1,470,856		4,413,264		3,795,439	
Specialty	395,314		390,061		1,160,687		1,154,726	
Eliminations	(1,171)		(1,338)		(3,924)		(4,080)	
Total revenue	$ 3,147,773		$ 3,122,378		$ 9,496,249		$ 8,873,893	
Segment EBITDA								
North America	$ 166,310	12.8%	$ 154,049	12.2%	$ 532,994	13.6%	$ 506,772	12.9%
Europe	124,712	8.6%	129,358	8.8%	346,291	7.8%	315,785	8.3%
Specialty	45,464	11.5%	42,937	11.0%	135,790	11.7%	140,974	12.2%

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 (which includes restructuring expenses recorded in Cost of goods sold), 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 charges. EBITDA, which is the basis for Segment EBITDA, is calculated as net income, less net income (loss) attributable to continuing and discontinued noncontrolling interest, excluding discontinued operations and discontinued noncontrolling interest, depreciation, amortization, interest (which includes gains and losses on debt extinguishment) and income tax expense. See Note 16, "Segment and Geographic Information" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a reconciliation of total Segment EBITDA to net income.

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

North America

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

	Three Months Ended September 30,		Percentage Change in Revenue			
North America	2019	2018	Organic	Acquisition (3)	Foreign Exchange	Total Change
Parts & services revenue	$ 1,145,402	$ 1,109,067	2.9% (1)	0.4%	(0.1)%	3.3%
Other revenue	156,684	153,590	0.9% (2)	1.1%	(0.0)%	2.0%
Total third party revenue	$ 1,302,086	$ 1,262,657	2.7%	0.5%	(0.1)%	3.1%

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

(1) Parts and services organic revenue increased 1.4% on a per day basis. This per day increase was largely attributable to (i) favorable pricing, partially offset by sales volumes in our wholesale operations, and (ii) higher revenue in our aviation business prior to its disposal in August.

(2) The $1 million year over year organic increase in other revenue primarily related to (i) a $19 million increase in revenue from precious metals (platinum, palladium and rhodium) primarily due to higher prices and, to a lesser extent, increased volumes, partially offset by (i) a $13 million decrease in revenue from scrap steel and other metals primarily related to lower prices, partially offset by increased volumes, (ii) a $2 million decrease in core revenue primarily related to decreased volumes, and (iii) several individually immaterial factors that decreased organic revenue by $2 million in the aggregate.

(3) Acquisition related growth in the third quarter of 2019 reflected revenue from our acquisition of four wholesale businesses and one self service business since the beginning of the third quarter of 2018 through the one-year anniversary of the acquisitions.

Segment EBITDA. Segment EBITDA increased $12 million, or 8.0%, in the third quarter of 2019 compared to the third quarter of the prior year. Sequential decreases in scrap steel prices in our salvage and self service operations had an unfavorable impact of $8 million on North America Segment EBITDA during the three months ended September 30, 2019, compared to a $7 million unfavorable impact on the three months ended September 30, 2018. This unfavorable impact for the three months ended September 30, 2019 resulted from the decrease 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 three months ended September 30, 2018	12.2 %	
Increase (decrease) due to:		
Change in gross margin	1.0 %	(1)
Change in segment operating expenses	(0.5)%	(2)
Change in other expense, net and net income attributable to continuing noncontrolling interest	0.0 %	
Segment EBITDA for the three months ended September 30, 2019	12.8 %	

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 primarily reflected a favorable impact of 1.1% from our wholesale operations. The increase in wholesale gross margin was primarily attributable to ongoing margin initiatives.

