

**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, 2022

OR

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

For the Transition Period from to

Commission File Number: 000-50404

LKQ CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

500 West Madison Street, Suite 2800

Chicago, Illinois

(Address of principal executive offices)

36-4215970

(I.R.S. Employer Identification No.)

60661

(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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 27, 2022, the registrant had outstanding an aggregate of 267,174,985 shares of Common Stock.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 3,104	\$ 3,297	\$ 9,793	\$ 9,903
Cost of goods sold	1,828	1,953	5,793	5,850
Gross margin	1,276	1,344	4,000	4,053
Selling, general and administrative expenses	861	898	2,683	2,648
Restructuring and transaction related expenses	3	3	10	16
(Gain) on disposal of businesses and impairment of net assets held for sale	(4)	1	(159)	—
Depreciation and amortization	58	64	178	195
Operating income	358	378	1,288	1,194
Other expense (income):				
Interest expense, net of interest income	17	16	46	56
Loss on debt extinguishment	—	—	—	24
Other income, net	(6)	(3)	(4)	(15)
Total other expense, net	11	13	42	65
Income from continuing operations before provision for income taxes	347	365	1,246	1,129
Provision for income taxes	88	89	304	290
Equity in earnings of unconsolidated subsidiaries	2	8	8	17
Income from continuing operations	261	284	950	856
Net income from discontinued operations	1	—	5	—
Net income	262	284	955	856
Less: net income attributable to continuing noncontrolling interest	—	—	—	1
Net income attributable to LKQ stockholders	\$ 262	\$ 284	\$ 955	\$ 855
Basic earnings per share: ⁽¹⁾				
Income from continuing operations	\$ 0.95	\$ 0.97	\$ 3.39	\$ 2.86
Net income from discontinued operations	—	—	0.02	—
Net income	0.96	0.97	3.41	2.86
Less: net income attributable to continuing noncontrolling interest	—	—	—	—
Net income attributable to LKQ stockholders	\$ 0.96	\$ 0.97	\$ 3.41	\$ 2.86
Diluted earnings per share: ⁽¹⁾				
Income from continuing operations	\$ 0.95	\$ 0.96	\$ 3.38	\$ 2.85
Net income from discontinued operations	—	—	0.02	—
Net income	0.95	0.96	3.40	2.85
Less: net income attributable to continuing noncontrolling interest	—	—	—	—
Net income attributable to LKQ stockholders	\$ 0.95	\$ 0.96	\$ 3.40	\$ 2.85

⁽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 millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 262	\$ 284	\$ 955	\$ 856
Less: net income attributable to continuing noncontrolling interest	—	—	—	1
Net income attributable to LKQ stockholders	262	284	955	855
Other comprehensive loss:				
Foreign currency translation, net of tax	(187)	(48)	(391)	(51)
Net change in unrealized gains/losses on cash flow hedges, net of tax	—	—	—	1
Net change in unrealized gains/losses on pension plans, net of tax	1	—	1	1
Other comprehensive income (loss) from unconsolidated subsidiaries	2	—	4	(1)
Other comprehensive loss	(184)	(48)	(386)	(50)
Comprehensive income	78	236	569	806
Less: comprehensive income attributable to continuing noncontrolling interest	—	—	—	1
Comprehensive income attributable to LKQ stockholders	\$ 78	\$ 236	\$ 569	\$ 805

The accompanying notes are an integral part of the Unaudited Condensed Consolidated Financial Statements.

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

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 269	\$ 274
Receivables, net	1,051	1,073
Inventories	2,635	2,611
Prepaid expenses and other current assets	247	296
Total current assets	4,202	4,254
Property, plant and equipment, net	1,169	1,299
Operating lease assets, net	1,193	1,361
Goodwill	4,132	4,540
Other intangibles, net	626	746
Equity method investments	146	181
Other noncurrent assets	198	225
Total assets	\$ 11,666	\$ 12,606
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,356	\$ 1,176
Accrued expenses:		
Accrued payroll-related liabilities	224	261
Refund liability	108	107
Other accrued expenses	309	271
Current portion of operating lease liabilities	181	203
Current portion of long-term obligations	50	35
Other current liabilities	123	112
Total current liabilities	2,351	2,165
Long-term operating lease liabilities, excluding current portion	1,066	1,209
Long-term obligations, excluding current portion	2,390	2,777
Deferred income taxes	246	279
Other noncurrent liabilities	312	365
Commitments and contingencies		
Redeemable noncontrolling interest	24	24
Stockholders' equity:		
Common stock, \$0.01 par value, 1,000.0 shares authorized, 322.3 shares issued and 270.1 shares outstanding at September 30, 2022; 321.6 shares issued and 287.0 shares outstanding at December 31, 2021	3	3
Additional paid-in capital	1,499	1,474
Retained earnings	6,536	5,794
Accumulated other comprehensive loss	(539)	(153)
Treasury stock, at cost; 52.2 shares at September 30, 2022 and 34.6 shares at December 31, 2021	(2,237)	(1,346)
Total Company stockholders' equity	5,262	5,772
Noncontrolling interest	15	15
Total stockholders' equity	5,277	5,787
Total liabilities and stockholders' equity	\$ 11,666	\$ 12,606

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 millions)

	Nine Months Ended September 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 955	\$ 856
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	197	212
(Gain) on disposal of businesses and impairment of net assets held for sale	(159)	—
Stock-based compensation expense	31	25
Loss on debt extinguishment	—	24
Other	(22)	(45)
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Receivables, net	(118)	(134)
Inventories	(349)	(53)
Prepaid income taxes/income taxes payable	63	(29)
Accounts payable	378	378
Other operating assets and liabilities	34	128
Net cash provided by operating activities	<u>1,010</u>	<u>1,362</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(148)	(133)
Proceeds from disposals of property, plant and equipment	5	16
Acquisitions, net of cash acquired	(4)	(67)
Proceeds from disposals of businesses	399	6
Other investing activities, net	(8)	(23)
Net cash provided by (used in) investing activities	<u>244</u>	<u>(201)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Early-redemption premium	—	(16)
Repayment of Euro Notes (2026)	—	(883)
Borrowings under revolving credit facilities	1,323	4,098
Repayments under revolving credit facilities	(1,451)	(3,242)
Repayments under term loans	—	(324)
Borrowings (repayments) of other debt, net	9	(18)
Settlement of derivative instruments, net	—	(89)
Dividends paid to LKQ stockholders	(210)	—
Purchase of treasury stock	(872)	(575)
Other financing activities, net	(16)	(17)
Net cash used in financing activities	<u>(1,217)</u>	<u>(1,066)</u>
Effect of exchange rate changes on cash and cash equivalents	(42)	(4)
Net (decrease) increase in cash and cash equivalents	(5)	91
Cash and cash equivalents, beginning of period	274	312
Cash and cash equivalents, end of period	<u>\$ 269</u>	<u>\$ 403</u>
Supplemental disclosure of cash paid for:		
Income taxes, net of refunds	\$ 250	\$ 337
Interest	\$ 38	\$ 53

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 millions, except per share data)

LKQ Stockholders									
	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of July 1, 2022	322.0	\$ 3	(45.4)	\$ (1,894)	\$ 1,492	\$ 6,344	\$ (355)	\$ 15	\$ 5,605
Net income	—	—	—	—	—	262	—	—	262
Other comprehensive loss	—	—	—	—	—	—	(184)	—	(184)
Purchase of treasury stock	—	—	(6.8)	(343)	—	—	—	—	(343)
Vesting of restricted stock units, net of shares withheld for employee tax	0.3	—	—	—	(1)	—	—	—	(1)
Stock-based compensation expense	—	—	—	—	8	—	—	—	8
Dividends declared to LKQ stockholders (\$0.25 per share)	—	—	—	—	—	(70)	—	—	(70)
Balance as of September 30, 2022	322.3	\$ 3	(52.2)	\$ (2,237)	\$ 1,499	\$ 6,536	\$ (539)	\$ 15	\$ 5,277

LKQ Stockholders									
	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of July 1, 2021	321.3	\$ 3	(25.0)	\$ (830)	\$ 1,459	\$ 5,347	\$ (101)	\$ 17	\$ 5,895
Net income	—	—	—	—	—	284	—	—	284
Other comprehensive loss	—	—	—	—	—	—	(48)	—	(48)
Purchase of treasury stock	—	—	(4.3)	(219)	—	—	—	—	(219)
Vesting of restricted stock units, net of shares withheld for employee tax	0.3	—	—	—	(2)	—	—	—	(2)
Stock-based compensation expense	—	—	—	—	8	—	—	—	8
Balance as of September 30, 2021	321.6	\$ 3	(29.3)	\$ (1,049)	\$ 1,465	\$ 5,631	\$ (149)	\$ 17	\$ 5,918

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 millions, except per share data)

LKQ Stockholders									
	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of January 1, 2022	321.6	\$ 3	(34.6)	\$ (1,346)	\$ 1,474	\$ 5,794	\$ (153)	\$ 15	\$ 5,787
Net income	—	—	—	—	—	955	—	—	955
Other comprehensive loss	—	—	—	—	—	—	(386)	—	(386)
Purchase of treasury stock	—	—	(17.6)	(891)	—	—	—	—	(891)
Vesting of restricted stock units, net of shares withheld for employee tax	0.7	—	—	—	(6)	—	—	—	(6)
Stock-based compensation expense	—	—	—	—	31	—	—	—	31
Dividends declared to LKQ stockholders (\$0.75 per share)	—	—	—	—	—	(213)	—	—	(213)
Balance as of September 30, 2022	322.3	\$ 3	(52.2)	\$ (2,237)	\$ 1,499	\$ 6,536	\$ (539)	\$ 15	\$ 5,277

LKQ Stockholders									
	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of January 1, 2021	320.9	\$ 3	(17.3)	\$ (469)	\$ 1,444	\$ 4,776	\$ (99)	\$ 16	\$ 5,671
Net income	—	—	—	—	—	855	—	1	856
Other comprehensive loss	—	—	—	—	—	—	(50)	—	(50)
Purchase of treasury stock	—	—	(12.0)	(580)	—	—	—	—	(580)
Vesting of restricted stock units, net of shares withheld for employee tax	0.7	—	—	—	(4)	—	—	—	(4)
Stock-based compensation expense	—	—	—	—	25	—	—	—	25
Balance as of September 30, 2021	321.6	\$ 3	(29.3)	\$ (1,049)	\$ 1,465	\$ 5,631	\$ (149)	\$ 17	\$ 5,918

The accompanying notes are an integral part of the Unaudited Condensed Consolidated Financial Statements.

LKQ CORPORATION AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Interim Financial Statements

LKQ Corporation, a Delaware 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 U.S. 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.

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, 2021 filed with the SEC on February 25, 2022 ("2021 Form 10-K").

In the current year, we changed the presentation of our Unaudited Condensed Consolidated Financial Statements from thousands to millions and, as a result, any necessary rounding adjustments have been made to prior year disclosed amounts.

Note 2. Financial Statement Information

Allowance for Credit Losses

Receivables, net are reported net of an allowance for credit losses. Management evaluates the aging of customer receivable balances, the financial condition of our customers, historical trends, and macroeconomic factors to estimate the amount of customer receivables that may not be collected in the future and records a provision it believes is appropriate. Our reserve for expected credit losses was \$51 million and \$53 million as of September 30, 2022 and December 31, 2021, respectively. The provision for credit losses was insignificant for both the three months ended September 30, 2022 and 2021 and \$9 million and \$3 million for the nine months ended September 30, 2022 and 2021, respectively.

Inventories

Inventories consist of the following (in millions):

	September 30, 2022	December 31, 2021
Aftermarket and refurbished products	\$ 2,167	\$ 2,168
Salvage and remanufactured products	423	406
Manufactured products	45	37
Total inventories	<u>\$ 2,635</u>	<u>\$ 2,611</u>

Aftermarket and refurbished products and salvage and remanufactured products are primarily composed of finished goods. As of September 30, 2022, manufactured products inventory was composed of \$26 million of raw materials, \$6 million of work in process, and \$13 million of finished goods. As of December 31, 2021, manufactured products inventory was composed of \$27 million of raw materials, \$4 million of work in process, and \$5 million of finished goods.

Divestitures

In March 2022, we entered into a definitive agreement to sell PGW Auto Glass ("PGW"), our aftermarket glass business within our Wholesale - North America segment, to a third party. The sale was completed in April 2022 for \$361 million resulting in recognition of a \$155 million pretax gain (\$127 million after tax). In September 2022, we completed the sale of a business within our Self Service segment, to a third party, resulting in proceeds of \$25 million and the recognition of a \$4 million pretax gain (\$3 million after tax).

Discontinued Operations

For the three months ended September 30, 2022, we recorded a \$1 million benefit related to the settlement of a previously recorded use tax liability connected to a disposed business. For the nine months ended September 30, 2022, we recorded a \$5 million benefit primarily related to the reassessment of a previously recorded valuation allowance on a deferred tax asset connected to a disposed business.

Intangible Assets

Goodwill and indefinite-lived intangible assets are tested for impairment at least annually. We performed our annual impairment test during the fourth quarter of 2021, and determined no impairment existed as all of our reporting units had a fair value estimate which exceeded the carrying value by at least 70%. The fair value estimates of our reporting units were established using weightings of the results of a discounted cash flow methodology and a comparative market multiples approach. Goodwill impairment testing may also be performed on an interim basis when events or circumstances arise that may lead to impairment. We did not identify any indicators of impairment in the first nine months of 2022 that necessitated an interim test of goodwill impairment or indefinite-lived intangible assets impairment.

Investments in Unconsolidated Subsidiaries

We account for our Investments in unconsolidated subsidiaries using the equity method of accounting, as our investments give us the ability to exercise significant influence, but not control, over the investee.

The carrying value of our Investments in unconsolidated subsidiaries were as follows (in millions):

	Ownership as of September 30, 2022	September 30, 2022	December 31, 2021
MEKO AB ⁽¹⁾⁽²⁾	26.6%	\$ 134	\$ 145
Other ⁽³⁾		12	36
Total		<u>\$ 146</u>	<u>\$ 181</u>

⁽¹⁾ As of September 30, 2022, the fair value of our investment in MEKO AB ("Mekonomen") was \$135 million based on the quoted market price for Mekonomen's common stock using the same foreign exchange rate as the carrying value.

⁽²⁾ As of September 30, 2022, our share of the book value of Mekonomen's net assets exceeded the book value of our investment by \$8 million; this difference is primarily related to Mekonomen's Accumulated Other Comprehensive Income balance as of our acquisition date in 2016. We record our equity in the net earnings of Mekonomen on a one quarter lag.

⁽³⁾ In June 2022, we sold an investment in our Self Service segment resulting in a decrease to the carrying value of \$22 million, recognizing an insignificant gain upon sale.

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 or four 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 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 millions):

	Warranty Reserve
Balance as of December 31, 2021	\$ 30
Warranty expense	56
Warranty claims	(55)
Balance as of September 30, 2022	<u>\$ 31</u>

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

Our Board of Directors has authorized a stock repurchase program under which we are able to purchase our common stock from time to time. 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. Repurchased shares are accounted for as treasury stock using the cost method. On May 10, 2022, our Board of Directors authorized a \$500 million increase to our existing stock repurchase program to \$2,500 million. On October 25, 2022, our Board of Directors authorized an additional \$1,000 million increase to our existing stock repurchase program, raising the aggregate program authorization to \$3,500 million, and extended the duration through October 25, 2025.

During the three and nine months ended September 30, 2022, we repurchased 6.8 million and 17.6 million shares of common stock, respectively, for an aggregate price of \$343 million and \$891 million, respectively. During the three and nine months ended September 30, 2021, we repurchased 4.3 million and 12.0 million shares of common stock, respectively, for an aggregate price of \$219 million and \$580 million, respectively. As of September 30, 2022, there was \$263 million of remaining capacity under our repurchase program.

Noncontrolling Interest

We present redeemable noncontrolling interest on our balance sheet related to redeemable shares issued to a minority shareholder in conjunction with a previous acquisition. The redeemable shares contain (i) a put option for all noncontrolling interest shares at a fixed price of \$24 million (€21 million) for the minority shareholder exercisable in the fourth quarter of 2023, (ii) a call option for all noncontrolling interest shares at a fixed price of \$26 million (€23 million) for us exercisable beginning in the first quarter of 2026 through the end of the fourth quarter of 2027, and (iii) a guaranteed dividend to be paid quarterly to the minority shareholder through the fourth quarter of 2023. The redeemable shares do not provide the minority shareholder with rights to participate in the profits and losses of the subsidiary prior to the exercise date of the put option. As the put option is outside our control, we recorded a \$24 million Redeemable noncontrolling interest at the put option's redemption value outside of permanent equity on our Unaudited Condensed Consolidated Balance Sheets.

Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements

In September 2022, the Financial Accounting Standards Board issued Accounting Standards Update No. 2022-04, "Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations" ("ASU 2022-04"), which requires the buyer in a supplier finance program to disclose certain information about their program, including key terms, balance sheet presentation of amounts, outstanding amounts at the end of each period, and rollforwards of balances. ASU 2022-04 is effective for fiscal years beginning after December 15, 2022 on a retrospective basis, including interim periods within those fiscal years, except for the disclosure of rollforward information, which is effective prospectively for fiscal years beginning after December 15, 2023. We are currently evaluating the impact ASU 2022-04 will have on our Consolidated Financial Statements.

Note 3. Revenue Recognition

The majority of our revenue is derived from the sale of vehicle parts. We recognize revenue for the sale of products at the point in time when the performance obligation has been satisfied and control has transferred to the customer, which generally occurs upon shipment or delivery to a customer based on terms of the sale.

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, disaggregated by reportable segment (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Wholesale - North America	\$ 1,026	\$ 1,025	\$ 3,182	\$ 3,018
Europe	1,376	1,520	4,327	4,545
Specialty	452	465	1,424	1,454
Self Service	55	51	172	154
Parts and services	2,909	3,061	9,105	9,171
Wholesale - North America	82	87	271	263
Europe	4	5	18	20
Self Service	109	144	399	449
Other	195	236	688	732
Total revenue	\$ 3,104	\$ 3,297	\$ 9,793	\$ 9,903

Parts and Services

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.