(2) Segment operating expenses increased as a percentage of revenue. Having one additional selling day in the third quarter of 2019 resulted in a positive leverage effect, but there were several offsetting factors that increased expenses compared to the prior year period. The increase in segment operating expenses was primarily due to (i) a 0.5% increase in incentive compensation expenses compared to the prior year, principally due to downward revisions of the bonus accruals in the third quarter of 2018 and upward revisions in the third quarter of 2019 as a result of our

performance in each period, and (ii) a 0.4% increase in facility expenses principally due to higher expenses in rent related to expansions and renewals, partially offset by (iii) a 0.3% decrease from other personnel-related costs, including salaries and wages and non-incentive benefits, primarily due to reduced headcount and lower insurance claims.

Europe

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

	Three Months Ended September 30,		Percentage Change in Revenue			
Europe	**2019**	**2018**	**Organic (1)**	**Acquisition (2)**	**Foreign Exchange (3)**	**Total Change**
Parts & services revenue	$ 1,446,392	$ 1,464,049	2.1 %	1.3 %	(4.6)%	(1.2)%
Other revenue	5,091	6,807	(19.4)%	(0.3)%	(5.6)%	(25.2)%
Total third party revenue	$ 1,451,483	$ 1,470,856	2.0 %	1.3 %	(4.6)%	(1.3)%

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

(1) The parts and services organic revenue growth for the quarter was affected by having one additional selling day. Selling days differ by market, but, on average, we had one additional selling day in our Europe segment in the third quarter of 2019 than in the prior year period. On a per day basis, organic parts and services revenue increased 0.7%, mainly driven by our U.K. and Eastern European operations. Softer economic conditions continue to have a negative impact on revenue growth, most notably in Italy and Germany.

(2) Acquisition related growth for the three months ended September 30, 2019 was $19 million, or 1.3%, due to our acquisition of eight wholesale businesses since the beginning of the third quarter of 2018 through the one year anniversary of the acquisitions.

(3) Compared to the prior year, exchange rates decreased our revenue growth by $68 million, or 4.6%, primarily due to the stronger U.S. dollar against the euro, pound sterling and Czech koruna during the third quarter of 2019 relative to the prior year period.

Segment EBITDA. Segment EBITDA decreased $5 million, or 3.6%, in the third quarter of 2019 compared to the prior year period. Our Europe Segment EBITDA included a negative year over year impact of $6 million related to the translation of local currency results into U.S. dollars at lower exchange rates than those experienced during the third quarter of 2018. On a constant currency basis (i.e. excluding the translation impact), Segment EBITDA increased by $1 million, or 1.0%, 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 three months ended September 30, 2019.

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 three months ended September 30, 2018	8.8 %	
(Decrease) increase due to:		
Change in gross margin	(0.1)%	(1)
Change in segment operating expenses	(0.3)%	(2)
Change in other expense, net and net income attributable to continuing noncontrolling interest	0.1 %	
Segment EBITDA for the three months ended September 30, 2019	8.6 %	

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 was primarily due to a 0.5% unfavorable impact related to our Central European operations, principally due to lower prices and product mix, partially offset by a favorable increase of 0.3% in supplier

rebates as a result of centralized procurement for our Europe segment, principally driven by our acquisition of Stahlgruber, and a 0.2% increase related to our U.K. operations.

(2) The increase in segment operating expenses as a percentage of revenue was primarily due to a 0.3% increase in personnel expenses, principally as a result of the timing of bonus accrual revisions and the negative leverage effect driven by lower sales growth compared to average wage inflation. Transformation expenses related to the 1 LKQ Europe program had an unfavorable impact of 0.1% on the three months ended September 30, 2019 compared to the prior year period.

Specialty

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

	Three Months Ended September 30,		Percentage Change in Revenue			
Specialty	2019	2018	Organic [1]	Acquisition	Foreign Exchange	Total Change
Parts & services revenue	$ 394,204	$ 388,865	1.5%	—%	(0.1)%	1.4%
Other revenue	—	—	—%	—%	— %	—%
Total third party revenue	$ 394,204	$ 388,865	1.5%	—%	(0.1)%	1.4%

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 an additional selling day in the third quarter of 2019 compared to the prior year period (organic revenue declined 0.1% on a per day basis). Modest volume growth in our RV business in the U.S. was offset by decreased sales volumes in our Canada operations compared to the prior year period, principally due to softening economic conditions.

Segment EBITDA. Segment EBITDA increased $3 million, or 5.9%, in the third quarter of 2019 compared to the prior year third quarter.

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 three months ended September 30, 2018	11.0 %	
(Decrease) increase due to:		
Change in gross margin	(0.8)%	(1)
Change in segment operating expenses	1.3 %	(2)
Segment EBITDA for the three months ended September 30, 2019	11.5 %	

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 reflects unfavorable impacts of (i) 0.4% due to unfavorable product mix in the third quarter of 2019, (ii) 0.2% of higher product costs, primarily due to lower supplier discounts resulting from lower purchase volumes, and (iii) several individually immaterial factors that had an unfavorable impact of 0.2% in the aggregate.

(2) The decrease in segment operating expenses reflects favorable impacts of (i) 0.7% in personnel costs primarily due to reduced headcount, (ii) 0.4% in freight, vehicle and fuel expenses due to a decreased use of third party freight, and (iii) 0.2% due to several individually immaterial factors.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

North America

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

North America	Nine Months Ended September 30, 2019	2018	Percentage Change in Revenue: Organic	Acquisition [3]	Foreign Exchange	Total Change
Parts & services revenue	$ 3,466,582	$ 3,447,074	0.4 % [1]	0.4%	(0.2)%	0.6 %
Other revenue	459,380	480,208	(5.0)% [2]	0.7%	(0.1)%	(4.3)%
Total third party revenue	$ 3,925,962	$ 3,927,282	(0.3)%	0.5%	(0.2)%	(0.0)%

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

(1) Parts and services organic revenue increased 0.4% in the first nine months of 2019 compared to the prior year period. This relatively low growth rate was impacted by (i) lower revenue in our glass and aviation businesses, which had unfavorable effects on organic growth of 0.4% and 0.3%, respectively, and (ii) collision and liability related auto claims being 1.6% lower in the first nine months of 2019 compared to the prior year period, which adversely impacted volume in our wholesale operations. Additionally, our North America segment generated a 6.4% organic growth rate for parts and services revenue in the first nine months of 2018, due in part to severe winter weather conditions. Facing a strong comparable period and with less favorable weather conditions in the first half of 2019, organic parts and services revenue growth was below our historical average.

(2) The $24 million year over year organic decrease in other revenue primarily related to (i) a $46 million decrease in revenue from scrap steel and other metals primarily related to lower prices, partially offset by increased volumes, and (ii) an $11 million decrease in core revenue primarily related to decreased volumes, partially offset by (iii) a $35 million increase in revenue from precious metals (platinum, palladium and rhodium) primarily due to higher prices.

(3) Acquisition related growth in the first nine months of 2019 reflected revenue from our acquisition of five wholesale businesses and one self service business from the beginning of 2018 through the one-year anniversary of the acquisitions.

Segment EBITDA. Segment EBITDA increased $26 million, or 5.2%, in the first nine months of 2019 compared to the prior year period. Sequential decreases in scrap steel prices in our salvage and self service operations had an unfavorable impact of $14 million on North America Segment EBITDA for the first nine months of 2019, compared to a $10 million positive impact on the first nine months of 2018. This unfavorable impact resulted from the decrease 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 nine months ended September 30, 2018	12.9 %	
Increase (decrease) due to:		
Change in gross margin	1.0 %	(1)
Change in segment operating expenses	(0.5)%	(2)
Change in other expense, net and net income attributable to continuing noncontrolling interest	0.2 %	(3)
Segment EBITDA for the nine months ended September 30, 2019	13.6 %	

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 primarily reflected a favorable impact of 1.3% from our wholesale operations, partially offset by an unfavorable impact of 0.2% from our self service operations. The increase in wholesale gross margin was primarily attributable to ongoing margin initiatives. The decrease in self service gross margin was primarily attributable to sequential decreases in scrap steel prices as higher cost vehicles were scrapped.