For Wholesale - North America and Self Service, vehicle replacement products include sheet metal collision parts such as doors, hoods, and fenders; bumper covers; head and tail lamps; mirrors; grilles; wheels; and large mechanical items such as engines and transmissions. For Europe, vehicle replacement 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. For our Specialty operations, we serve seven product segments: truck and off-road; speed and performance; recreational vehicles; towing; wheels, tires and performance handling; marine; and miscellaneous accessories.

Our service-type warranties typically have service periods ranging from 6 months to 36 months. 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 millions):

	Service-Type Warranties
Balance as of January 1, 2022	\$ 32
Additional warranty revenue deferred	44
Warranty revenue recognized	(43)
Balance as of September 30, 2022	\$ 33

Other Revenue

Revenue from other sources include sales of scrap and precious metals (platinum, palladium, and rhodium), bulk sales to mechanical manufacturers (including cores) and sales of aluminum ingots and sows from furnace operations. We derive scrap metal and other precious metals from several sources in both our Wholesale - North America and Self Service segments, including vehicles that have been used in our recycling operations and vehicles from original equipment manufacturers ("OEMs") and other entities that contract with us for secure disposal of "crush only" vehicles. Revenue from the sale of hulks in our Wholesale - North America and Self Service segments is recognized based on a price per ton of delivered material when the customer (processor) collects the scrap.

Revenue by Geographic Area

See Note 13, "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 including returns, discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, or other similar items. We utilize the "expected value method" or the "most likely amount" method in order to estimate variable consideration, 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 \$108 million and \$58 million, respectively, as of September 30, 2022, and \$107 million and \$58 million, respectively, as of December 31, 2021. The refund liability is presented separately on the Unaudited Condensed Consolidated Balance Sheets 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 that are recorded in Receivables, net on the Unaudited Condensed Consolidated Balance Sheets. We recorded a reserve for our variable consideration of \$120 million and \$144 million as of September 30, 2022 and December 31, 2021, respectively.

Note 4. Restructuring and Transaction Related Expenses

Global Restructuring Programs

In 2019, we commenced a cost reduction initiative, covering all of our reportable segments, designed to eliminate underperforming assets and cost inefficiencies. This program was expanded in 2020 as we identified additional opportunities to eliminate inefficiencies, including actions in response to impacts to the business from COVID-19. 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 of earlier than the end of the previously estimated useful lives.

During the three and nine months ended September 30, 2022, we incurred restructuring expenses totaling \$1 million and \$2 million, respectively, primarily related to employee-related costs and facility exit costs under these programs. During the three and nine months ended September 30, 2021, we recognized net restructuring expenses totaling \$2 million and \$9 million, respectively, which included employee-related costs, facility exit costs, and a \$3 million gain in the first quarter from the sale of a building to be closed. Of the cumulative program costs incurred to date, \$59 million, \$43 million, \$2 million and \$2 million related to our Europe, Wholesale - North America, Specialty and Self Service segments, respectively. The actions under the 2019 Global Restructuring Program are substantially complete and the 2020 Global Restructuring Program is expected to be completed in 2023. We estimate total costs under the programs through their expected completion dates will be between \$108 million and \$115 million, of which approximately \$63 million, \$44 million, \$2 million and \$2 million will be incurred by our Europe, Wholesale - North America, Specialty and Self Service segments, respectively; these segment amounts represent the approximate midpoints of the expected ranges of costs to be incurred by each segment.

As of September 30, 2022 and December 31, 2021, restructuring liabilities incurred related to these programs totaled \$10 million and \$14 million, respectively, including \$6 million and \$9 million, respectively, related to leases we have exited or expect to exit prior to the end of the lease term (reported in Current portion of operating lease liabilities and Long-term operating lease liabilities, excluding current portion on our Unaudited Condensed Consolidated Balance Sheets). Our lease-related restructuring liabilities are estimated based on remaining rent payments after our actual exit date for facilities closed as of September 30, 2022 and after our planned exit date for facilities we expect to close in future periods; these liabilities do not reflect any estimated proceeds we may be able to achieve through subleasing the facilities.

Acquisition Integration Plans

We incurred \$2 million of restructuring expenses for the nine months ended September 30, 2022, primarily related to the integration of acquisitions completed in our Europe segment. We did not incur a significant amount of expenses for the three months ended September 30, 2022. We expect to incur future expenses of up to \$5 million to complete an integration plan related to 2021 acquisitions completed in our Specialty segment.

During the three and nine months ended September 30, 2021, we did not incur a significant amount of restructuring expenses for our acquisition integration plans.

1 LKQ Europe Program

In 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 are reorganizing 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 completed the organizational design and implementation projects in June 2021, with the remaining projects scheduled to be completed by the end of 2025.

During the three and nine months ended September 30, 2022, we incurred \$1 million of employee-related charges under our 1 LKQ Europe program. During the nine months ended September 30, 2021, we incurred \$6 million of employee-related restructuring charges. We did not incur a significant amount of expenses for the three months ended September 30, 2021. We estimate that we will incur between \$40 million and \$50 million in total personnel and inventory-related restructuring charges through 2025 under the program. We may identify additional initiatives and projects under the 1 LKQ Europe program in future periods 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. As of September 30, 2022, the restructuring liabilities related to this program were insignificant.

Transaction Related Expenses

During the three and nine months ended September 30, 2022, we incurred \$1 million and \$5 million of transaction related expenses, respectively. During the three and nine months ended September 30, 2021, we incurred \$1 million of transaction related expenses. These expenses included external costs such as legal, accounting and advisory fees related to completed and potential transactions.

Note 5. Stock-Based Compensation

RSUs

The following table summarizes activity related to our restricted stock units ("RSUs") under the LKQ Corporation 1998 Equity Incentive Plan (the "Equity Incentive Plan") for the nine months ended September 30, 2022 (in millions, except years and per share amounts):

	Number Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ⁽¹⁾
Unvested as of January 1, 2022	1.4	\$ 34.85		
Granted ⁽²⁾	0.7	\$ 49.04		
Vested	(0.7)	\$ 37.03		
Forfeited / Canceled	(0.1)	\$ 42.99		
Unvested as of September 30, 2022	1.3	\$ 40.89		
Expected to vest after September 30, 2022	1.1	\$ 41.23	2.8	\$ 52

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

⁽²⁾ The weighted average grant date fair value of RSUs granted during the nine months ended September 30, 2021 was \$39.12.

The fair value of RSUs that vested during the nine months ended September 30, 2022 was \$36 million; the fair value of RSUs vested is based on the market price of LKQ stock on the date vested.

PSUs

The following table summarizes activity related to our performance-based RSUs ("PSUs") under the Equity Incentive Plan for the nine months ended September 30, 2022 (in millions, except years and per share amounts):

	Number Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ⁽¹⁾
Unvested as of January 1, 2022	0.5	\$ 31.96		
Granted ⁽²⁾	0.1	\$ 48.95		
Vested	(0.2)	\$ 27.74		
Unvested as of September 30, 2022	0.4	\$ 38.84		
Expected to vest after September 30, 2022	0.4	\$ 38.81	1.2	\$ 18

⁽¹⁾ The aggregate intrinsic value of expected to vest PSUs represents the total pretax intrinsic value (the fair value of LKQ'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 the expected to vest PSUs vested. This amount changes based on the market price of LKQ's common stock and the achievement of the performance metrics relative to the established targets.

⁽²⁾ Represents the number of PSUs at target payout. The weighted average grant date fair value of PSUs granted during the nine months ended September 30, 2021 was \$38.31.

The fair value of PSUs that vested during the nine months ended September 30, 2022 was \$8 million; the fair value of PSUs vested is based on the market price of LKQ stock on the date vested.

Stock-Based Compensation Expense

Pre-tax stock-based compensation expense for RSUs and PSUs totaled \$8 million and \$31 million for the three and nine months ended September 30, 2022, respectively, and \$8 million and \$25 million for the three and nine months ended September 30, 2021, respectively. As of September 30, 2022, unrecognized compensation expense related to unvested RSUs and PSUs was \$51 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 current achievement estimates.

Note 6. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Income from continuing operations	\$ 261	\$ 284	\$ 950	\$ 856
Denominator for basic earnings per share—Weighted-average shares outstanding	273.8	294.0	280.2	299.2
Effect of dilutive securities:				
RSUs	0.4	0.7	0.6	0.6
PSUs	0.4	0.2	0.4	0.2
Denominator for diluted earnings per share—Adjusted weighted-average shares outstanding	274.6	294.9	281.2	300.0
Basic earnings per share from continuing operations	\$ 0.95	\$ 0.97	\$ 3.39	\$ 2.86
Diluted earnings per share from continuing operations ⁽¹⁾	\$ 0.95	\$ 0.96	\$ 3.38	\$ 2.85

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

The number of antidilutive securities was de minimis for all periods presented.

Note 7. Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended September 30, 2022			
	Foreign Currency Translation	Unrealized Gain (Loss) on Pension Plans	Other Comprehensive Income (Loss) from Unconsolidated Subsidiaries	Accumulated Other Comprehensive Income (Loss)
Balance as of July 1, 2022	\$ (325)	\$ (24)	\$ (6)	\$ (355)
Pretax loss	(187)	—	—	(187)
Reclassification of unrealized loss	—	1	—	1
Other comprehensive income from unconsolidated subsidiaries	—	—	2	2
Balance as of September 30, 2022	<u>\$ (512)</u>	<u>\$ (23)</u>	<u>\$ (4)</u>	<u>\$ (539)</u>

	Three Months Ended September 30, 2021			
	Foreign Currency Translation	Unrealized Gain (Loss) on Pension Plans	Other Comprehensive Income (Loss) from Unconsolidated Subsidiaries	Accumulated Other Comprehensive Income (Loss)
Balance as of July 1, 2021	\$ (60)	\$ (32)	\$ (9)	\$ (101)
Pretax loss	(48)	—	—	(48)
Balance as of September 30, 2021	<u>\$ (108)</u>	<u>\$ (32)</u>	<u>\$ (9)</u>	<u>\$ (149)</u>

	Nine Months Ended September 30, 2022			
	Foreign Currency Translation	Unrealized Gain (Loss) on Pension Plans	Other Comprehensive Income (Loss) from Unconsolidated Subsidiaries	Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2022	\$ (121)	\$ (24)	\$ (8)	\$ (153)
Pretax loss	(395)	—	—	(395)
Reclassification of unrealized loss	—	1	—	1
Disposal of business	4	—	—	4
Other comprehensive income from unconsolidated subsidiaries	—	—	4	4
Balance as of September 30, 2022	<u>\$ (512)</u>	<u>\$ (23)</u>	<u>\$ (4)</u>	<u>\$ (539)</u>

Nine Months Ended September 30, 2021

	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized Gain (Loss) on Pension Plans	Other Comprehensive Income (Loss) from Unconsolidated Subsidiaries	Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2021	\$ (57)	\$ (1)	\$ (33)	\$ (8)	\$ (99)
Pretax (loss) income	(51)	3	—	—	(48)
Income tax effect	—	(1)	—	—	(1)
Reclassification of unrealized (gain) loss	—	(2)	1	—	(1)
Reclassification of deferred income taxes	—	1	—	—	1
Other comprehensive loss from unconsolidated subsidiaries	—	—	—	(1)	(1)
Balance as of September 30, 2021	<u>\$ (108)</u>	<u>\$ —</u>	<u>\$ (32)</u>	<u>\$ (9)</u>	<u>\$ (149)</u>

During the nine months ended September 30, 2021, net unrealized losses on interest rate swaps totaling \$1 million were recorded to Interest expense, net of interest income in the Unaudited Condensed Consolidated Statements of Income. During the nine months ended September 30, 2021, net unrealized gains on cross currency swaps totaling \$1 million were recorded to Interest expense, net of interest income in the Unaudited Condensed Consolidated Statements of Income. During the nine months ended September 30, 2021, net unrealized gains on cross currency swaps totaling \$2 million were recorded to Other income, net in the Unaudited Condensed Consolidated Statements of Income; these amounts offset the impact of the remeasurement of the underlying transactions.

Net unrealized losses and gains related to our pension plans were recorded to Other income, net in the Unaudited Condensed Consolidated Statements of Income during each of the three and nine-month periods ended September 30, 2022 and 2021.

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.

Note 8. Long-Term Obligations

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

		September 30, 2022		December 31, 2021	
	Maturity Date	Interest Rate	Amount	Interest Rate	Amount
Senior Secured Credit Agreement:					
Revolving credit facilities	January 2024	2.99 % ⁽¹⁾	\$ 1,621	1.10 % ⁽¹⁾	\$ 1,887
Senior Notes:					
Euro Notes (2024)	April 2024	3.88 %	490	3.88 %	569
Euro Notes (2028)	April 2028	4.13 %	245	4.13 %	284
Notes payable	Various through October 2030	3.23 % ⁽¹⁾	15	2.80 % ⁽¹⁾	23
Finance lease obligations		3.83 % ⁽¹⁾	46	3.50 % ⁽¹⁾	52
Other debt		2.41 % ⁽¹⁾	30	1.10 % ⁽¹⁾	9
Total debt			2,447		2,824
Less: long-term debt issuance costs			(7)		(12)
Total debt, net of debt issuance costs			2,440		2,812
Less: current maturities, net of debt issuance costs			(50)		(35)
Long term debt, net of debt issuance costs			\$ 2,390		\$ 2,777

⁽¹⁾ Interest rate derived via a weighted average

Senior Secured Credit Agreement

On November 23, 2021, LKQ Corporation and certain other subsidiaries of LKQ (collectively, the "Borrowers") entered into Amendment No. 6 to the Fourth Amended and Restated Credit Agreement dated January 29, 2016 (the "Credit Agreement"), which modified certain interest rates to provide that (1) Loans denominated in euros shall bear interest at a rate per annum equal to the Euro Interbank Offered Rate as administered by the European Money Markets Institute (or a comparable or successor administrator approved by the Administrative Agent) plus the Applicable Rate, (2) Swingline Loans denominated in pounds sterling shall bear interest at a rate per annum equal to the Sterling Overnight Index Average as administered by the Bank of England (or any successor administrator of the Sterling Overnight Index Average) ("SONIA") plus the Applicable Rate, (3) Revolving Loans denominated in pounds sterling shall bear interest at a rate per annum equal to SONIA plus an adjustment equal to 0.0326% per annum plus the Applicable Rate, and (4) Loans denominated in Swiss francs shall bear interest at a rate per annum equal to the Swiss Average Rate Overnight as administered by SIX Swiss Exchange AG (or any successor administrator of the Swiss Average Rate Overnight) plus the Applicable Rate. All other interest rates remain the same.

We also had the option to prepay outstanding amounts under the Credit Agreement without penalty. We were required to prepay the term loan by amounts equal to proceeds from the sale or disposition of certain assets if the proceeds were not reinvested within twelve months. During the second quarter of 2021, we exercised our option to prepay the outstanding amount on the term loan, and thus did not have any term loan borrowings as of September 30, 2022.

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.

On April 18, 2022, S&P Global Ratings assigned LKQ an issuer credit rating of 'BBB-' with a stable outlook. This rating upgrade triggered the banks in our credit facility to release all collateral required under the Credit Agreement and suspend all collateral requirements.

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 the 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. 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.

The total capacity under the revolving credit facility's multicurrency component is \$3,150 million. Of the total borrowings outstanding under the Credit Agreement, there were no current maturities as of September 30, 2022 or December 31, 2021. As of September 30, 2022, 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, 2022 was \$1,460 million.

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.

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.

On May 31, 2022, Moody's Investors Services upgraded the rating on LKQ Italia's senior unsecured notes to Baa3 with a stable outlook. This rating upgrade, combined with the upgrade to BBB- by S&P Global Ratings in April 2022, triggered a Covenant Suspension Event, and LKQ and its subsidiaries will no longer be required to comply with certain restrictive covenants.

Euro Notes (2026/2028)

On April 9, 2018, LKQ European Holdings B.V. ("LKQ Euro Holdings"), a wholly-owned subsidiary of LKQ Corporation, completed an offering of €1,000 million aggregate principal amount of senior notes. The offering consisted of €750 million senior notes due 2026 (the "Euro Notes (2026)") and €250 million senior notes due 2028 (the "Euro Notes (2028)") and, together with the Euro Notes (2026), 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 used (i) to 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.

On April 1, 2021, we redeemed the 3.625% Euro Notes (2026) at a redemption price equal to 101.813% of the principal amount of the Euro Notes (2026) plus accrued and unpaid interest thereon to, but not including, April 1, 2021. The total redemption payment was \$915 million (€777 million), including an early redemption premium of \$16 million (€14 million) and accrued and unpaid interest of \$16 million (€14 million). In the second quarter of 2021, we recorded a loss on debt extinguishment of \$24 million related to the redemption due to the early-redemption premium and the write-off of the unamortized debt issuance costs.

Interest on the Euro Notes (2028) is payable in arrears on April 1 and October 1 of each year. The Euro Notes (2028) are fully and unconditionally guaranteed by LKQ Corporation and the Euro Notes (2028) Subsidiaries (the "Euro Notes (2028) Guarantors").

The Euro Notes (2028) and the related guarantees are, respectively, LKQ Euro Holdings' and each Euro Notes (2028) Guarantor's senior unsecured obligations and will be subordinated to all of LKQ Euro Holdings' and the Euro Notes (2028) Guarantors' existing and future secured debt to the extent of the assets securing that secured debt. In addition, the Euro Notes (2028) are effectively subordinated to all of the liabilities of our subsidiaries that are not guaranteeing the Euro Notes (2028) to the extent of the assets of those subsidiaries. The Euro Notes (2028) have been listed on the Global Exchange Market of Euronext Dublin.

The Euro Notes (2028) 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, 2023, we may redeem some or all of the Euro Notes (2028) at the applicable redemption prices set forth in the Euro Notes (2026/28) Indenture. We may be required to make an offer to purchase the Euro Notes (2028) 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 (2028) 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.

On May 31, 2022, Moody's Investors Services upgraded the rating on LKQ Euro Holdings' senior unsecured notes to Baa3 with a stable outlook. This rating upgrade, combined with the upgrade to BBB- by S&P Global Ratings in April 2022, triggered a Covenant Suspension Event, and LKQ and its subsidiaries will no longer be required to comply with certain restrictive covenants.

Note 9. Derivative Instruments and Hedging Activities

Cash Flow Hedges

Through June 30, 2021, we held interest rate swap agreements to hedge a portion of the variable interest rate risk on our variable rate borrowings under our Credit Agreement and cross currency swaps, which contained an interest rate swap component and a foreign currency forward contract component that, combined with related intercompany financing arrangements, effectively converted variable rate U.S. dollar-denominated borrowings into fixed rate euro-denominated borrowings. The interest rate swap agreements and cross currency swaps were settled as of June 2021 and no cash flow hedges remained outstanding as of September 30, 2022 and December 31, 2021, respectively.

The activity related to our previously matured cash flow hedges is included in Note 7, "Accumulated Other Comprehensive Income (Loss)" and presented in either operating activities or financing activities in our Unaudited Condensed Consolidated Statements of Cash Flows.

Other Derivative Instruments Not Designated as Hedges

We hold other short-term derivative instruments, including foreign currency forward contracts, to manage our exposure to variability in the cash flows related to inventory purchases denominated in a non-functional currency. We have elected not to apply hedge accounting for these transactions. The notional amount and fair value of these contracts at September 30, 2022 and December 31, 2021, along with the effect on our results of operations during the three and nine months ended September 30, 2022 and 2021, were not material.

Note 10. 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, 2022, 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 for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following tables present information about our financial 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, 2022 and December 31, 2021 (in millions):

	Balance as of September 30, 2022	Fair Value Measurements as of September 30, 2022		
		Level 1	Level 2	Level 3
Liabilities:				
Contingent consideration liabilities	\$ 13	\$ —	\$ —	\$ 13
Deferred compensation liabilities	68	—	68	—
Total Liabilities	\$ 81	\$ —	\$ 68	\$ 13

	Balance as of December 31, 2021	Fair Value Measurements as of December 31, 2021		
		Level 1	Level 2	Level 3
Liabilities:				
Contingent consideration liabilities	\$ 18	\$ —	\$ —	\$ 18
Deferred compensation liabilities	89	—	89	—
Total Liabilities	\$ 107	\$ —	\$ 89	\$ 18

The current portion of contingent consideration liabilities is included in Other current liabilities on the Unaudited Condensed Consolidated Balance Sheets; deferred compensation liabilities and the noncurrent portion of contingent consideration liabilities are included in Other noncurrent liabilities on the Unaudited Condensed Consolidated Balance Sheets based on the expected timing of the related payments.

Our Level 2 liabilities are valued using inputs from third parties and market observable data. We obtain valuation data for the deferred compensation liabilities from third party sources, which use quoted market prices, investment allocations and reportable trades.

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.

We also have equity investments recorded in Other noncurrent assets that are reported at fair value. We have used net asset value as a practical expedient to value these equity investments and thus they are excluded from the fair value hierarchy disclosure.

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, 2022 and December 31, 2021, the fair value of the credit agreement borrowings reasonably approximated the carrying values of \$1,621 million and \$1,887 million, respectively. As of September 30, 2022 and December 31, 2021, the fair values of the Euro Notes (2024) were approximately \$479 million and \$605 million, respectively, compared to carrying values of \$490 million and \$569 million, respectively. As of September 30, 2022 and December 31, 2021, the fair values of the Euro Notes (2028) were \$229 million and \$301 million, respectively, compared to carrying values of \$245 million and \$284 million, respectively.

The fair value measurements of the borrowings under the credit agreement 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, 2022 and December 31, 2021 to assume these obligations. The fair values of the Euro Notes (2024) and Euro Notes (2028) 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 11. 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, 2022 and December 31, 2021, the aggregate funded status of the defined benefit plans was a liability of \$112 million and \$131 million, respectively, and is reported in Other noncurrent liabilities and Accrued payroll-related liabilities on our Unaudited Condensed Consolidated Balance Sheets.

Net periodic benefit cost for our defined benefit plans totaled \$1 million and \$4 million for the three and nine months ended September 30, 2022, respectively, and \$1 million and \$4 million for the three and nine months ended September 30, 2021, respectively, and primarily related to service cost which is recorded in Selling, general and administrative expenses on the Unaudited Condensed Consolidated Statements of Income.

Note 12. 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, 2022 was 24.4%, compared to 25.7% for the nine months ended September 30, 2021. The decrease in the effective tax rate for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 was attributable to net favorable discrete items of 1.1%, primarily related to the sale of PGW, and the geographic distribution of income.

On August 16, 2022, the Inflation Reduction Act of 2022 (“IRA”) was signed into law. The IRA, among other provisions, enacted a 15% corporate minimum tax effective for taxable years beginning after December 31, 2022 and a 1% excise tax on the repurchase of corporate stock after December 31, 2022. We do not currently expect the corporate minimum tax provisions of the IRA to have a material impact on our financial results. The impact of the excise tax provisions will be dependent upon the volume of any future stock repurchases.

Note 13. Segment and Geographic Information

We have four operating segments: Wholesale - North America, Europe, Specialty and Self Service, each of which is presented as a reportable segment. Beginning in 2022, the Wholesale - North America and Self Service operating segment results were separated from the previous reportable segment, North America, and each of Wholesale - North America and Self Service is now a separate reportable segment. Segment results have been adjusted retrospectively to reflect this change.

The segments are organized based on a combination of geographic areas served and type of product lines offered. The segments are managed separately as the businesses serve different customers and are affected by different economic conditions. Wholesale - North America and Self Service have similar economic characteristics and have common products and services, customers and methods of distribution. We are reporting these operating segments separately to provide greater transparency to investors.

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

	Wholesale - North America	Europe	Specialty	Self Service	Eliminations	Consolidated
Three Months Ended September 30, 2022						
Revenue:						
Third Party	\$ 1,108	\$ 1,380	\$ 452	\$ 164	\$ —	\$ 3,104
Intersegment	1	—	—	—	(1)	—
Total segment revenue	\$ 1,109	\$ 1,380	\$ 452	\$ 164	\$ (1)	\$ 3,104
Segment EBITDA	\$ 216	\$ 155	\$ 49	\$ 4	\$ —	\$ 424
Depreciation and amortization ⁽¹⁾	19	34	8	3	—	64
Three Months Ended September 30, 2021						
Revenue:						
Third Party	\$ 1,112	\$ 1,525	\$ 465	\$ 195	\$ —	\$ 3,297
Intersegment	—	—	1	—	(1)	—
Total segment revenue	\$ 1,112	\$ 1,525	\$ 466	\$ 195	\$ (1)	\$ 3,297
Segment EBITDA	\$ 190	\$ 175	\$ 52	\$ 36	\$ —	\$ 453
Depreciation and amortization ⁽¹⁾	20	39	8	4	—	71

	Wholesale - North America	Europe	Specialty	Self Service	Eliminations	Consolidated
Nine Months Ended September 30, 2022						
Revenue:						
Third Party	\$ 3,453	\$ 4,345	\$ 1,424	\$ 571	\$ —	\$ 9,793
Intersegment	1	—	2	—	(3)	—
Total segment revenue	\$ 3,454	\$ 4,345	\$ 1,426	\$ 571	\$ (3)	\$ 9,793
Segment EBITDA	\$ 648	\$ 446	\$ 176	\$ 76	\$ —	\$ 1,346
Depreciation and amortization ⁽¹⁾	56	107	23	11	—	197
Nine Months Ended September 30, 2021						
Revenue:						
Third Party	\$ 3,281	\$ 4,565	\$ 1,454	\$ 603	\$ —	\$ 9,903
Intersegment	1	—	3	—	(4)	—
Total segment revenue	\$ 3,282	\$ 4,565	\$ 1,457	\$ 603	\$ (4)	\$ 9,903
Segment EBITDA	\$ 603	\$ 484	\$ 193	\$ 148	\$ —	\$ 1,428
Depreciation and amortization ⁽¹⁾	59	119	22	12	—	212

⁽¹⁾ Amounts presented include depreciation and amortization expense recorded within Cost of goods sold and Restructuring and transaction related expenses.

The key measure of segment profit or loss reviewed by our chief operating decision maker, our Chief Executive Officer, is Segment EBITDA. We use Segment EBITDA to compare profitability among the segments and evaluate business strategies. 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 transaction 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; equity investment fair value adjustments; impairment charges; and direct impacts of the Ukraine/Russia conflict and related sanctions (including provisions for and subsequent adjustments to reserves for asset recoverability and expenditures to support our employees and their families). EBITDA, which is the basis for Segment EBITDA, is calculated as net income excluding discontinued operations, 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 EBITDA and Segment EBITDA (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 262	\$ 284	\$ 955	\$ 856
Less: net income attributable to continuing noncontrolling interest	—	—	—	1
Net income attributable to LKQ stockholders	262	284	955	855
Subtract:				
Net income from discontinued operations	1	—	5	—
Net income from continuing operations attributable to LKQ stockholders	261	284	950	855
Add:				
Depreciation and amortization	58	64	178	195
Depreciation and amortization - cost of goods sold	6	6	19	16
Depreciation and amortization - restructuring expenses ⁽¹⁾	—	1	—	1
Interest expense, net of interest income	17	16	46	56
Loss on debt extinguishment	—	—	—	24
Provision for income taxes	88	89	304	290
EBITDA	430	460	1,497	1,437
Subtract:				
Equity in earnings of unconsolidated subsidiaries ⁽²⁾	2	8	8	17
Equity investment fair value adjustments	—	2	(3)	8
Add:				
Restructuring and transaction related expenses ⁽¹⁾	3	2	10	15
(Gain) on disposal of businesses and impairment of net assets held for sale ⁽³⁾	(4)	1	(159)	—
Change in fair value of contingent consideration liabilities	—	—	—	1
Gains on previously held equity interests	(2)	—	(1)	—
Direct impacts of Ukraine/Russia conflict ⁽⁴⁾	(1)	—	4	—
Segment EBITDA	\$ 424	\$ 453	\$ 1,346	\$ 1,428

⁽¹⁾ The sum of these two captions represents the total amount that is reported in Restructuring and transaction related expenses in our Unaudited Condensed Consolidated Statements of Income. Refer to Note 4, "Restructuring and Transaction Related Expenses," for further information.

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

⁽³⁾ Refer to "Divestitures" in Note 2, "Financial Statement Information," for further information.

⁽⁴⁾ Adjustments include provisions for and subsequent adjustments to reserves for asset recoverability (receivables and inventory) and expenditures to support our employees and their families in Ukraine.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Capital Expenditures				
Wholesale - North America	\$ 19	\$ 21	\$ 64	\$ 44
Europe	21	18	63	66
Specialty	4	3	12	13
Self Service	5	3	9	10
Total capital expenditures	<u>\$ 49</u>	<u>\$ 45</u>	<u>\$ 148</u>	<u>\$ 133</u>

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

	September 30, 2022	December 31, 2021
Receivables, net		
Wholesale - North America	\$ 372	\$ 367
Europe	544	586
Specialty	123	102
Self Service	12	18
Total receivables, net	<u>1,051</u>	<u>1,073</u>
Inventories		
Wholesale - North America	817	776
Europe	1,312	1,327
Specialty	463	458
Self Service	43	50
Total inventories	<u>2,635</u>	<u>2,611</u>
Property, plant and equipment, net		
Wholesale - North America	499	526
Europe	488	577
Specialty	93	93
Self Service	89	103
Total property, plant and equipment, net	<u>1,169</u>	<u>1,299</u>
Operating lease assets, net		
Wholesale - North America	550	611
Europe	420	515
Specialty	86	83
Self Service	137	152
Total operating lease assets, net	<u>1,193</u>	<u>1,361</u>
Other unallocated assets	<u>5,618</u>	<u>6,262</u>
Total assets	<u>\$ 11,666</u>	<u>\$ 12,606</u>

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

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, Austria, Slovakia, Poland, and other European countries. Our operations in other countries include wholesale operations in Canada, remanufacturing 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 millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue				
United States	\$ 1,612	\$ 1,671	\$ 5,109	\$ 5,026
United Kingdom	375	428	1,193	1,253
Germany	369	414	1,145	1,221
Other countries	748	784	2,346	2,403
Total revenue	<u>\$ 3,104</u>	<u>\$ 3,297</u>	<u>\$ 9,793</u>	<u>\$ 9,903</u>

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

	September 30, 2022	December 31, 2021
Long-lived assets		
United States	\$ 1,379	\$ 1,487
Germany	270	329
United Kingdom	238	305
Other countries	475	539
Total long-lived assets	<u>\$ 2,362</u>	<u>\$ 2,660</u>

Note 14. Subsequent Event

On October 25, 2022, our Board of Directors declared a quarterly cash dividend of \$0.275 per share of common stock, payable on December 1, 2022, to stockholders of record at the close of business on November 17, 2022.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 2021 Form 10-K and our Quarterly Reports on Form 10-Q (including this Quarterly Report).

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 Germany, the United Kingdom, the Benelux region (Belgium, Netherlands, and Luxembourg), Italy, Czech Republic, Austria, Slovakia, Poland, 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, each of which is presented as a reportable segment. Beginning in 2022, the Wholesale - North America and Self Service operating segment results were separated from the previous reportable segment, North America, and each of Wholesale - North America and Self Service is now a separate reportable segment. Segment results have been adjusted retrospectively to reflect this change.

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. Through 2018, our acquisition strategy was focused on consolidation to build scale in fragmented markets across North America and Europe. We targeted companies that were market leaders, expanded our geographic presence and enhanced our ability to provide a wide array of vehicle products through our distribution network. In the last few years, we have shifted our focus from larger transactions to tuck-in acquisitions that target high synergies and/or add critical capabilities. Additionally, we have made investments in various businesses to advance our strategic objectives. See "Investments in Unconsolidated Subsidiaries" in Note 2, "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 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 used to improve the performance, functionality and appearance of vehicles. Our service revenue is generated primarily from the sale of service-type warranties, fees for admission to our self service yards, and diagnostic and repair services. Revenue from other sources includes scrap and other metals (including precious metals - platinum, palladium and rhodium - contained in recycled parts such as catalytic converters) 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 3, "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 Estimates

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 management to make use of certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Our 2021 Form 10-K includes a summary of the critical accounting estimates we believe are the most important to aid in understanding our financial results. There have been no changes to those critical accounting estimates that have had a material impact on our reported amounts of assets, liabilities, revenues or expenses during the nine months ended September 30, 2022.

Financial Information by Geographic Area

See Note 13, "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 expect 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 4, "Restructuring and Transaction 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, Restructuring and transaction related 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 completed the organizational design and implementation projects in June 2021, with the remaining projects scheduled to be completed by the end of 2025. During the three and nine months ended September 30, 2022 we incurred \$6 million and \$20 million, respectively, in costs across all three categories noted above. We expect that costs of the program, reflecting all three categories noted above, will range between \$25 million and \$35 million in 2022 with an additional \$50 million to \$80 million in 2023 through the projected program completion date in 2025. In the future, we may also identify additional initiatives and projects under the 1 LKQ Europe program that may result in additional expenditures, although we are currently unable to estimate the range of charges for such potential future initiatives and projects. We expect the transformation and restructuring expenses will be entirely funded by trade working capital initiatives across our Europe segment.

Ukraine/Russia Conflict

The Russian invasion of Ukraine and resulting global governmental response have impacted, and are expected to continue to impact, our business in 2022. Governmental sanctions imposed on Russia have restricted our ability to sell to and collect from customers based in Russia, and Russian military activity in Ukrainian territory has temporarily changed the way in which we operate in Ukraine. Many of our branches in Ukraine have remained open, although operating at less than full capacity, during the conflict, while others have closed temporarily. As military operations shifted to the eastern part of the country, we were able to increase capacity in branches in the central and western territory, including our central warehouse in Kyiv. We expect to continue operating in this manner unless conditions change. To date, we have experienced an immaterial negative impact from the consequences of this conflict, and we do not expect it to have a material impact on our ongoing results of operations or cash flows. Our operations in Ukraine represent less than 1% of both our total annual revenue and total annual operating profit and comprised approximately \$50 million of total assets as of September 30, 2022. In addition, LKQ revenue from customers in Russia represented less than 0.3% of our total revenue in 2021. As future developments in the conflict are difficult to project and outside of our control, it is possible that the estimates underlying our financials may change significantly in future periods.

Key Performance Indicators

We believe that organic revenue growth, Segment EBITDA and free cash flow are key performance indicators for our business. Segment EBITDA is our key measure of segment profit or loss reviewed by our chief operating decision maker. Free cash flow is a financial measure that is not prepared in accordance with U.S. generally accepted accounting principles (“non-GAAP”).

- *Organic revenue growth* - We define organic revenue growth as total revenue growth from continuing operations excluding the effects of acquisitions and divestitures (i.e., revenue generated from the date of acquisition to the first anniversary of that acquisition, net of reduced revenue due to the disposal of businesses) and foreign currency movements (i.e., impact of translating revenue at different exchange rates). Organic revenue growth includes incremental sales from both existing and new (i.e., opened within the last twelve months) locations and is derived from expanding business with existing customers, securing new customers and offering additional products and services. We believe that organic revenue growth is a key performance indicator as this statistic measures our ability to serve and grow our customer base successfully.
- *Segment EBITDA* - See Note 13, "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 description of the calculation of Segment EBITDA. We believe that Segment EBITDA provides useful information to evaluate our segment profitability by focusing on the indicators of ongoing operational results.
- *Free Cash Flow* - We calculate free cash flow as net cash provided by operating activities, less purchases of property, plant and equipment. Free cash flow provides insight into our liquidity and provides useful information to management and investors concerning cash flow available to meet future debt service obligations and working capital requirements, to make strategic acquisitions, to repurchase stock, and to pay dividends.

These three key performance indicators are used as targets in determining incentive compensation at various levels of the organization, including senior management. By using these performance measures, we attempt to motivate a balanced approach to the business that rewards growth, profitability and cash flow generation in a manner that enhances our long-term prospects.