(2) The increase in segment operating expenses as a percentage of revenue is primarily related to a 0.4% increase in facility expenses principally due to higher expenses in rent related to expansions and renewals. The increase in segment operating expenses also reflects the negative leverage effect resulting from the year over year decline in other revenue of $21 million, as incremental scrap revenue does not require additional overhead costs, such as commissions

and delivery costs, thus creating a dilutive impact to margin in periods with declining scrap revenue.

(3) The decrease in other expense, net and net income attributable to continuing noncontrolling interest was due to several individually immaterial factors that had a favorable impact of 0.2% in the aggregate.

Europe

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

	Nine Months Ended September 30,		Percentage Change in Revenue			
Europe	2019	2018	Organic [1]	Acquisition [2]	Foreign Exchange [3]	Total Change
Parts & services revenue	$ 4,398,185	$ 3,781,091	(0.3)%	22.2%	(5.6)%	16.3%
Other revenue	15,079	14,348	(5.7)%	17.6%	(6.8)%	5.1%
Total third party revenue	$ 4,413,264	$ 3,795,439	(0.3)%	22.1%	(5.6)%	16.3%

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

(1) Parts and services organic revenue declined for the first nine months of 2019, primarily affected by softer economic conditions across the continent. Additionally, we believe the U.K.'s potential exit from the European Union had a negative impact on that market for the year to date period.

(2) Acquisition related growth for the nine months ended September 30, 2019 was $840 million, or 22.1%, primarily from our acquisition of Stahlgruber.

(3) Compared to the prior year, exchange rates decreased our revenue growth by $212 million, or 5.6%, primarily due to the stronger U.S. dollar against the euro, pound sterling and Czech koruna during the first nine months of 2019 relative to the comparable period of 2018.

Segment EBITDA. Segment EBITDA increased $31 million, or 9.7%, in the first nine months of 2019 compared to the comparable period of the prior year. Our Europe Segment EBITDA included a negative year over year impact of $18 million related to the translation of local currency results into U.S. dollars at lower exchange rates than those experienced during the first nine months of 2018. On a constant currency basis (i.e. excluding the translation impact), Segment EBITDA increased by $48 million, or 15.2%, 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 nine months ended September 30, 2019.

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 nine months ended September 30, 2018	8.3 %	
Increase (decrease) due to:		
Change in gross margin	0.2 %	(1)
Change in segment operating expenses	(0.6)%	(2)
Segment EBITDA for the nine months ended September 30, 2019	7.8 %	

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

(1) Gross margin increased primarily due to a 0.5% favorable impact related to an increase in supplier rebates as a result of centralized procurement for our Europe segment, partially offset by a 0.3% unfavorable impact related to our Central European operations, principally due to lower prices and product mix.

(2) The increase in segment operating expenses was primarily due to (i) a 0.7% increase in personnel expenses principally as a result of the negative leverage effect, and (ii) a 0.2% increase in transformation expenses related to the 1 LKQ Europe program, partially offset by a 0.3% decrease in other expenses.

Specialty

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

Specialty	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Percentage Change in Revenue: Organic [1]	Acquisition	Foreign Exchange	Total Change
Parts & services revenue	$ 1,157,023	$ 1,151,172	0.8%	—%	(0.3)%	0.5%
Other revenue	—	—	—%	—%	— %	—%
Total third party revenue	$ 1,157,023	$ 1,151,172	0.8%	—%	(0.3)%	0.5%

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 in the U.S., largely due to expansion of our product line coverage, strong exclusive line performance, and continued roll-out of new product applications for new model year vehicles. The organic growth was partially offset by decreased sales volumes in our Canada operations compared to the prior year period, primarily due to softening economic conditions.