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,	
	2022	2021	2022	2021
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	58.9 %	59.2 %	59.1 %	59.1 %
Gross margin	41.1 %	40.8 %	40.9 %	40.9 %
Selling, general and administrative expenses	27.8 %	27.2 %	27.4 %	26.7 %
Restructuring and transaction related expenses	0.1 %	0.1 %	0.1 %	0.2 %
(Gain) on disposal of businesses and impairment of net assets held for sale	(0.1)%	— %	(1.6)%	— %
Depreciation and amortization	1.9 %	1.9 %	1.8 %	2.0 %
Operating income	11.5 %	11.5 %	13.2 %	12.1 %
Total other expense, net	0.4 %	0.4 %	0.4 %	0.7 %
Income from continuing operations before provision for income taxes	11.2 %	11.1 %	12.7 %	11.4 %
Provision for income taxes	2.8 %	2.7 %	3.1 %	2.9 %
Equity in earnings of unconsolidated subsidiaries	0.1 %	0.2 %	0.1 %	0.2 %
Income from continuing operations	8.4 %	8.6 %	9.7 %	8.6 %
Net income from discontinued operations	— %	— %	0.1 %	— %
Net income	8.4 %	8.6 %	9.8 %	8.6 %
Less: net income attributable to continuing noncontrolling interest	— %	— %	— %	— %
Net income attributable to LKQ stockholders	8.4 %	8.6 %	9.7 %	8.6 %

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

Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021

Revenue

The following table summarizes the changes in revenue by category (in millions):

	Three Months Ended September 30,		Percentage Change in Revenue			
	2022	2021	Organic	Acquisition and Divestiture	Foreign Exchange	Total Change
Parts & services revenue	\$ 2,909	\$ 3,061	4.8 %	(2.3)%	(7.4)%	(5.0)%
Other revenue	195	236	(17.1)%	— %	(0.4)%	(17.4)%
Total revenue	<u>\$ 3,104</u>	<u>\$ 3,297</u>	3.2 %	(2.1)%	(6.9)%	(5.9)%

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

The decline in parts and services revenue of 5.0% represented decreases in segment revenue of 9.4% in Europe and 2.8% in Specialty, partially offset by increases of 7.2% in Self Service and 0.1% in Wholesale - North America. Parts and services revenue increased by 4.8% organically, so the overall decrease was attributable to negative effects from fluctuations in foreign exchange rates of 7.4% and the net reduction from divestitures of 2.3%. The decrease in other revenue of 17.4% was primarily driven by a decrease in organic revenue of \$40 million, of which our Self Service segment contributed a \$35 million decrease. Refer to the discussion of our segment results of operations for factors contributing to the changes in revenue by segment during the third quarter of 2022 compared to the prior year period.

Cost of Goods Sold

Cost of goods sold decreased to 58.9% of revenue in the three months ended September 30, 2022 from 59.2% of revenue in the three months ended September 30, 2021. The cost of goods sold decrease primarily reflects an impact of 0.7% in our Wholesale - North America segment, partially offset by an increase of 0.5% in our Self Service segment. 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, 2022 compared to the three months ended September 30, 2021.

Selling, General and Administrative Expenses

Our selling, general and administrative ("SG&A") expenses as a percentage of revenue increased to 27.8% in the three months ended September 30, 2022 from 27.2% in the three months ended September 30, 2021. The SG&A expense increase primarily reflects impacts of 0.3% in our Self Service segment and 0.2% in our Europe 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, 2022 compared to the three months ended September 30, 2021.

Restructuring and Transaction Related Expenses

The following table summarizes restructuring and transaction related expenses for the periods indicated (in millions):

	Three Months Ended September 30,		Change
	2022	2021	
Restructuring expenses	\$ 2 ⁽¹⁾	\$ 2 ⁽²⁾	\$ —
Transaction related expenses	1	1	—
Restructuring and transaction related expenses	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ —</u>

⁽¹⁾ Restructuring expenses for the three months ended September 30, 2022 primarily consisted of \$1 million related to our global restructuring programs and \$1 million related to our 1 LKQ Europe program.

⁽²⁾ Restructuring expenses for the three months ended September 30, 2021 primarily consisted of \$2 million related to our global restructuring programs.

See Note 4, "Restructuring and Transaction 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 acquisition integration plans.

(Gain) on Disposal of Businesses and Impairment of Net Assets Held for Sale

During the three months ended September 30, 2022, we recorded a \$4 million pretax gain from the sale of a business within our Self Service segment. See "Divestitures" in Note 2, "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 our gain on disposal of businesses.

Depreciation and Amortization

The following table summarizes depreciation and amortization for the periods indicated (in millions):

	Three Months Ended September 30,		Change
	2022	2021	
Depreciation	\$ 36	\$ 39	\$ (3) ⁽¹⁾
Amortization	22	25	(3) ⁽²⁾
Total depreciation and amortization	<u>\$ 58</u>	<u>\$ 64</u>	<u>\$ (6)</u>

⁽¹⁾ The decrease in depreciation expense included (i) \$2 million from foreign currency translation primarily related to a decrease in the euro and pound sterling rates during the three months ended September 30, 2022 compared to the prior year period and (ii) \$1 million related to the sale of PGW.

⁽²⁾ The decrease in amortization expense included \$4 million from foreign currency translation primarily related to a decrease in the euro and pound sterling rates during the three months ended September 30, 2022 compared to the prior year period.

Other Expense, Net

The following table summarizes the components of the change in other expense, net (in millions):

	Other Expense, Net
Other expense, net for the three months ended September 30, 2021	\$ 13
Increase (decrease) due to:	
Interest expense, net of interest income	1 ⁽¹⁾
Other income, net	(3) ⁽²⁾
Net decrease	(2)
Other expense, net for the three months ended September 30, 2022	\$ 11

⁽¹⁾ Net interest expense increased primarily due to (i) a \$3 million increase resulting from higher interest rates during the three months ended September 30, 2022 compared to the prior year period and (ii) a \$1 million increase from higher average borrowings in the current year, partially offset by (iii) a \$2 million decrease from foreign exchange translation, primarily related to a decrease in the euro exchange rate.

⁽²⁾ The increase in Other income, net is primarily comprised of (i) an increase related to a net \$3 million change in insurance proceeds, (ii) an increase related to a net \$2 million gain on previously held equity interests, partially offset by (iii) a decrease related to a net \$2 million change in our fair value adjustments for equity investments not accounted for under the equity method.

Provision for Income Taxes

Our effective income tax rate for the three months ended September 30, 2022 was 25.2%, compared to 24.4% for the three months ended September 30, 2021. In the third quarter of 2022, we increased our estimate of the annual effective rate by 20 basis points, which resulted in a year to date adjustment to increase the provision. In the three months ended September 30, 2021, we reduced the annual effective rate by 50 basis points, which resulted in a year to date adjustment to decrease the provision. The net change resulted in a higher effective tax rate in 2022. See Note 12, "Income Taxes" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

Equity in Earnings of Unconsolidated Subsidiaries

Equity in earnings of unconsolidated subsidiaries for the three months ended September 30, 2022 decreased by \$6 million primarily related to a decline in year over year results reported by Mekonomen, which is our largest equity method investment, and the negative year over year effect resulting from the divestiture of a Self Service investment in the second quarter of 2022.

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, 2021, the euro, pound sterling and Czech koruna rates used to translate the 2022 statements of income decreased by 15%, 15% and 11%, respectively. The negative translation effect of the change in foreign currencies against the U.S. dollar combined with the negative impact of realized and unrealized currency gains and losses for the three months ended September 30, 2022 resulted in a negative \$0.06 effect on diluted earnings per share relative to the prior year period.

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

Revenue

The following table summarizes the changes in revenue by category (in millions):

	Nine Months Ended September 30,		Percentage Change in Revenue			
	2022	2021	Organic	Acquisition and Divestiture	Foreign Exchange	Total Change
Parts & services revenue	\$ 9,105	\$ 9,171	5.1 %	(0.6)%	(5.3)%	(0.7)%
Other revenue	688	732	(5.8)%	0.2 %	(0.3)%	(6.0)%
Total revenue	<u>\$ 9,793</u>	<u>\$ 9,903</u>	<u>4.3 %</u>	<u>(0.5)%</u>	<u>(4.9)%</u>	<u>(1.1)%</u>

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

The decline in parts and services revenue of 0.7% represented decreases in segment revenue of 4.8% in Europe and 2.1% in Specialty, partially offset by increases of 11.6% in Self Service and 5.4% in Wholesale - North America. Parts and services revenue increased by 5.1% organically, so the overall decrease was attributable to negative effects from fluctuations in foreign exchange rates of 5.3% and the net reduction from divestitures of 0.6%. The decrease in other revenue of 6.0% was primarily driven by a decrease in organic revenue of \$43 million, attributable to a \$50 million decrease in our Self Service segment, partially offset by an \$8 million increase in our Wholesale - North America segment. Refer to the discussion of our segment results of operations for factors contributing to the changes in revenue by segment during the nine months ended September 30, 2022 compared to the prior year period.

Cost of Goods Sold

Cost of goods sold as a percentage of revenue remained at 59.1% for both the nine months ended September 30, 2022 and 2021. Cost of goods sold reflects an increase of 0.5% in our Self Service segment partially offset by a decrease of 0.2% attributable to mix as a greater portion of sales are coming from Wholesale - North America which has higher margins. The remaining decrease is related to improvements in each of our other three segments. Refer to the discussion of our segment results of operations for factors contributing to the changes in cost of goods sold as a percentage of revenue by segment for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021.

Selling, General and Administrative Expenses

Our SG&A expenses as a percentage of revenue increased to 27.4% in the nine months ended September 30, 2022 from 26.7% in the nine months ended September 30, 2021. The SG&A expense increase primarily reflects impacts of 0.2% in each of our Europe, Specialty, and Self Service segments. 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, 2022 compared to the nine months ended September 30, 2021.

Restructuring and Transaction Related Expenses

The following table summarizes restructuring and transaction related expenses for the periods indicated (in millions):

	Nine Months Ended September 30,		Change
	2022	2021	
Restructuring expenses	\$ 5 ⁽¹⁾	\$ 15 ⁽²⁾	\$ (10)
Transaction related expenses	5 ⁽³⁾	1	4
Restructuring and transaction related expenses	<u>\$ 10</u>	<u>\$ 16</u>	<u>\$ (6)</u>

⁽¹⁾ Restructuring expenses for the nine months ended September 30, 2022 consisted of (i) \$2 million related to our acquisition integration plans, (ii) \$2 million related to our global restructuring programs and (iii) \$1 million related to our 1 LKQ Europe program.

⁽²⁾ Restructuring expenses for the nine months ended September 30, 2021 primarily consisted of (i) \$9 million related to our global restructuring programs and (ii) \$6 million related to our 1 LKQ Europe program.

- (3) Transaction related expenses for the nine months ended September 30, 2022 primarily related to external costs such as legal, accounting and advisory fees for completed and potential transactions.

See Note 4, "Restructuring and Transaction 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 acquisition integration plans.

(Gain) on Disposal of Businesses and Impairment of Net Assets Held for Sale

During the nine months ended September 30, 2022, we recorded a \$159 million pretax gain from divestitures including \$155 million (\$127 million after tax) from the sale of PGW and \$4 million from the sale of a business within our Self Service segment. See "Divestitures" in Note 2, "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 our gain on disposal of businesses.

Depreciation and Amortization

The following table summarizes depreciation and amortization for the periods indicated (in millions):

	Nine Months Ended September 30,		Change
	2022	2021	
Depreciation	\$ 106	\$ 117	\$ (11) ⁽¹⁾
Amortization	72	78	(6) ⁽²⁾
Total depreciation and amortization	<u>\$ 178</u>	<u>\$ 195</u>	<u>\$ (17)</u>

- (1) The decrease in depreciation expense included \$5 million from foreign currency translation primarily related to a decrease in the euro and pound sterling rates during the nine months ended September 30, 2022 compared to the prior year period and \$3 million related to divestiture of businesses (primarily PGW) with the remaining decrease due to individually immaterial factors.

- (2) The decrease in amortization expense primarily reflected (i) a \$6 million decrease from foreign exchange translation, primarily related to a decrease in the euro exchange rate and (ii) a decrease of \$4 million related to the customer relationship intangible assets recorded upon our acquisition of Stahlgruber as the accelerated amortization of the customer relationship intangible assets resulted in lower amortization expense during the nine months ended September 30, 2022 compared to the prior year period, partially offset by (iii) a \$2 million increase related to software amortization with the remaining increase due to individually immaterial factors.

Other Expense, Net

The following table summarizes the components of the change in other expense, net (in millions):

	Other Expense, Net
Other expense, net for the nine months ended September 30, 2021	\$ 65
Increase (decrease) due to:	
Interest expense, net of interest income	(10) ⁽¹⁾
Loss on debt extinguishment	(24) ⁽²⁾
Other income, net	11 ⁽³⁾
Net decrease	(23)
Other expense, net for the nine months ended September 30, 2022	<u>\$ 42</u>

- (1) Net interest expense declined primarily due to (i) a \$5 million decrease from foreign exchange translation, primarily related to a decrease in the euro exchange rate and (ii) a \$4 million decrease resulting from lower interest rates during the nine months ended September 30, 2022 compared to the prior year period.

- (2) The \$24 million decrease in loss on debt extinguishment is due to the charge recorded in April 2021 related to the redemption of the Euro Notes (2026).

- (3) The decrease in Other income, net is primarily comprised of (i) a decrease related to a \$11 million change in our fair value adjustments for equity investments not accounted for under the equity method and (ii) a decrease related to a \$5 million change in foreign currency gains and losses, partially offset by (iii) other individually insignificant increases which in the aggregate had a \$5 million favorable impact.

Provision for Income Taxes

Our effective income tax rate for the nine months ended September 30, 2022 was 24.4%, compared to 25.7% for the nine months ended September 30, 2021. The decrease in the effective tax rate for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 was attributable to net favorable discrete items of 1.1%, primarily related to the sale of PGW, and the geographic distribution of income. See Note 12, "Income Taxes" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

Equity in Earnings of Unconsolidated Subsidiaries

Equity in earnings of unconsolidated subsidiaries for the nine months ended September 30, 2022 decreased by \$9 million primarily related to a decline in year over year results reported by Mekonomen, which is our largest equity method investment, and the negative year over year effect resulting from the divestiture of a Self Service investment in the second quarter of 2022.

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, 2021, the euro, pound sterling, and Czech koruna rates used to translate the 2022 statements of income decreased by 11%, 9%, and 7%, respectively. The negative translation effect of the change in foreign currencies against the U.S. dollar combined with the negative impact of realized and unrealized currency gains and losses for the nine months ended September 30, 2022 resulted in an \$0.11 negative effect on diluted earnings per share relative to the prior year period.

Results of Operations—Segment Reporting

We have four reportable segments: Wholesale - North America, Europe, Specialty and Self Service.

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 US 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 millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	% of Total Segment Revenue	2021	% of Total Segment Revenue	2022	% of Total Segment Revenue	2021	% of Total Segment Revenue
Third Party Revenue								
Wholesale - North America	\$ 1,108		\$ 1,112		\$ 3,453		\$ 3,281	
Europe	1,380		1,525		4,345		4,565	
Specialty	452		465		1,424		1,454	
Self Service	164		195		571		603	
Total third party revenue	<u>\$ 3,104</u>		<u>\$ 3,297</u>		<u>\$ 9,793</u>		<u>\$ 9,903</u>	
Total Revenue								
Wholesale - North America	\$ 1,109		\$ 1,112		\$ 3,454		\$ 3,282	
Europe	1,380		1,525		4,345		4,565	
Specialty	452		466		1,426		1,457	
Self Service	164		195		571		603	
Eliminations	(1)		(1)		(3)		(4)	
Total revenue	<u>\$ 3,104</u>		<u>\$ 3,297</u>		<u>\$ 9,793</u>		<u>\$ 9,903</u>	
Segment EBITDA								
Wholesale - North America	\$ 216	19.4 %	\$ 190	17.1 %	\$ 648	18.7 %	\$ 603	18.4 %
Europe	155	11.3 %	175	11.5 %	446	10.3 %	484	10.6 %
Specialty	49	10.8 %	52	11.1 %	176	12.4 %	193	13.2 %
Self Service	4	2.6 %	36	18.4 %	76	13.3 %	148	24.6 %

Note: In the table above, the percentages of total segment revenue may not recalculate due to rounding.

The key measure of segment profit or loss reviewed by our chief operating decision maker, 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 transaction 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; equity investment fair value adjustments; impairment charges; and direct impacts of the Ukraine/Russia conflict and related sanctions (including provisions for and subsequent adjustments to reserves for asset recoverability and expenditures to support our employees and their families). EBITDA, which is the basis for Segment EBITDA, is calculated as net income excluding discontinued operations, depreciation, amortization, interest (which includes gains and losses on debt extinguishment) and income tax expense. See Note 13, "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, 2022 Compared to Three Months Ended September 30, 2021

Wholesale - North America

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Wholesale - North America segment (in millions):

Wholesale - North America	Three Months Ended September 30,		Percentage Change in Revenue			
	2022	2021	Organic	Acquisition and Divestiture	Foreign Exchange	Total Change
Parts & services revenue	\$ 1,026	\$ 1,025	10.9 % ⁽¹⁾	(10.6)% ⁽³⁾	(0.2)%	0.1 %
Other revenue	82	87	(4.4)% ⁽²⁾	0.1 %	(0.2)%	(4.5)%
Total third party revenue	\$ 1,108	\$ 1,112	9.7 %	(9.8)%	(0.2)%	(0.2)%

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 10.9% for the three months ended September 30, 2022 compared to the prior year period, primarily driven by passing through input cost inflation. Aftermarket collision parts volumes increased slightly year over year due to reduced pressures on our supply chain and were largely offset by decreases in collision and mechanical parts volumes from our salvage business.
- ⁽²⁾ Other organic revenue decreased 4.4%, primarily related to (i) a \$3 million decrease in revenue from scrap steel related to lower prices and (ii) a \$2 million decrease in revenue from precious metals (platinum, palladium, and rhodium) due to lower prices, partially offset by higher volumes.
- ⁽³⁾ Acquisition and divestiture revenue was a net decrease of \$109 million due to the divestiture of PGW in the second quarter of 2022. See "Divestitures" in Note 2, "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 divestiture of PGW.

Segment EBITDA

Segment EBITDA increased \$26 million, or 13.5%, in the three months ended September 30, 2022 compared to the prior year period, despite the \$13 million negative year over year effect resulting from the divestiture of PGW in the second quarter of 2022. The primary drivers of the increase were higher prices on parts and productivity initiatives helping to offset inflationary pressures related to ocean freight, labor, supplies and fuel. In addition, certain charitable and incentive benefit contributions totaling \$15 million in the three months ended September 30, 2021 were not repeated in the three months ended September 30, 2022. The overall increase was partially offset by decreases attributable to precious metals and scrap steel. We estimate that precious metals and scrap steel pricing had an unfavorable effect of \$10 million, or 0.8%, on Segment EBITDA margin relative to the comparable prior year period.

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

Wholesale - North America	Percentage of Total Segment Revenue
Segment EBITDA for the three months ended September 30, 2021	17.1 %
Increase (decrease) due to:	
Change in gross margin	1.9 % ⁽¹⁾
Change in segment operating expenses	0.2 % ⁽²⁾
Change in other income and expenses, net	0.2 % ⁽³⁾
Segment EBITDA for the three months ended September 30, 2022	19.4 %

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

- ⁽¹⁾ The increase in gross margin of 1.9% was primarily driven by (i) productivity and price initiatives to offset inflation on product cost and inbound freight and (ii) a 0.8% mix benefit resulting from the PGW divestiture in the second quarter, partially offset by (iii) an unfavorable impact from a decrease in scrap steel and precious metals pricing.
- ⁽²⁾ Segment operating expenses as a percentage of revenue decreased 0.2% due to (i) a 0.6% favorable impact from personnel expense due to non-recurring incentive compensation in 2021, (ii) a 0.4% favorable impact from lower charitable contributions, offset by (iii) a 0.4% unfavorable impact from higher professional fees, and (iv) a 0.4% unfavorable impact

of other operating expenses in the aggregate.

(3) Other income and expenses, net as a percentage of revenue was favorable by 0.2% mainly due to insurance proceeds.

Europe

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Europe segment (in millions):

Europe	Three Months Ended September 30,		Percentage Change in Revenue			
	2022	2021	Organic	Acquisition and Divestiture	Foreign Exchange ⁽²⁾	Total Change
Parts & services revenue	\$ 1,376	\$ 1,520	4.8 % ⁽¹⁾	0.5 %	(14.7)%	(9.4)%
Other revenue	4	5	(11.6)%	— %	(15.3)%	(27.0)%
Total third party revenue	\$ 1,380	\$ 1,525	4.7 %	0.5 %	(14.7)%	(9.5)%

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 for the three months ended September 30, 2022 increased by 4.8% (5.8% on a per day basis), primarily due to pricing initiatives across all geographies that have been implemented throughout 2022 to offset increased costs resulting from inflationary pressures. The organic revenue growth across most of our European operations was partially offset by 0.4% of an unfavorable effect on certain operations and product lines due to the Ukraine/Russia conflict.

(2) Compared to the prior year, exchange rates decreased our revenue growth by \$224 million, or 14.7%, primarily due to the stronger U.S. dollar against the euro, pound sterling, and Czech koruna during the third quarter of 2022 relative to the prior year period.

Segment EBITDA

Segment EBITDA decreased \$20 million, or 11.2%, in the three months ended September 30, 2022 compared to the prior year period. Our Europe Segment EBITDA included a negative year over year impact of \$26 million related to the translation of local currency results into U.S. dollars at lower exchange rates than those experienced during the three months ended September 30, 2021. On a constant currency basis (i.e., excluding the translation impact), Segment EBITDA increased by \$6 million, or 3.6%, 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, 2022.

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, 2021	11.5 %
Increase (decrease) due to:	
Change in gross margin	0.1 % ⁽¹⁾
Change in segment operating expenses	(0.3)% ⁽²⁾
Segment EBITDA for the three months ended September 30, 2022	11.3 %

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 was primarily attributable to favorable impacts of net price increases and margin improvement initiatives undertaken to support profitable revenue growth despite inflationary pressures.

(2) The increase in segment operating expenses as a percentage of revenue reflects unfavorable impacts of (i) 0.4% from freight, vehicle, and fuel expenses due to inflationary pressures, (ii) 0.3% from increased personnel costs primarily due to inflationary pressures, partially offset by favorable impacts of (iii) 0.2% from lower professional expenses and (iv) several individually immaterial factors totaling 0.2% in the aggregate.

Specialty

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Specialty segment (in millions):

Specialty	Three Months Ended September 30,		Percentage Change in Revenue			
	2022	2021	Organic ⁽¹⁾	Acquisition and Divestiture ⁽²⁾	Foreign Exchange	Total Change
Parts & services revenue	\$ 452	\$ 465	(9.1)%	6.6 %	(0.3)%	(2.8)%
Other revenue	—	—	— %	— %	— %	— %
Total third party revenue	<u>\$ 452</u>	<u>\$ 465</u>	<u>(9.1)%</u>	<u>6.6 %</u>	<u>(0.3)%</u>	<u>(2.8)%</u>

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 for the three months ended September 30, 2022 decreased by 9.1% due to the strong growth we experienced in the third quarter of 2021, when parts and services organic revenue growth was 13.7%; demand softness from lower new vehicle sales caused by supply chain challenges; and a decrease in drop shipment volumes.

⁽²⁾ Acquisition related growth for the three months ended September 30, 2022 reflected revenue from our acquisitions of two Specialty businesses from the beginning of 2021 through the one-year anniversary of the acquisition dates.

Segment EBITDA

Segment EBITDA decreased \$3 million, or 5.0%, in the three months ended September 30, 2022 compared to the prior year period primarily due to the organic revenue decline and the negative effect of inflation on overhead expenses.

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, 2021	11.1 %
Increase (decrease) due to:	
Change in gross margin	0.5 % ⁽¹⁾
Change in segment operating expenses	(0.8)% ⁽²⁾
Segment EBITDA for the three months ended September 30, 2022	<u>10.8 %</u>

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 reflects (i) a 1.0% benefit from lower customer rebate accruals and (ii) other individually immaterial factors totaling 0.5%, partially offset by (iii) a 1.0% unfavorable impact from acquisitions.

⁽²⁾ The increase in segment operating expenses as a percentage of revenue primarily reflects unfavorable impacts of (i) 0.8% in personnel costs as a result of wage inflation and lower operating leverage due to the organic parts and services revenue decline, (ii) 0.6% in vehicle and fuel expenses primarily due to higher fuel costs, (iii) 0.4% in fixed facility expenses as a result of lower operating leverage due to the organic parts and services revenue decline and (iv) several individually immaterial factors that had an unfavorable impact of 0.5% in the aggregate, partially offset by favorable impacts of (v) 0.8% from operating expense synergies and leverage generated from the 2021 acquisitions, primarily Seawide, and (vi) 0.7% related to lower incentive compensation.

Self Service

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Self Service segment (in millions):

Self Service	Three Months Ended September 30,		Percentage Change in Revenue			
	2022	2021	Organic	Acquisition and Divestiture	Foreign Exchange	Total Change
Parts & services revenue	\$ 55	\$ 51	7.2 % ⁽¹⁾	— %	— %	7.2 %
Other revenue	109	144	(24.8)% ⁽²⁾	— %	— %	(24.8)%
Total third party revenue	<u>\$ 164</u>	<u>\$ 195</u>	<u>(16.3)%</u>	<u>— %</u>	<u>— %</u>	<u>(16.3)%</u>

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 7.2% for the three months ended September 30, 2022 compared to the prior year period, primarily driven by pricing initiatives to mitigate significant increases in input costs resulting from greater competition for vehicles.
- ⁽²⁾ The 24.8%, or \$35 million, year over year decrease in other revenue is related to (i) a \$23 million decrease in revenue from scrap steel related to lower volumes and lower prices, (ii) a \$13 million decrease in revenue from precious metals (platinum, palladium, and rhodium) due to lower prices and lower volumes, partially offset by (iii) a \$1 million increase in revenue from other scrap (including aluminum) and cores.

Segment EBITDA

Segment EBITDA decreased \$32 million, or 88.0%, in the three months ended September 30, 2022 compared to the prior year period. The decrease includes a \$5 million decline due to lower precious metals prices relative to the comparable prior year period. In addition, net sequential changes in scrap steel prices in our self service operations had a \$16 million unfavorable impact on Segment EBITDA during the three months ended September 30, 2022, compared to a \$4 million favorable impact during the three months ended September 30, 2021. This unfavorable impact for the three months ended September 30, 2022 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. We estimate that precious metals and scrap steel pricing had an unfavorable effect of 12.4% on Segment EBITDA margin relative to the comparable prior year period.

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

Self Service	Percentage of Total Segment Revenue
Segment EBITDA for the three months ended September 30, 2021	18.4 %
Increase (decrease) due to:	
Change in gross margin	(9.5)% ⁽¹⁾
Change in segment operating expenses	(6.3)% ⁽²⁾
Segment EBITDA for the three months ended September 30, 2022	<u>2.6 %</u>

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 (i) an unfavorable impact of 9.9% resulting from movements in metals prices partially offset by (ii) a favorable impact due to increased prices for parts and services.
- ⁽²⁾ The increase in segment operating expense as a percentage of revenue reflects (i) a negative leverage effect of 5.4% from decreases in metals revenue and (ii) other individually immaterial factors representing a 0.9% unfavorable impact in the aggregate.

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

Wholesale - North America

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Wholesale - North America segment (in millions):

Wholesale - North America	Nine Months Ended September 30,		Percentage Change in Revenue			
	2022	2021	Organic	Acquisition and Divestiture	Foreign Exchange	Total Change
Parts & services revenue	\$ 3,182	\$ 3,018	11.7 % ⁽¹⁾	(6.1)% ⁽³⁾	(0.1)%	5.4 %
Other revenue	271	263	3.2 % ⁽²⁾	0.6 %	(0.1)%	3.6 %
Total third party revenue	\$ 3,453	\$ 3,281	11.0 %	(5.6)%	(0.1)%	5.3 %

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 increased 11.7% (11.2% on a per day basis) for the nine months ended September 30, 2022 compared to the prior year period, primarily driven by passing through input cost inflation. Aftermarket collision parts volumes decreased in the first nine months of the year due to ocean freight delays and supply chain challenges but showed year over year improvement in the third quarter. Increased volumes of collision parts from our salvage business partially offset the year to date aftermarket volume decline.
- ⁽²⁾ Organic other revenue increased 3.2%, or \$8 million, related to (i) a \$19 million increase in revenue from other scrap (e.g., aluminum) and cores due to higher prices as well as higher volumes, and (ii) a \$2 million increase in revenue from scrap steel due to higher volumes, partially offset by (iii) a \$13 million decrease in revenue from precious metals (platinum, palladium, and rhodium) primarily due to lower prices partially offset by higher volumes.
- ⁽³⁾ Acquisition and divestiture revenue was a net decrease of \$185 million primarily due to the divestiture of PGW in the second quarter of 2022. See "Divestitures" in Note 2, "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 divestiture of PGW.

Segment EBITDA

Segment EBITDA increased \$45 million, or 7.4%, for the nine months ended September 30, 2022 compared to the prior year, despite the \$12 million negative year over year effect related to the PGW business, which we divested in the second quarter of 2022. The increase is attributable to higher prices on parts and productivity initiatives helping to offset inflationary pressures related to ocean freight, labor, supplies and fuel. The increase was partially offset by decreases attributable to precious metals and scrap steel. We estimate that precious metals and scrap steel pricing had an unfavorable effect of \$32 million, or 0.9%, on Segment EBITDA margin relative to the comparable prior year period.

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

Wholesale - North America	Percentage of Total Segment Revenue
Segment EBITDA for the nine months ended September 30, 2021	18.4 %
Increase (decrease) due to:	
Change in gross margin	0.3 % ⁽¹⁾
Change in segment operating expenses	— % ⁽²⁾
Segment EBITDA for the nine months ended September 30, 2022	18.7 %

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 of 0.3% was driven by (i) productivity and price initiatives to offset inflation on product cost and inbound freight and (ii) a 0.5% mix benefit resulting from the PGW divestiture in the second quarter, partially offset by (iii) an unfavorable impact from a decrease in scrap steel and precious metals pricing.
- ⁽²⁾ The segment operating expenses as a percentage of revenue were flat which reflects favorable impacts of (i) 0.2% related to personnel costs due to lower incentive compensation and (ii) 0.2% from lower charitable contributions, partially offset by (iii) a 0.3% unfavorable impact related to professional fees and (iv) other individually immaterial factors representing a 0.1% unfavorable impact in the aggregate.

Europe

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Europe segment (in millions):

Europe	Nine Months Ended September 30,		Percentage Change in Revenue			
	2022	2021	Organic	Acquisition and Divestiture	Foreign Exchange ⁽²⁾	Total Change
Parts & services revenue	\$ 4,327	\$ 4,545	5.3 % ⁽¹⁾	0.4 %	(10.5)%	(4.8)%
Other revenue	18	20	(1.1)%	— %	(10.5)%	(11.7)%
Total third party revenue	\$ 4,345	\$ 4,565	5.2 %	0.4 %	(10.5)%	(4.8)%

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 for the nine months ended September 30, 2022 increased by 5.3% (5.5% on a per day basis), primarily due to pricing initiatives across all geographies that have been implemented throughout 2022 to offset increased costs resulting from inflationary pressures. The organic revenue growth across most of our European operations was partially offset by 0.4% of a negative effect on certain operations and product lines due to the Ukraine/Russia conflict.
- ⁽²⁾ Compared to the prior year, exchange rates decreased our revenue growth by \$478 million, or 10.5%, primarily due to the stronger U.S. dollar against the euro, pound sterling and Czech koruna for the nine months ended September 30, 2022 relative to the prior year period.

Segment EBITDA

Segment EBITDA decreased \$38 million, or 7.8%, for the nine months ended September 30, 2022 compared to the prior year period. Our Europe Segment EBITDA included a negative year over year impact of \$52 million related to the translation of local currency results into U.S. dollars at lower exchange rates than those experienced during the nine months ended September 30, 2021. On a constant currency basis (i.e., excluding the translation impact), Segment EBITDA increased by \$14 million, or 3.0%, 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 nine months ended September 30, 2022.

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, 2021	10.6 %
Increase (decrease) due to:	
Change in gross margin	0.1 % ⁽¹⁾
Change in segment operating expenses	(0.3)% ⁽²⁾
Change in other expense, net	(0.1)%
Segment EBITDA for the nine months ended September 30, 2022	10.3 %

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 was primarily attributable to favorable impacts of net price increases and margin improvement initiatives undertaken to support profitable revenue growth despite inflationary pressures.
- ⁽²⁾ The increase in segment operating expenses as a percentage of revenue primarily reflects unfavorable impacts of (i) 0.3% from increased personnel costs primarily due to inflationary pressures, (ii) 0.3% from increased freight, vehicle, and fuel expenses due to inflationary pressures and supply chain constraints, and (iii) other individually immaterial factors representing a 0.3% favorable impact in the aggregate.

Specialty

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Specialty segment (in millions):

Specialty	Nine Months Ended September 30,		Percentage Change in Revenue			
	2022	2021	Organic ⁽¹⁾	Acquisition and Divestiture ⁽²⁾	Foreign Exchange	Total Change
Parts & services revenue	\$ 1,424	\$ 1,454	(9.7)%	7.9 %	(0.3)%	(2.1)%
Other revenue	—	—	— %	— %	— %	— %
Total third party revenue	\$ 1,424	\$ 1,454	(9.7)%	7.9 %	(0.3)%	(2.1)%

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 for the nine months ended September 30, 2022, decreased by 9.7% (10.2% on a per day basis) due to strong comparative growth for the nine months ended September 30, 2021, when parts and services organic revenue growth was 24.6%; demand softness from lower new vehicle sales caused by supply chain challenges; and a decrease in drop shipment volumes.

⁽²⁾ Acquisition related growth for the nine months ended September 30, 2022 reflected revenue from our acquisitions of three Specialty businesses from the beginning of 2021 through the one-year anniversary of the acquisition dates.

Segment EBITDA

Segment EBITDA decreased \$17 million, or 8.5%, for the nine months ended September 30, 2022 compared to the prior year period primarily due to the organic revenue decline and the negative effect of inflation on overhead expenses.

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, 2021	13.2 %
Increase (decrease) due to:	
Change in gross margin	0.5 % ⁽¹⁾
Change in segment operating expenses	(1.3)% ⁽²⁾
Segment EBITDA for the nine months ended September 30, 2022	12.4 %

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

⁽¹⁾ The increase in gross margin primarily reflects lower discounting to recover higher input costs and lower customer rebate accruals, partially offset by a 1.0% unfavorable impact from acquisitions.

⁽²⁾ The increase in segment operating expenses as a percentage of revenue primarily reflects unfavorable impacts of (i) 0.8% in personnel costs primarily as a result of wage inflation and lower operating leverage due to the organic parts and services revenue decline, (ii) 0.5% in vehicle and fuel expenses primarily due to higher fuel costs, (iii) 0.3% in fixed facility expenses as a result of lower operating leverage due to the organic parts and services revenue decline, and (iv) several individually immaterial factors that had an unfavorable impact of 0.4% in the aggregate, partially offset by (v) a favorable impact of 0.7% from operating expense synergies and leverage generated from the 2021 acquisitions.

Self Service

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Self Service segment (in millions):

Self Service	Nine Months Ended September 30,		Percentage Change in Revenue			
	2022	2021	Organic	Acquisition and Divestiture	Foreign Exchange	Total Change
Parts & services revenue	\$ 172	\$ 154	11.6 % ⁽¹⁾	— %	— %	11.6 %
Other revenue	399	449	(11.3)% ⁽²⁾	— %	— %	(11.3)%
Total third party revenue	\$ 571	\$ 603	(5.4)%	— %	— %	(5.4)%

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 11.6% for the nine months ended September 30, 2022 compared to the prior year period, primarily driven by pricing initiatives to mitigate significant increases in input costs resulting from greater competition for vehicles.