Segment EBITDA. Segment EBITDA decreased $5 million, or 3.7%, in the first nine months of 2019 compared to the prior year period.

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 nine months ended September 30, 2018	12.2 %	
(Decrease) increase due to:		
Change in gross margin	(1.2)%	(1)
Change in segment operating expenses	0.7 %	(2)
Segment EBITDA for the nine months ended September 30, 2019	11.7 %	

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 reflects unfavorable impacts of (i) 0.5% of higher product costs, primarily due to non-recurring benefits from supplier discounts resulting from strategic purchasing efforts in the fourth quarter of 2017, which had a favorable impact on the first nine months of 2018 as they were recognized over a turn of inventory, (ii) 0.4% due to unfavorable product mix in the first nine months of 2019, and (iii) 0.2% due to higher capitalized overhead expenses as a result of warehouse expansion projects that were completed in the second half of 2018.

(2) The decrease in segment operating expenses reflects favorable impacts of (i) 0.5% in personnel costs primarily due to reduced headcount and (ii) 0.2% in freight, vehicle and fuel expenses due to a decreased use of third party freight.

Liquidity and Capital Resources

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

	September 30, 2019	December 31, 2018	September 30, 2018
Cash and cash equivalents	$ 433,391	$ 331,761	$ 341,346
Total debt (1)	3,896,722	4,347,697	4,404,369
Current maturities (2)	128,426	122,117	122,981
Capacity under credit facilities (3)	3,260,000	3,260,000	2,850,000
Availability under credit facilities (3)	2,044,940	1,697,698	1,501,226
Total liquidity (cash and cash equivalents plus availability under credit facilities)	2,478,331	2,029,459	1,842,572

(1) Debt amounts reflect the gross values to be repaid (excluding debt issuance costs of $31 million, $37 million and $36 million as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively).

(2) Debt amounts reflect the gross values to be repaid (excluding debt issuance costs of immaterial amounts as of both September 30, 2019 and December 31, 2018 and $5 million as of September 30, 2018).

(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 September 30, 2019, 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 ($343 million outstanding at September 30, 2019) and $3.15 billion in revolving credit ($1.1 billion outstanding at September 30, 2019), bearing interest at variable rates (although a portion of the outstanding debt is hedged through interest rate swap contracts), with availability reduced by $69 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 $545 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 (no outstanding balance as of September 30, 2019), 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.

As of September 30, 2019, we had approximately $2.0 billion available under our credit facilities. Combined with approximately $433 million of cash and cash equivalents at September 30, 2019, we had approximately $2.5 billion in available liquidity, an increase of $449 million over our available liquidity as of December 31, 2018.

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. 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 LIBOR or the Canadian Dollar Offered Rate ("CDOR"), depending on the currency and the duration of the borrowing, plus an applicable margin rate 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, we hold 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 unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q. After giving effect to these contracts, the weighted average interest rate on borrowings outstanding under our credit agreement at September 30, 2019 was 1.6%. Including our senior notes and the borrowings under our receivables securitization program, our overall weighted average interest rate on borrowings was 3.1% at September 30, 2019.

After 2021, it is unclear whether banks will continue to provide LIBOR submissions to the administrator of LIBOR, and no consensus currently exists as to what benchmark rate or rates may become accepted alternatives to LIBOR. We cannot currently predict the effect of the discontinuation of, or other changes to, LIBOR or any establishment of alternative reference rates in the United States, the European Union or elsewhere on the global capital markets. The uncertainty regarding the future of LIBOR, as well as the transition from LIBOR to any alternative reference rate or rates, could have adverse impacts on our variable rate obligations that currently use LIBOR as a benchmark rate. We are in the process of evaluating our financing obligations and other contracts that refer to LIBOR. Outstanding debt under our Credit Agreement, which constitutes the most significant of our LIBOR-based debt obligations, contains provisions that address the potential discontinuation of LIBOR and facilitate the adoption of an alternate rate of interest. We do not believe that the discontinuation of LIBOR, or its replacement with an alternative reference rate or rates, will have a material impact on our results of operations, financial position or liquidity.