⁽²⁾ The 11.3%, or \$50 million, year over year decrease in other revenue is related to (i) a \$51 million decrease in revenue from precious metals (platinum, palladium, and rhodium) due to both lower prices and volumes, and (ii) a \$13 million decrease in revenue from scrap steel related to lower volumes partially offset by higher prices, partially offset by (iii) a \$14 million increase in revenue from other scrap (including aluminum) and cores primarily related to higher prices.

Segment EBITDA

Segment EBITDA decreased \$72 million, or 48.8%, in the nine months ended September 30, 2022 compared to the prior year period. The decrease is primarily attributable to unfavorable movements in commodity prices compared to the prior year. Decreases in precious metals prices contributed an estimated \$32 million decline in Segment EBITDA relative to the nine months ended September 30, 2021. In addition, net sequential changes in scrap steel prices in our self service operations had an \$11 million unfavorable impact on Segment EBITDA during the nine months ended September 30, 2022, compared to a \$25 million favorable impact during the nine months ended September 30, 2021. The unfavorable impacts for the nine months ended September 30, 2022 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. We estimate that precious metals and scrap steel pricing had an unfavorable effect of 10.4% on Segment EBITDA margin relative to the comparable prior year period.

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

Self Service	Percentage of Total Segment Revenue
Segment EBITDA for the nine months ended September 30, 2021	24.6 %
Increase (decrease) due to:	
Change in gross margin	(8.2)% ⁽¹⁾
Change in segment operating expenses	(3.1)% ⁽²⁾
Segment EBITDA for the nine months ended September 30, 2022	13.3 %

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 (i) an unfavorable impact of 9.2% resulting from movements in metals prices partially offset by (ii) a favorable impact due to increased prices for parts and services.

⁽²⁾ The increase in segment operating expense as a percentage of revenue reflects (i) a negative leverage effect of 2.7% from decreases in metals revenue and (ii) other individually immaterial factors representing a 0.4% unfavorable impact in the aggregate.

Liquidity and Capital Resources

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

	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 269	\$ 274
Total debt ⁽¹⁾	2,447	2,824
Current maturities ⁽²⁾	50	35
Capacity under credit facilities ⁽³⁾	3,150	3,150
Availability under credit facilities ⁽³⁾	1,460	1,194
Total liquidity (cash and cash equivalents plus availability under credit facilities)	1,729	1,468

⁽¹⁾ Debt amounts reflect the gross values to be repaid (excluding debt issuance costs of \$7 million and \$12 million as of September 30, 2022 and December 31, 2021, respectively).

⁽²⁾ Debt amounts reflect the gross values to be repaid in the next 12 months (excluding debt issuance costs of immaterial amounts as of September 30, 2022 and December 31, 2021).

⁽³⁾ Capacity under credit facilities includes our revolving credit facilities and 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, paying down outstanding debt, paying dividends or repurchasing our common stock. As we have pursued acquisitions as part of our historical 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 and senior notes.

As of September 30, 2022, we had debt outstanding and additional available sources of financing as follows:

- Senior secured credit facilities maturing in January 2024, composed of \$3,150 million in revolving credit (\$1,621 million outstanding at September 30, 2022), bearing interest at variable rates, with availability reduced by \$69 million of amounts outstanding under letters of credit
- Euro Notes (2024) totaling \$490 million (€500 million), maturing in April 2024 and bearing interest at a 3.875% fixed rate
- Euro Notes (2028) totaling \$245 million (€250 million) maturing in April 2028 and bearing interest at a 4.125% fixed rate

As of September 30, 2022, we had approximately \$1,460 million available under our credit facilities. Combined with \$269 million of cash and cash equivalents at September 30, 2022, we had approximately \$1,729 million in available liquidity, an increase of \$261 million from our available liquidity as of December 31, 2021.

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. Our 2022 plan includes spending to rebuild inventory levels, support growth driven capital projects, complete tuck-in acquisitions, and return stockholder value through the payment of dividends and repurchasing shares of our common stock. A summary of the dividend activity for our common stock for the nine months ended September 30, 2022 is as follows:

Dividend Amount	Declaration Date	Record Date	Payment Date
\$0.25	February 15, 2022	March 3, 2022	March 24, 2022
\$0.25	April 26, 2022	May 19, 2022	June 2, 2022
\$0.25	July 26, 2022	August 11, 2022	September 1, 2022

On October 25, 2022, our Board of Directors declared a quarterly cash dividend of \$0.275 per share of common stock, payable on December 1, 2022, to stockholders of record at the close of business on November 17, 2022.

We believe that our future cash flow generation will permit us to continue paying dividends in future periods; however, the timing, amount and frequency of such future dividends will be subject to approval by our Board of Directors, and based on considerations of capital availability, and various other factors, many of which are outside of our control.

With \$1,729 million of total liquidity as of September 30, 2022 and \$50 million of current maturities, we have access to funds to meet our near term commitments. We have a surplus of current assets over current liabilities, which further reduces the risk of short-term cash shortfalls.

Our total liquidity includes availability under our senior secured credit facility, which includes the two financial maintenance covenants presented below (our required debt covenants and our actual ratios with respect to those covenants as calculated per the credit agreement as of September 30, 2022):

	Covenant Level	Ratio Achieved as of September 30, 2022
Maximum net leverage ratio	4.00 : 1.00	1.3
Minimum interest coverage ratio	3.00 : 1.00	31.1

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 US GAAP or common usage terms.

Our credit agreement contains customary covenants that impose 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. During the second quarter of 2022, two ratings agencies, S&P Global Ratings and Moody's Investors Service, upgraded our issuer credit rating to an investment grade rating of 'BBB-' and 'Baa3', respectively, and rated our outlook as stable. With the assignment of an investment grade rating, we are no longer required to comply with certain restrictive covenants under the credit agreement. We were in compliance with all applicable covenants under our credit agreement as of September 30, 2022.

The indentures relating to our Euro Notes do not include financial maintenance covenants, and the indentures will not restrict our ability to draw funds under the credit facility. The indentures do not prohibit amendments to the financial covenants under the credit facility as needed.

While we believe that we have adequate capacity under our existing credit facilities, from time to time we may need to raise additional funds through public or private financing, strategic relationships or modification of our existing credit facilities. 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. Our current credit facility matures in January 2024, and we expect to refinance the facility prior to that date.

We utilize a supply chain financing arrangement, which allows us to improve our operating cash flows by extending payment terms. Financial institutions participate in the supply chain financing initiative on an uncommitted basis and can cease purchasing receivables from our suppliers at any time. The initiative is at the sole discretion of both the supplier and the financial institution on terms that are negotiated between them. In the future, if the financial institutions do not continue to purchase receivables from our suppliers under the initiative, the participating vendors may need to renegotiate their payment terms with us, which in turn could cause our borrowings under our revolving credit facility to increase. All outstanding payments owed under the initiative to the participating financial institutions are recorded within Accounts payable in our Unaudited Condensed Consolidated Balance Sheets.

We have held interest rate swaps to hedge the variable rates on a portion of our credit agreement borrowings and currency swaps that contain an interest rate swap component and a foreign currency forward contract component. As of September 30, 2022, we did not have any of these contracts outstanding. The weighted average interest rate on borrowings outstanding under our credit agreement was 3.0% at September 30, 2022. Including our senior notes, our overall weighted average interest rate on borrowings was 3.3% at September 30, 2022. Our borrowings in U.S. dollars continue to accrue interest at LIBOR until a replacement rate is specified, which is expected to occur prior to June 2023. We do not expect the change in benchmark rates will have a material impact on our results of operations, financial position or liquidity. See Note 8, "Long-Term Obligations" 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 borrowings and related interest.

We had outstanding credit agreement borrowings of \$1,621 million and \$1,887 million at September 30, 2022 and December 31, 2021, respectively. Of these amounts, there were no current maturities at September 30, 2022 or December 31, 2021.

The scheduled maturities of long-term obligations outstanding at September 30, 2022 are as follows (in millions):

Three months ending December 31, 2022 ⁽¹⁾	\$	37
Years ending December 31:		
2023		20
2024		2,119
2025		9
2026		3
Thereafter		259
Total debt ⁽²⁾	\$	<u>2,447</u>

⁽¹⁾ Long-term obligations maturing by December 31, 2022 include \$34 million of short-term debt that may be extended beyond the current year ending December 31, 2022.

⁽²⁾ The total debt amounts presented above reflect the gross values to be repaid (excluding debt issuance costs of \$7 million as of September 30, 2022).

As of September 30, 2022, the Company had cash and cash equivalents of \$269 million, of which \$210 million was held by foreign subsidiaries. In general, it is our practice and intention to permanently reinvest the undistributed earnings of our foreign subsidiaries. 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. Distributions of dividends from our foreign subsidiaries, if any, would be generally exempt from further U.S. taxation, either as a result of the 100% participation exemption under the Tax Cuts and Jobs Act, or due to the previous taxation of foreign earnings under the transition tax and the Global Intangible Low-Taxed Income regime.

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, 2022 and 2021 (in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Wholesale - North America	\$ 288	\$ 276	\$ 12	\$ 907	\$ 798	\$ 109 ⁽¹⁾
Europe	829	962	(133)	2,708	2,861	(153) ⁽²⁾
Specialty	322	352	(30)	1,031	1,105	(74) ⁽³⁾
Total	<u>\$ 1,439</u>	<u>\$ 1,590</u>	<u>\$ (151)</u>	<u>\$ 4,646</u>	<u>\$ 4,764</u>	<u>\$ (118)</u>

⁽¹⁾ Inventory purchases across the Wholesale - North America segment increased in the nine months ended September 30, 2022 compared to the prior year period primarily due to required restocking to keep up with the demand for our products.

⁽²⁾ The decrease in inventory purchases in our Europe segment included a decrease of \$307 million attributable to the decrease in the value of the euro, and to a lesser extent, the pound sterling in the nine months ended September 30, 2022 compared to the prior year period. On a constant currency basis, inventory purchases increased compared to the prior year period, due to required restocking to keep up with the demand for our products as well as purchases to improve availability for customers in certain regions.

⁽³⁾ The decrease in inventory purchases in the Specialty segment compared to the prior year period was primarily due to matching inventory levels with demand. This was partially offset by inventory purchases made by companies acquired in the second half of 2021.

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, 2022 and 2021 (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Wholesale - North America salvage vehicles	63	61	3.3 %	188	174	8.0 %
Europe wholesale salvage vehicles	7	6	16.7 %	23	19	21.1 %
Self Service salvage vehicles	122	137	(10.9)%	396	414	(4.3)%

Wholesale - North America salvage purchases in 2022 increased relative to the prior year due to limitations in the prior year on vehicles at auctions. Self Service salvage vehicle purchases in 2022 decreased due to increased market competition and decreased availability of vehicles.

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

	Operating Cash
Net cash provided by operating activities for the nine months ended September 30, 2021	\$ 1,362
Increase (decrease) due to:	
Working capital accounts: ⁽¹⁾	
Receivables, net	16
Inventories	(296)
Accounts payable	—
Other operating activities	(72) ⁽²⁾
Net cash provided by operating activities for the nine months ended September 30, 2022	<u>\$ 1,010</u>

⁽¹⁾ 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.

- Receivables, net was a \$16 million benefit to cash provided by operating activities year over year. This was driven by a \$43 million inflow for our Europe segment and a \$7 million inflow for our Specialty segment, both due to lesser overall cash outflows in 2022 as a result of collections and timing of sales. This was partially offset by a \$34 million outflow for our Wholesale - North America segment primarily due to an increase in organic revenue in 2022 compared to 2021, which translated to higher receivables balances in 2022.
- Inventories represented \$296 million in incremental cash outflows in the first nine months of 2022 compared to the same period of 2021. The change is primarily attributable to increased inventory purchases in the current year as a result of high input costs and volume increases due to strong demand and strategic inventory purchases to curb the impacts of supply chain constraints.
- Accounts payable produced a similar cash inflow in the first nine months of 2022 compared to the same period of 2021 on a consolidated basis. This was primarily attributable to Wholesale - North America which contributed a \$234 million cash inflow driven by higher accounts payable balances and timing of payments partially offset by a lower cash inflow in our Europe segment of \$189 million and a cash outflow of \$45 million from our Specialty segment.

⁽²⁾ Primarily reflects the aggregate effect of lower cash operating income and higher incentive compensation payments partially offset by lower cash paid for taxes.

Net cash provided by investing activities totaled \$244 million and net cash used in investing activities totaled \$201 million during the nine months ended September 30, 2022 and 2021, respectively. Proceeds from the disposal of businesses (primarily PGW) were \$399 million during the nine months ended September 30, 2022. Property, plant and equipment purchases were \$148 million in the nine months ended September 30, 2022 compared to \$133 million in the prior year period. We invested \$67 million of cash, net of cash acquired, in business acquisitions during the nine months ended September 30, 2021.

The following table reconciles Net Cash Provided by Operating Activities to Free Cash Flow (in millions):

	Nine Months Ended September 30,	
	2022	2021
Net cash provided by operating activities	\$ 1,010	\$ 1,362
Less: purchases of property, plant and equipment	148	133
Free cash flow	\$ 862	\$ 1,229

Net cash used in financing activities increased by \$151 million for the nine months ended September 30, 2022 compared to the same period in 2021 due primarily to increases in repurchases of common stock of \$297 million and payment of dividends in 2022 of \$210 million (no dividends were paid in the nine months ended September 30, 2021) partially offset by a decrease in settlement of our cross currency swap and other foreign exchange forward contracts in 2021 of \$89 million and lower net repayments on our borrowings of \$251 million. Please refer to Note 2, "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 on repurchases of common stock.

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.

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;
- commodity prices; and
- inflation

Foreign Exchange Rates

Foreign currency fluctuations may impact the financial results we report for the portions of our business that operate in functional currencies other than the U.S. dollar. Our operations outside of the U.S. represented 47.8% and 49.4% of our revenue during the nine months ended September 30, 2022 and the year ended December 31, 2021, respectively. An increase or decrease in the strength of the U.S. dollar against these currencies by 10% would result in a 4.8% change in our consolidated revenue and a 2.9% change in our operating income for the nine months ended September 30, 2022. 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, 2022 were immaterial. We do not currently attempt to hedge foreign currency exposure related to our foreign currency denominated inventory purchases in our Wholesale - North America operations, and we may not be able to pass on any resulting price increases to our customers.

To the extent that we are exposed to foreign currency fluctuations related to non-functional currency denominated financing transactions, we may hedge the exposure through the use of foreign currency forward contracts. As of September 30, 2022, we did not hold foreign currency forward contracts related to non-functional currency denominated debt.

Other than with respect to a portion of our foreign currency denominated inventory purchases and, from time to time, certain financing transactions, 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 third party borrowings as we generate cash flows in the local currencies that can be used to fund debt payments. As of September 30, 2022, we had

outstanding borrowings of €500 million under our Euro Notes (2024) and €250 million under our Euro Notes (2028), and €739 million and Swedish Krona ("SEK") 90 million under our revolving credit facilities. As of December 31, 2021, we had outstanding borrowings of €500 million under our Euro Notes (2024) and €250 million under our Euro Notes (2028), and €940 million and SEK 145 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, Canadian Dollar Offered Rate, Euro interbank Offered Rate, SONIA, or Swiss Average Rate Overnight. 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 converted a portion of our variable rate debt to fixed rate debt, matching the currency, effective dates and maturity dates to specific debt instruments. We designated our interest rate swap contracts as cash flow hedges, and net interest payments or receipts from interest rate swap contracts are included as adjustments to interest expense.

We had none of our variable rate debt under our credit facilities at fixed rates at September 30, 2022 or December 31, 2021. See Note 8, "Long-Term Obligations" and Note 9, "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, 2022, we had approximately \$1,621 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 \$16 million over the next twelve months.

Commodity Prices

We are exposed to market risk related to price fluctuations in scrap metal and other metals (including precious metals, such as platinum, palladium, and rhodium, contained in some recycled parts, such as catalytic converters). 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 higher or lower 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, 2022 decreased by 29% over the average for the second quarter of 2022. The average prices of platinum, rhodium, and palladium decreased by 14%, 13% and 9%, respectively, for the three months ended September 30, 2022 over the average prices for the three months ended September 30, 2021.

Inflation

We are exposed to market risks related to inflation in product, labor, shipping, freight and general overhead costs. In 2022, inflation has increased to rates beyond recent history, and we have experienced rising costs. We have adjusted our prices and are driving productivity initiatives to mitigate the inflationary effects. If these pressures continue or increase in severity, we may not be able to fully offset such higher costs through price increases and productivity initiatives. Inflationary pressures in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenue if the selling prices of our products do not increase with these increased costs, we cannot identify cost efficiencies, or the higher prices impact demand.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2022, 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, 2022 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. The legal proceeding below is an update from our legal proceedings previously disclosed in our 2021 Form 10-K and report on Form 10-Q for the quarter ended June 30, 2022:

On August 18, 2022, our Specialty segment agreed to pay the U.S. Environmental Protection Agency ("EPA") \$2.5 million as part of a settlement to resolve a long-standing dispute relating to certain aftermarket parts sold by the Company that the EPA alleged violated the Clean Air Act.

With respect to the July 7, 2022 penalty demand from Region 4 of the EPA discussed in our report on Form 10-Q for the quarter ended June 30, 2022, we reached a settlement to pay a penalty in the amount of \$465,000 in connection with alleged violations of federal stormwater regulations. We will be required to pay this amount within 30 days of the EPA executing Consent Agreement and Final Orders for each facility. On August 18, 2022, we received a Notice of Violation from Region 10 of the EPA regarding alleged violations of federal stormwater regulations at facilities in Idaho, Oregon, and Washington to which we timely responded. We have not received any response from the EPA. We do not currently anticipate that any expense or liability that we may incur as a result of these matters in the future will be material to the Company's business or financial condition.

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 2021 Form 10-K, and our Quarterly Report on Form 10-Q for the three months ended March 31, 2022 filed with the SEC on May 4, 2022, for information concerning risks and uncertainties that could negatively impact us.

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

Issuer Purchases of Equity Securities

Our Board of Directors has authorized a stock repurchase program under which we are able to purchase our common stock from time to time. On May 10, 2022, our Board of Directors authorized a \$500 million increase to our existing stock repurchase program to \$2,500 million. On October 25, 2022, our Board of Directors authorized an additional \$1,000 million increase to our existing stock repurchase program, raising the aggregate program authorization to \$3,500 million, and extended the duration through October 25, 2025. Please refer to Note 2, "Financial Statement Information" for additional information on repurchases under the program.

The following table summarizes our stock repurchases for the three months ended September 30, 2022 (in millions, 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 Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July 1, 2022 - July 31, 2022	2.5	\$ 51.11	2.5	\$ 477
August 1, 2022 - August 31, 2022	1.3	\$ 54.22	1.3	\$ 411
September 1, 2022 - September 30, 2022	3.0	\$ 49.34	3.0	\$ 263
Total	6.8		6.8	

Item 6. Exhibits

Exhibit	Description
10.1	Offer Letter dated as of September 14, 2022 from Dominick Zarcone to Varun Laroyia (incorporated herein by reference to Exhibit 10.1 to the Company's report on Form 8-K filed with the SEC on September 20, 2022).
10.2	Memorandum dated as of September 14, 2022 from Dominick Zarcone to Rick Galloway (incorporated herein by reference to Exhibit 10.2 to the Company's report on Form 8-K filed with the SEC on September 20, 2022).
10.3	Termination Agreement dated as of September 14, 2022 between LKQ Europe GMBH and Arnd Franz (incorporated herein by reference to Exhibit 10.3 to the Company's report on Form 8-K filed with the SEC on September 20, 2022).
10.4	Change of Control Agreement between LKQ Corporation and Rick Galloway dated as of September 15, 2022.
10.5	Form of Indemnification Agreement between Rick Galloway and LKQ Corporation.
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	Inline 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	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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 1, 2022.

LKQ CORPORATION

/s/ Rick Galloway

Rick Galloway

Senior 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)

CONFIDENTIAL

Change of Control Agreement

September 15, 2022

Rick Galloway
500 W. Madison Street, Suite 2800
Chicago, IL 60661

Dear Rick:

LKQ Corporation, a Delaware corporation (the “Company”), considers it essential to the best interests of its stockholders to take reasonable steps to retain key management personnel. Further, the Board of Directors of the Company (the “Board”) recognizes that the uncertainty and questions that might arise among management in the context of any possible Change of Control (as defined below) of the Company could result in the departure or distraction of management personnel to the detriment of the Company and its stockholders.

In order to reinforce and encourage your continued attention and dedication to your assigned duties without distraction in the face of potentially disturbing circumstances arising from any possible Change of Control, the Company has determined to enter into this letter agreement (the “Agreement”), which addresses the terms and conditions of your separation from the Company in connection with a Change of Control or within two (2) years following the Change of Control Date (the “Change of Control Period”). Capitalized words that are not otherwise defined herein shall have the meanings assigned to those words in Section 11 hereof.

The Agreement provides severance benefits to you under certain circumstances since you are in a select group of management or highly compensated employees of the Company. This Agreement is designed to be an “employee welfare benefit plan,” as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). Exhibit A is a part of this Agreement and provides important information regarding this Agreement.

1. Operation of Agreement. The provisions of this Agreement pertaining to the terms and conditions of your separation from the Company in connection with a Change of Control (collectively, the “Severance Provisions”) shall apply only if a Change of Control occurs during the Effective Period. If a Change of Control occurs during the Effective Period, the Severance Provisions become effective on the date of the Change of Control (the “Change of Control Date”). Notwithstanding the foregoing, if (a) a Change of Control occurs during the Effective Period; and (b) your employment with the Company is terminated (other than your voluntary resignation without Good Reason or due to your death or Disability) during the Effective Period, but within twelve (12) months prior to the date on which the Change of Control occurs; and (c) it is reasonably demonstrated by you that such termination of employment (i) was at the request of a third party that has taken steps reasonably calculated to effect a Change of Control or (ii) otherwise arose in connection with or in anticipation of a Change of Control, then the “Change of Control Date” shall instead mean the date immediately prior to the date of such termination of employment. In connection with the foregoing, your unvested equity-based compensation awards that are outstanding as of your termination shall remain outstanding to the extent necessary (but subject in all cases to their maximum term) to enable their potential future vesting and exercisability should a Change of Control occur within twelve months after your termination without Cause by the Company. This Agreement will remain in effect until the later of (x) the last
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day of the Effective Period; or (y) if a Change of Control occurs during the Effective Period, the date on which all benefits due to you under this Agreement, if any, have been paid. However, this Agreement will expire earlier (i) upon the date that your employment is terminated by the Company for Cause or by you without Good Reason or (ii) upon the first anniversary of the termination of your employment by the Company without Cause if no Change of Control has occurred before such first anniversary.

2. Termination of Employment by Reason of Death or Disability. Your employment shall terminate automatically if you die during the Change of Control Period. If the Company determines in good faith that you incurred a Disability during the Change of Control Period, it may give you written notice, in accordance with Section 5 hereof, of its intention to terminate your employment. In such event, your employment with the Company shall terminate effective on the thirtieth (30) calendar day after your receipt of such notice if you have not returned to full-time duties within thirty (30) calendar days after such receipt. If your employment is terminated for death or Disability during the Change of Control Period, this Agreement shall terminate without further obligations on the part of the Company other than the obligation to pay to you or your representative, as applicable, the following amounts:
 - a. the Accrued Obligations, which shall be paid to you in a single lump sum cash payment within fifteen (15) calendar days of the Date of Termination;
 - b. the Pro Rata Bonus, which shall be paid to you in a single lump sum cash payment no later than the later of (i) fifteen (15) calendar days following the Date of Termination or (ii) the effective date of the Waiver and Release; and
 - c. the Other Benefits, which shall be paid in accordance with the terms and conditions of such plans, programs, policies, arrangements or agreements.
 3. Termination for Cause; Resignation Other Than for Good Reason. If your employment is terminated for Cause or you resign for other than Good Reason during the Change of Control Period, your employment will terminate on the Date of Termination in accordance with Section 5 hereof and this Agreement shall terminate without further obligations on the part of the Company other than the obligation to pay to you the following:
 - a. the Accrued Obligations, which shall be paid to you in a single lump sum cash payment within fifteen (15) calendar days of the Date of Termination; and
 - b. the Other Benefits, which shall be paid in accordance with the terms and conditions of such plans, programs or policies.
 4. Termination as a Result of an Involuntary Termination. In the event that your employment with the Company should terminate during the Change of Control Period as a result of an Involuntary Termination, the Company will be obligated, except as provided in Section 8 or Section 9 hereof, to provide you the following benefits:
 - a. Severance Payment. The Company shall pay to you the following amounts:
 - i. the Accrued Obligations, which shall be paid to you in a single lump sum cash payment within fifteen (15) calendar days of the Date of Termination;
 - ii. the Pro Rata Bonus, which shall be paid to you in a single lump sum cash payment no later than the later of (A) fifteen (15) calendar days following the Date of Termination or (B) the effective date of the Waiver and Release;
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- iii. an amount equal to the product of (A) 2.0 times (B) the sum of (1) your Adjusted Base Salary plus (2) the greater of (x) your Target Bonus or (y) the average of the annual bonuses paid or to be paid to you with respect to the immediately preceding three (3) fiscal years, which amount shall be paid to you in a single lump sum cash payment no later than the later of (i) fifteen (15) calendar days following the Date of Termination or (ii) the effective date of the Waiver and Release;
 - iv. if you had previously consented to the Company's request to relocate your principal place of employment more than forty (40) miles from its location immediately prior to the Change of Control, all unreimbursed relocation expenses incurred by you in accordance with the Company's relocation policies, which expenses shall be paid to you in a single lump sum cash payment no later than the later of (A) fifteen (15) calendar days following the Date of Termination or (B) the effective date of the Waiver and Release; and
 - v. the Other Benefits, which shall be paid in accordance with the then-existing terms and conditions of such plans, programs or policies.
- b. Benefit Continuation. You and your then eligible dependents shall continue to be covered by and participate in the group health and dental care plans (collectively, "Health Plans") of the Company (at the Company's cost) in which you participated, or were eligible to participate, immediately prior to the Date of Termination through the end of the Benefit Continuation Period; *provided, however*, that any medical or dental welfare benefit otherwise receivable by you hereunder shall be reduced to the extent that you become covered under a group health or dental care plan providing comparable medical and health benefits. You shall be eligible to participate in such Health Plans on terms that are at least as favorable as those in effect immediately prior to the Date of Termination. However, in the event that the terms of the Company's Health Plans do not permit you to participate in those plans (other than pursuant to an election under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA")), in lieu of your and your eligible dependent's coverage and participation under the Company's Health Plans, the Company shall pay to you within fifteen (15) calendar days after the effective date of the Waiver and Release a lump sum equal to two (2) times your monthly COBRA premium amount for the number of months remaining in the Benefit Continuation Period. In addition, for the purposes of coverage under COBRA, your COBRA event date will be the date of loss of coverage described in this paragraph above.
- c. Outplacement Services. The Company shall, at its sole expense as incurred, provide you with outplacement services on such terms and conditions as may be reasonably determined by the Company prior to the Change of Control.
- d. Acceleration of Stock Awards. All your outstanding awards of restricted stock, stock options, and other equity-based compensation shall become fully vested and exercisable in full immediately upon the effective date of the Waiver and Release; provided, however, that any such awards that would be out of the money as of the Date of Termination may be terminated pursuant to Section 9(b) hereof. In addition, all of your outstanding awards of restricted stock, stock options, and other equity-based compensation that are not assumed or substituted with awards of equivalent value in connection with a Change of Control shall become fully vested and exercisable in full immediately upon the Change of Control.
5. Date and Notice of Termination. Any termination of your employment by the Company or by you during the Change of Control Period shall be communicated by a notice of termination to the other party hereto (the "Notice of Termination"). The Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the
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facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated. The date of your termination of employment with the Company (the "Date of Termination") shall be determined as follows: (i) if your employment is terminated for Disability, thirty (30) calendar days after a Notice of Termination is received by you (provided that you shall not have returned to the full-time performance of your duties during such thirty (30) calendar day period), (ii) if your employment is terminated by the Company in an Involuntary Termination, the later of the date specified in the Notice of Termination or five (5) calendar days after the date the Notice of Termination is received by you, (iii) if you terminate your employment for Good Reason, five (5) calendar days after the date the Notice of Termination is received by the Company, and (iv) if your employment is terminated by the Company for Cause, the later of the date specified in the Notice of Termination or five (5) calendar days following the date such notice is received by you. The Date of Termination for a resignation of employment other than for Good Reason shall be the date set forth in the applicable notice.

6. No Mitigation or Offset; D&O Insurance.

- a. No Mitigation or Offset. You shall not be required to mitigate the amount of any payment provided for herein by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for herein be reduced by any compensation earned by you as the result of employment by another employer.
- b. D&O Insurance, and Indemnification. Through at least the sixth anniversary of the Date of Termination, the Company shall maintain coverage for you as a named insured on all directors' and officers' insurance maintained by the Company for the benefit of its directors and officers on at least the same basis as all other covered individuals and provide you with at least the same corporate indemnification as it provides to other senior executives.

7. Confidentiality. You agree to treat all Confidential Information as confidential information entrusted to you solely for use as an employee of the Company, and shall not divulge, reveal or transmit any Confidential Information in any way to persons not employed by the Company at any time from the date hereof until the end of time, whether or not you continue to be an employee of the Company, unless authorized in writing by the Company.

8. Code Section 409A. The Agreement is not intended to constitute a "nonqualified deferred compensation plan" within the meaning of Code Section 409A. Notwithstanding the foregoing, in the event this Agreement or any benefit paid under this Agreement to you is deemed to be subject to Code Section 409A, you consent to the Company's adoption of such conforming amendments as the Company deems advisable or necessary, in its sole discretion (but without an obligation to do so), to comply with Code Section 409A and avoid the imposition of taxes under Code Section 409A. This Agreement will be interpreted and construed to not violate Code Section 409A, although nothing herein will be construed as an entitlement to or guarantee of any particular tax treatment to you.

For purposes of this Agreement, a termination of employment means a "separation from service" as defined in Code Section 409A. Each payment made pursuant to any provision of this Agreement shall be considered a separate payment and not one of a series of payments for purposes of Code Section 409A. While it is intended that all payments and benefits provided under this Agreement to you will be exempt from or comply with Code Section 409A, the Company makes no representation or covenant to ensure that the payments under this Agreement are exempt from or compliant with Code Section 409A. The Company will have no liability to you or any other person or entity if a payment or benefit under this Agreement is challenged by any taxing authority or is ultimately determined not to be exempt or compliant. You further understand and agree that you will be entirely responsible for any and all taxes on any benefits payable to you as a result of this Agreement. As a condition of participation in the Agreement, you understand and agree that

you will never assert any claims against the Company for reimbursement or payment of any Code Section 409A additional taxes, penalties and/or interest.

If upon your "separation from service" within the meaning of Code Section 409A, you are then a "specified employee" (as defined in Code Section 409A), then solely to the extent necessary to comply with Code Section 409A and avoid the imposition of taxes under Code Section 409A, the Company shall defer payment of "nonqualified deferred compensation" subject to Code Section 409A payable as a result of and within six (6) months following such "separation from service" under this Agreement until the earlier of (i) the first business day of the seventh month following your "separation from service," or (ii) ten (10) days after the Company receives written confirmation of your death. Any such delayed payments shall be made without interest. For avoidance of doubt, any payment whose amount is derived from the value of a Company common share shall be calculated using the value of a common share as of the closing on the expiration date of the foregoing Code Section 409A delay period.

To the extent any nonqualified deferred compensation payment to you could be paid in one or more of your taxable years depending upon you completing certain employment-related actions, then any such payments will commence or occur in the later taxable year to the extent required by Code Section 409A.

No reimbursement payable to you pursuant to any provisions of this Agreement or pursuant to any plan or arrangement of the Company shall be paid later than the last day of the calendar year following the calendar year in which the related expense was incurred, and no such reimbursement during any calendar year shall affect the amounts eligible for reimbursement in any other calendar year, except, in each case, to the extent that it does not violate Code Section 409A.

Any reimbursement payable to you under this Agreement or pursuant to any plan or arrangement of the Company shall be paid in accordance with the Company's established procedures provided, however, that to the extent necessary to comply with Code Section 409A, the following requirements will be adhered to: (1) such reimbursement arrangements will provide an objectively determinable nondiscretionary definition of the expenses eligible for reimbursement or of the in-kind benefits to be provided, (2) such reimbursement arrangements will provide for the reimbursement of expenses incurred or for the provision of the in-kind benefits during an objectively and specifically prescribed period (including the lifetime of the service provider), (3) such reimbursement arrangements will provide that the amount of expenses eligible for reimbursement, or in-kind benefits provided, during your taxable year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, (4) the reimbursement of an eligible expense will be made on or before the last day of your taxable year following the taxable year in which the expense was incurred, and (5) the right to reimbursement or in-kind benefits will not be subject to liquidation or exchange for another benefit. Additionally, to the extent required by Code Section 409A, an eligible reimbursement expense must be incurred by you no later than the end of the second year following the year in which your Date of Termination occurs and any reimbursement payments to you must be made not later than the end of the third year following your Date of Termination (or, in the case of in-kind benefits, by the end of the second year following your Date of Termination).

9. Certain Reduction of Payments by the Company.

- a. Best Net. Anything in this Agreement to the contrary notwithstanding, in the event that the independent auditors of the Company (the "Accounting Firm") determine that receipt of all payments or distributions in the nature of compensation to or for your benefit, whether paid or payable pursuant to this Agreement or otherwise ("Payments"), would subject you to tax under Section 4999 of the Code, the Payments paid or payable pursuant to this Agreement (the "COC Payments"), including payments made with respect to equity-based

compensation accelerated pursuant to Section 4(d) hereof, but excluding payments made with respect to Sections 4(a)(i) and 4(a)(ii) hereof (except as provided below), may be reduced (but not below zero) to the Reduced Amount, but only if the Accounting Firm determines that the Net After-Tax Receipt of unreduced aggregate Payments would be equal to or less than the Net After-Tax Receipt of the aggregate Payments as if the Payments were reduced to the Reduced Amount. If such a determination is not made by the Accounting Firm, you shall receive all COC Payments to which you are entitled under this Agreement.

- b. Reduced Amount. If the Accounting Firm determines that Payments should be reduced to the Reduced Amount, the Company shall promptly give you notice to that effect and a copy of the detailed calculation thereof. Absent manifest error, all determinations made by the Accounting Firm under this Section 9 shall be binding upon you and the Company and shall be made as soon as reasonably practicable and in no event later than twenty (20) business days following the Change of Control Date, or such later date on which there has been a Payment. The reduction of the Payments, if applicable, shall be made by reducing the payments and benefits hereunder in the following order, and only to the extent necessary to achieve the Reduced Amount:

The Company shall reduce or eliminate the Payments, by first reducing or eliminating the portion of the Payments which are not payable in cash and then by reducing or eliminating cash payments, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the determination.

All fees and expenses of the Accounting Firm in implementing the provisions of this Section 9 shall be borne by the Company. To the extent requested by you, the Company shall cooperate with you in good faith in valuing services provided or to be provided by you (including without limitation, your agreeing to refrain from performing services pursuant to a covenant not to compete or similar covenant) before, on or after the date of a change in ownership or control of the Company (within the meaning of Q&A-2(b) of the Treasury Regulations adopted under Section 280G of the Code (the "Regulations")), such that payments in respect of such services may be considered reasonable compensation within the meaning of Q&A-9 and Q&A-40 to Q&A-44 of the Regulations and/or exempt from the definition of the term "parachute payment" within the meaning of Q&A-2(a) of the Regulations in accordance with Q&A-5(a) of the Regulations.