Cash interest payments were $87 million for the nine months ended September 30, 2019, including $46 million in semi-annual interest payments on our U.S. Notes (2023), Euro Notes (2024) and Euro Notes (2026/28). Interest payments on our U.S. Notes (2023) are made in May and November, and interest payments on our Euro Notes (2024) and Euro Notes (2026/28) are made in April and October.

We had outstanding credit agreement borrowings of $1.5 billion and $1.7 billion at September 30, 2019 and December 31, 2018, respectively. Of these amounts, $15 million and $9 million were classified as current maturities at September 30, 2019 and December 31, 2018, respectively.

The scheduled maturities of long-term obligations, inclusive of finance lease obligations, outstanding at September 30, 2019 are as follows (in thousands):

Three months ending December 31, 2019 (1):	$	103,696
Years ending December 31:		
2020		34,105
2021		30,443
2022		26,190
2023		621,651
Thereafter		3,080,637
Total debt (2)	$	3,896,722

(1) Maturities of long-term obligations due by December 31, 2019 includes $84 million of short-term debt that may be extended beyond the current due date.

(2) The total debt amounts presented above reflect the gross values to be repaid (excluding debt issuance costs of $31 million as of September 30, 2019).

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 September 30, 2019.

The following summarizes our required debt covenants and our actual ratios with respect to those covenants as calculated per the credit agreement as of September 30, 2019:

	Covenant Level	Ratio Achieved as of September 30, 2019
Maximum net leverage ratio	4.25:1.00	2.6
Minimum interest coverage ratio	3.00:1.00	9.9

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 September 30, 2019, the Company had cash and cash equivalents of $433 million, of which $256 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. 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.

The procurement of inventory is the largest operating use of our funds. We normally pay for aftermarket product purchases on standard payment terms or at the time of shipment, 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 three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2019	2018	Change	2019	2018	Change	
North America	$ 325,600	$ 333,100	$ (7,500)	$ 1,005,000	$ 1,054,900	$ (49,900)	(1)
Europe	1,009,700	1,096,800	(87,100)	2,931,300	2,591,000	340,300	(2)
Specialty	288,100	271,400	16,700	825,800	842,000	(16,200)	(3)
Total	$ 1,623,400	$ 1,701,300	$ (77,900)	$ 4,762,100	$ 4,487,900	$ 274,200	

(1) In North America, aftermarket purchases during the nine months ended September 30, 2019 decreased compared to the prior year period primarily as a result of an increased focus on inventory reduction.

(2) In our Europe segment, the increase in purchases during the nine months ended September 30, 2019 was primarily driven by (i) a $588 million increase attributable to incremental inventory purchases as a result of our acquisition of Stahlgruber in the second quarter of 2018, partially offset by (ii) a $32 million decrease attributable to our continental European operations and a $61 million decrease attributable to our U.K. operations primarily due to inventory reduction efforts. There was also a decrease of $146 million in inventory purchases attributable to the decrease in the value of the euro and pound sterling in the nine months ended September 30, 2019 compared to the prior year period.

(3) Specialty inventory purchases decreased $16 million during the nine months ended September 30, 2019 compared to the prior year period primarily as a result of an increased focus on inventory reduction.

The following table sets forth a summary of our global wholesale salvage and self service procurement for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
North America wholesale salvage cars and trucks	78	73	6.8 %	230	229	0.4 %
Europe wholesale salvage cars and trucks	5	6	(16.7)%	19	21	(9.5)%
Self service and "crush only" cars	151	136	11.0 %	455	427	6.6 %

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 nine months ended September 30, 2018	$	521	
(Decrease) increase due to:			
Operating income		(28)	(1)
Non-cash depreciation and amortization expense		19	(2)
Impairment of net assets held for sale		45	(3)
Cash paid for taxes		24	
Cash paid for interest		(12)	
Working capital accounts: (4)			
Accounts receivable		(31)	
Inventory		219	
Accounts payable		163	
Other operating activities		45	(5)
Net cash provided by operating activities for the nine months ended September 30, 2019	$	965	

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

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

(3) In the first nine months of 2019, we recorded impairment charges on net assets held for sale. See "Net Assets Held for Sale" in Note 4, "Financial Statement Information" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the net impairment charges.

(4) 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.

Inventory represented an incremental $219 million in cash inflows in 2019 as a result of deliberate inventory reduction efforts in all three segments to reflect organic revenue conditions, as disclosed in the procurement section above.

Accounts payable produced an incremental $163 million in cash flows primarily due to timing effects related to our May 30, 2018 acquisition of Stahlgruber. Additionally, we increased accounts payable through extension of vendor terms in North America.

Accounts receivable was a $31 million greater outflow in 2019, primarily attributable to timing effects from the Stahlgruber acquisition, and also to a lesser extent, the unwind of a receivables factoring program at Stahlgruber.

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

Net cash used in investing activities totaled $160 million for the nine months ended September 30, 2019, compared to $1.4 billion of cash used in investing activities during the nine months ended September 30, 2018. We invested $15 million of cash, net of cash acquired, in business acquisitions during the nine months ended September 30, 2019 compared to $1.2 billion during the nine months ended September 30, 2018, primarily related to the Stahlgruber acquisition. Property, plant and equipment purchases were $166 million in the first nine months of 2019 compared to $172 million in the prior year period. The period over period decrease in cash outflows for purchases of property, plant and equipment was due to decreases in our Specialty and North America segments. We received $20 million of net proceeds from divestitures of assets held for sale during the nine months ended September 30, 2019; no such proceeds were received in 2018.

Net cash used in financing activities totaled $690 million for the nine months ended September 30, 2019, compared to $1.0 billion provided by financing activities during the nine months ended September 30, 2018. We received $1.2 billion from our issuance of the Euro Notes (2026/2028) during the nine months ended September 30, 2019; no such proceeds were received in the current year. We repurchased $292 million of our common stock in the first nine months of 2019; we did not repurchase any shares in the comparable period of 2018. During the nine months ended September 30, 2019, net repayments of our borrowings totaled $391 million compared to $238 million during the nine months ended September 30, 2018.

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.

Item 3. 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 50.1% and 47.9% of our revenue during the nine months ended September 30, 2019 and the year ended December 31, 2018, respectively. An increase or decrease in the strength of the U.S. dollar against these currencies by 10% would result in a 5.0% change in our consolidated revenue and a 3.0% change in our operating income for the nine months ended September 30, 2019. See our Results of Operations discussion in Part I, Item 2 of this Quarterly Report on Form 10-Q 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 September 30, 2019 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 September 30, 2019, we had outstanding borrowings of €500 million under our Euro Notes (2024), €1.0 billion under our Euro Notes (2026/28), and £171 million, €101 million, CAD $130 million, and SEK 270 million under our revolving credit facilities. 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.

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 September 30, 2019, 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 September 30, 2019, the fair value of the interest rate swap contracts was an asset of $4 million. The values of such contracts are subject to changes in interest rates.

In addition to these interest rate swaps, as of September 30, 2019 we held five cross currency swap agreements for a total notional amount of $562 million (€519 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; and SunTrust Bank). As of September 30, 2019, the fair value of the interest rate swap components of the cross currency swaps was an asset of an immaterial amount and a liability of $1 million, and the fair value of the foreign currency forward components was an asset of $10 million and a liability of $13 million. The values of these contracts are subject to changes in interest rates and foreign currency exchange rates.

In total, we had 70% of our variable rate debt under our credit facilities at fixed rates at September 30, 2019 compared to 57% at December 31, 2018. See Note 10, "Long-Term Obligations" and Note 11, "Derivative Instruments and Hedging Activities" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

At September 30, 2019, we had approximately $447 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 $4 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 the three months ended September 30, 2019 has decreased 14% over the average for the second quarter of 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2019, the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of LKQ Corporation's management, including our Chief Executive Officer and our Chief Financial Officer, of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in providing reasonable assurance that information we are required to disclose in this Quarterly Report on Form 10-Q has been recorded, processed, summarized and reported as of the end of the period covered by this Quarterly Report on Form 10-Q. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Securities Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition and results of operations, and the trading price of our common stock. Please refer to our 2018 Form 10-K for information concerning risks and uncertainties that could negatively impact us. The following represents changes and/or additions to the risks and uncertainties previously disclosed in the 2018 Form 10-K.

***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. OEMs have brought such claims in federal court and with the U.S. International Trade Commission. In some cases, we have entered into patent license agreements with OEMs that allow us to sell aftermarket parts that replicate the patented parts in exchange for a royalty and otherwise in accordance with the terms of the agreements.

To the extent OEMs and other manufacturers obtain design patents or trademarks and are successful in asserting claims of infringement of these patents or trademarks against us, we could be restricted or prohibited from selling certain aftermarket products, which could have an adverse effect on our business. In the event that our license agreements, or other similar license arrangements with OEMs or others, 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 those design patents or trademarks. We have filed, and may file in the future, challenges to OEM patents. To the extent OEMs are successful in defending their patents, we could be restricted or prohibited from selling the corresponding aftermarket products, which could have an adverse effect on our business. Also, we will likely incur expenses investigating, pursuing and defending intellectual property claims.

U.S. Customs and Border Protection has taken the position that certain of our aftermarket parts infringe certain OEM trademarks and seized our aftermarket parts as we attempted to import them into the U.S. We incur costs and expenses attempting to convince Customs and Border Protection to release the seized goods and in litigation where we are seeking a determination of non-infringement. In the event we are unsuccessful in obtaining their release, such goods may be subject to forfeiture and other penalties.

Aftermarket products certifying organizations may revoke the certification of parts that are the subject of the intellectual property disputes. 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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 September 30, 2019 (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
July 1, 2019 - July 31, 2019	2,175	$ 26.44	2,175	$ 191,736
August 1, 2019 - August 31, 2019	1,706	$ 25.53	1,706	$ 148,187
September 1, 2019 - September 30, 2019	—	$ —	—	$ 148,187
Total	3,881		3,881	

On October 25, 2019, our Board of Directors authorized an increase to our existing stock repurchase program under which the Company may purchase up to an additional $500 million of our common stock from time to time through October 25, 2022; this extended date also applies to the original repurchase program. With the increase, the Board of Directors has authorized a total of $1.0 billion of common stock repurchases. As of the date of this filing, there was $648 million of remaining capacity under our repurchase program, with the additional $500 million authorization.

Item 6. Exhibits

Exhibits

(b) Exhibits

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 5, 2019.

LKQ CORPORATION

/s/ Varun Laroyia

Varun Laroyia

Executive Vice President and Chief Financial Officer

(As duly authorized officer and Principal Financial Officer)

/s/ Michael S. Clark

Michael S. Clark

Vice President - Finance and Controller

(As duly authorized officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Dominick Zarcone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LKQ Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 5, 2019

/s/ DOMINICK ZARCONE

Dominick Zarcone
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Varun Laroyia, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LKQ Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 5, 2019

/S/ VARUN LAROYIA

Varun Laroyia

Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LKQ Corporation (the “Company”) on Form 10-Q for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, as President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 5, 2019

/S/ DOMINICK ZARCONE

Dominick Zarcone
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LKQ Corporation (the “Company”) on Form 10-Q for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, as Executive Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 5, 2019

/S/ VARUN LAROYIA

Varun Laroyia

Executive Vice President and Chief Financial Officer