- c. Subsequent Adjustment. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that amounts will have been paid or distributed by the Company to you or for your benefit pursuant to this Agreement which should not have been so paid or distributed ("Overpayment") or that additional amounts which will have not been paid or distributed by the Company to you or for your benefit pursuant to this Agreement could have been so paid or distributed ("Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that the Accounting Firm, based upon the assertion of a deficiency by the Internal Revenue Service against either the Company or you that the Accounting Firm believes has a high probability of success, determines that an Overpayment has been made, you shall pay any such Overpayment to the Company; provided, however, that no amount shall be payable by you to the Company if and to the extent such payment would not either reduce the amount of taxes to which you are subject under Sections 1 and 4999 of the Code or generate a refund of such taxes. In the event that the Accounting Firm, based upon controlling precedent or substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be paid promptly (and in no event later than sixty (60) days following the date on which the Underpayment is determined) by the Company to you or for your benefit.
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10. Successors; Binding Agreement.

- a. Assumption by Successor. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and to agree to perform its obligations under this Agreement in the same manner and to the same extent that the Company would be required to perform such obligations if no such succession had taken place; ***provided, however,*** that no such assumption shall relieve the Company of its obligations hereunder. As used herein, the “Company” shall mean the Company as hereinbefore defined and any successor to its business or assets as aforesaid which assumes and agrees to perform its obligations by operation of law or otherwise.
- b. Enforceability; Beneficiaries. This Agreement shall be binding upon and inure to the benefit of you (and your personal representatives and heirs) and the Company and any organization which succeeds to substantially all of the business or assets of the Company, whether by means of merger, consolidation, acquisition of all or substantially all of the assets of the Company or otherwise, including, without limitation, as a result of a Change of Control or by operation of law. This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

11. Definitions. For purposes of this Agreement, the following capitalized terms have the meanings set forth below:

- a. “Accounting Firm” has the meaning assigned thereto in Section 9 hereof.
 - b. “Accrued Obligations” shall mean all compensation earned or accrued through the Date of Termination but not paid as of the Date of Termination, including base salary, bonus for the prior performance year, accrued but unused vacation, and reimbursement of business expenses accrued in accordance with the Company’s business expense reimbursement policies.
 - c. “Adjusted Base Salary” means the greater of your base salary in effect immediately prior to (i) the Change of Control Date or (ii) the Date of Termination.
 - d. “Agreement” has the meaning assigned thereto in the second introductory paragraph hereof.
 - e. “Benefit Continuation Period” means the period beginning on the Date of Termination and ending on the last day of the month in which occurs the earlier of (i) the 24-month anniversary of the Date of Termination and (ii) the date on which you elect coverage for you and your covered dependents under substantially comparable benefit plans of a subsequent employer.
 - f. “Board” has the meaning assigned thereto in the first introductory paragraph hereof.
 - g. “Bonus Opportunity” for any performance year means your maximum cash bonus opportunity for that year, on the assumption that the Company achieves all applicable performance targets and that you achieve all applicable individual performance criteria.
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- h. “Cause” shall mean (i) your engaging in willful and continued failure to substantially perform your material duties with the Company (other than due to becoming Disabled); ***provided, however,*** that the Company shall have provided you with written notice of such failure and such failure is not cured by you within twenty (20) calendar days of such notice; (ii) your engaging in misconduct that is materially and demonstrably injurious to the Company; (iii) your conviction of, or plea of no contest to, a felony, other crime of moral turpitude; or (iv) a final non-appealable adjudication in a criminal or civil proceeding that you have committed fraud. For purposes of the previous sentence, no act or failure to act on your part shall be deemed “willful” if it is done, or omitted to be done, by you in good faith and with a reasonable belief that it was in the best interest of the Company.
- i. “Change of Control” shall mean:
- i. any “person” (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (A) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that, for purposes of this Section, the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company, or (iv) any acquisition pursuant to a transaction that complies with Sections 11(i)(iii)(A), (B), and (C);
 - ii. during any period of two consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constituted the Board and any new directors, whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least three-fourths of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or
 - iii. there is a consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (B) no Person
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(excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors (or, for a non-corporate entity, equivalent governing body) of the entity resulting from such Business Combination were members of the incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination.

- j. “Change of Control Date” has the meaning assigned thereto in Section 1 hereof.
 - k. “Change of Control Period” has the meaning assigned thereto in the second introductory paragraph hereof.
 - l. “COC Payments” has the meaning assigned thereto in Section 9 hereof.
 - m. “Code” shall mean the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.
 - n. “Company” has the meaning assigned thereto in the first introductory paragraph hereof.
 - o. “Confidential Information” shall mean all financial information, trade secrets, personnel records, training and operational manuals, records, contracts, lists, business procedures, business methods, accounts, brochures, and handbooks that was learned or obtained by you in the course of your employment by the Company, and all other documents relating to the Company or persons doing business with the Company that are proprietary to the Company.
 - p. “Date of Termination” has the meaning assigned thereto in Section 5 hereof.
 - q. “Disability” shall mean your incapacity due to physical or mental illness as defined in the long-term disability plan sponsored by the Company or an affiliate of the Company for your benefit and which causes you to be absent from the full-time performance of your duties.
 - r. “Effective Period” shall mean the period commencing on the date hereof (the “Effective Date”) and ending on the third anniversary of the date of this Agreement; **provided, however**, that beginning on the third anniversary of the date of this Agreement and on each one-year anniversary thereafter (each such date a “Renewal Date”), the Effective Period shall be automatically extended for a period of two years beginning on such Renewal Date, unless at least sixty (60) calendar days prior to such Renewal Date, the Company shall give notice that the Effective Period shall not be so extended.
 - s. “Good Reason” shall mean the occurrence of any of the following events or circumstances:
 - i. a substantial adverse change in your title, position, offices, or the nature of your duties or responsibilities from those in effect immediately prior to the Change of Control, or in the position, level, or status of the person to whom you report.
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- ii. a reduction by the Company in your annual base salary, Target Bonus, or benefits as in effect immediately prior to the Change of Control or as the same may be increased from time to time thereafter, other than a general reduction in benefits applicable across similarly situated executives within the Company;
- iii. a failure by the Company to pay you material compensation or benefits when due including, without limitation, failure by the Company to pay any accrued relocation expenses or Other Benefits;
- iv. the relocation of the office of the Company where you are principally employed immediately prior to the Change of Control to a location which is more than forty (40) miles from such office of the Company (except for required travel on the Company's business to an extent substantially consistent with your customary business travel obligations in the ordinary course of business prior to the Change of Control); or any failure by a successor to the Company to assume and agree to perform this Agreement, as contemplated by Section 10(a) hereof, or any agreement with respect to your outstanding equity awards.

provided, however, that no event or condition set forth in subparagraphs (i) through (v) above shall constitute Good Reason unless (x) you give the Company written notice of objection to such event or condition within sixty (60) calendar days of the initial occurrence of such event or condition and (y) such event or condition is not corrected or remedied, in all material respects, by the Company within thirty (30) calendar days of its receipt of such notice; and ***provided, further, however,*** that your mental or physical incapacity following the occurrence of an event described above in subparagraphs (i) through (v) above shall not affect your ability to terminate employment for Good Reason and that your death following delivery of a Notice of Termination shall not affect your estate's entitlement to the payments and benefits provided hereunder upon an Involuntary Termination. In order to qualify as a termination of employment due to Good Reason, you must resign your employment for Good Reason within forty (40) calendar days after you have provided the Company with the foregoing notice that a Good Reason event has occurred.

- t. "Involuntary Termination" shall mean, during the Change of Control Period, (i) your termination of employment by the Company without Cause or (ii) your resignation of employment with the Company for Good Reason.
 - u. "Net After-Tax Receipt" shall mean the present value (as determined in accordance with Section 280G(d)(4) of the Code) of a Payment net of all taxes imposed on you with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws, determined by applying the highest marginal rate under Section 1 of the Code and under state and local laws which applied to your taxable income for the immediately preceding taxable year, or such other rate(s) as you certify as likely to apply to you in the relevant tax year(s).
 - v. "Notice of Termination" has the meaning assigned thereto in Section 5 hereof.
 - w. "Other Benefits" means, to the extent not theretofore paid or provided, any other amounts or benefits required to be paid or provided to you or that you are eligible to receive under any plan, program, policy, practice, contract or agreement of the Company in accordance with such applicable terms at the time of the Date of Termination. Nothing herein shall prohibit the Company from changing, modifying, amending, or eliminating any benefit plans in accordance with the terms of such plans prior to the Date of Termination, with or without prior notice.
 - x. "Overpayment" has the meaning assigned thereto in Section 9 hereof.
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- y. “Pro Rata Bonus” means a pro rata portion of your Bonus Opportunity for the performance year in which the Date of Termination occurs, calculated based on the number of days that you are employed in the performance year up through and including the Date of Termination.
 - z. “Payment” has the meaning assigned thereto in Section 9 hereof.
 - aa. “Reduced Amount” shall mean \$1,000.00 less than the greatest amount of Payments that can be paid that would not result in the imposition of the excise tax under Section 4999 of the Code.
 - ab. “Severance Policy” means the Company’s Severance Policy for Key Executives as adopted on July 21, 2014 and as may be amended from time to time.
 - ac. “Target Bonus” for any year means your total cash target, but not maximum, bonus for that year, on the assumption that the Company has achieved, but not exceeded, all applicable performance targets and that you have achieved, but not exceeded, all applicable individual performance criteria.
 - ad. “Underpayment” has the meaning assigned thereto in Section 9 hereof.
 - ae. “Tax Authority” has the meaning assigned thereto in Section 9 hereof.
12. Notice. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the Board of Directors, LKQ Corporation, 500 West Madison Street, Suite 2800, Chicago, IL 60661, with a copy to the General Counsel of the Company, or to you at the address set forth on the first page of this Agreement or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.
13. Release. As a condition to receiving any payments or benefits pursuant to this Agreement by reason of your death, Disability or Involuntary Termination, you (or in the case of your death, the executor of your estate) must execute a waiver and release of claims, including confidentiality and non-disparagement covenants, substantially in the form approved by the Company prior to the Change of Control Date (as set forth on Exhibit B attached hereto) (a “Waiver and Release”), and such executed Waiver and Release must be delivered to the Company (and not revoked by you) and become effective by its own terms no later than 55 days after the later of (i) the Change of Control or (ii) the termination of your employment with the Company.
14. Arbitration. Any dispute or controversy arising under or in connection with this Agreement that cannot be mutually resolved by the parties hereto shall be settled exclusively by arbitration in Chicago, Illinois under the employment arbitration rules of the American Arbitration Association before one arbitrator of exemplary qualifications and stature, who shall be selected jointly by the Company and you, or, if the Company and you cannot agree on the selection of the arbitrator, such arbitrator shall be selected by the American Arbitration Association. Judgment may be entered on the arbitrator’s award in any court having jurisdiction. The parties hereby agree that the arbitrator shall be empowered to enter an equitable decree mandating specific enforcement of the terms of this Agreement. The Company agrees to pay as incurred, to the fullest extent permitted by law, the costs and fees of the arbitration, including all legal fees and expenses which you may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, you or others of the validity or enforceability of, or liability under, any provision of this Agreement (including as a result of any contest by you about the amount of any payment pursuant to this Agreement), plus
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in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.

15. Miscellaneous.

- a. Amendments, Waivers, Etc. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement and this Agreement shall supersede all prior agreements, negotiations, correspondence, undertakings and communications of the parties, oral or written, with respect to the subject matter hereof. Notwithstanding the foregoing and for avoidance of doubt, this Agreement does not supersede or replace the Severance Policy. However, any payments or benefits provided (or to be provided) under this Agreement shall be reduced and offset by payments or benefits of the same type that are received by you from the Company under the Severance Policy or any other severance arrangement.
 - b. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.
 - c. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.
 - d. No Contract of Employment. Nothing in this Agreement shall be construed as giving you any right to be retained in the employ of the Company or shall affect the terms and conditions of your employment with the Company prior to the commencement of the Change of Control Period.
 - e. Withholding. Amounts paid to you hereunder shall be subject to all applicable federal, state and local withholding taxes.
 - f. Source of Payments. All payments provided under this Agreement shall be paid in cash from the general funds of the Company, and no special or separate fund shall be established, and no other segregation of assets made, to assure payment. You will have no right, title or interest whatsoever in or to any investments which the Company may make to aid it in meeting its obligations hereunder. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.
 - g. Headings. The headings contained in this Agreement are intended solely for convenience of reference and shall not affect the rights of the parties to this Agreement.
 - h. Governing Law. This Agreement is governed by ERISA and, to the extent applicable, the laws of the State of Delaware without regard to conflicts of law.
 - i. Effect on Benefit Plans. In the event of any inconsistency between the provisions of this agreement and the provisions of any benefit plan of the Company, the provisions that are more favorable to you shall control.
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* * * * *

By signing below, you acknowledge that this Agreement sets forth our agreement on the subject matter hereof. Kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

LKQ CORPORATION

By: /s/ Matthew J. McKay

Name: Matthew J. McKay

Title: Senior Vice President
and General Counsel

Agreed to as of this September 15, 2022

/s/ Genevieve L. Dombrowski

Genevieve L. Dombrowski
Senior Vice President of Human Resources

/s/ Rick Galloway

Rick Galloway
Executive Vice President and Chief Financial Officer

EXHIBIT A

The Agreement, including its Exhibits, constitutes both the official plan document and the required summary plan description under ERISA.

ELIGIBILITY

The Agreement is effective for the individual named in the Agreement (“you”).

BENEFITS

You shall be eligible for severance benefits at such times and in such amounts as may be specified in your Agreement.

OTHER IMPORTANT INFORMATION

A. Agreement Administration. As the Agreement Administrator, the Company has the full and sole discretionary authority to administer and interpret the Agreement, including discretionary authority to determine eligibility for participation in and for benefits under the Agreement, to determine the amount of benefits (if any) payable per participant, and to interpret any terms of this document. All determinations by the Agreement Administrator will be final and conclusive upon all persons and be given the maximum possible deference allowed by law. The Agreement Administrator is the “named fiduciary” of the Agreement for purposes of ERISA and will be subject to the applicable fiduciary standards of ERISA when acting in such capacity. The Company may delegate in writing to any other person all or a portion of its authority or responsibility with respect to the Agreement.

B. Source of Benefits. The Agreement is unfunded, and all severance benefits will be paid from the general assets of the Company or its successor. No contributions are required under the Agreement.

C. Claims Procedure. If you believe you have been incorrectly denied a benefit or are entitled to a greater benefit than the benefit you received under the Agreement, you may submit a signed, written application to the Company’s Senior Vice President of Human Resources (“**Claims Administrator**”). You will be notified in writing of the approval or denial of this claim within ninety (90) days of the date that the Claims Administrator receives the claim, unless special circumstances require an extension of time for processing the claim. In the event an extension is necessary, you will be provided written notice prior to the end of the initial ninety (90) day period indicating the special circumstances requiring the extension and the date by which the Claims Administrator expects to notify you of approval or denial of the claim. In no event will an extension extend beyond ninety (90) days after the end of the initial ninety (90) day period. If your claim is denied, the written notification will state specific reasons for the denial, make specific reference to the Agreement provision(s) on which the denial is based, and provide a description of any material or information necessary for you to perfect the claim and why such material or information is necessary. The written notification will also provide a description of the Agreement’s review procedures and the applicable time limits, including a statement of your right to bring a civil suit under section 502(a) of ERISA following denial of your claim on review.

You will have sixty (60) days from receipt of the written notification of the denial of your claim to file a signed, written request for a full and fair review of the denial by a review panel which will be a named fiduciary of the Agreement for purposes of such review. This request should include the reasons you are requesting a review and may include facts supporting your request and any other relevant comments, documents, records and other information relating to your claim. Upon request and free of charge, you will be provided with reasonable access to,

and copies of, all documents, records and other information relevant to your claim, including any document, record or other information that was relied upon in, or submitted, considered or generated in the course of, denying your claim. A final, written determination of your eligibility for benefits shall be made within sixty (60) days of receipt of your request for review, unless special circumstances require an extension of time for processing the claim, in which case you will be provided written notice of the reasons for the delay within the initial sixty (60) day period and the date by which you should expect notification of approval or denial of your claim. This review will take into account all comments, documents, records and other information submitted by you relating to your claim, whether or not submitted or considered in the initial review of your claim. In no event will an extension extend beyond sixty (60) days after the end of the initial sixty (60) day period. If an extension is required because you fail to submit information that is necessary to decide your claim, the period for making the benefit determination on review will be tolled from the date the notice of extension is sent to you until the date on which you respond to the request for additional information. If your claim is denied on review, the written notification will state specific reasons for the denial, make specific reference to the Agreement provision(s) on which the denial is based and state that you are entitled to receive upon request, and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to your claim, including any document, record or other information that was relied upon in, or submitted, considered or generated in the course of, denying your claim. The written notification will also include a statement of your right to bring an action under section 502(a) of ERISA.

If your claim is initially denied or is denied upon review, you are entitled to receive upon request, and free of charge, reasonable access to, and copies of, any document, record or other information that demonstrates that (1) your claim was denied in accordance with the terms of the Agreement, and (2) the provisions of the Agreement have been consistently applied to similarly situated participants, if any. In pursuing any of your rights set forth in this section, your authorized representative may act on your behalf.

If you do not receive notice within the time periods described above, whether on initial determination or review, you may initiate a lawsuit under Section 502(a) of ERISA.

D. Indemnification. The Company agrees to indemnify its officers and employees and the members of the Board of Directors of the Company from all liabilities from their acts or omissions in connection with the administration, amendment or termination of the Agreement, to the maximum extent permitted by applicable law.

E. Severability. If any provision of the Agreement is held invalid or unenforceable, its invalidity or unenforceability will not affect any other provision of the Agreement, and the Agreement will be construed and enforced as if such provision had not been included.

F. Headings. Headings in the Agreement are for purposes of reference only and will not limit or otherwise affect the meaning hereof.

STATEMENT OF ERISA RIGHTS

As a participant in the Agreement you are entitled to certain rights and protections under ERISA. ERISA provides that all Agreement participants shall be entitled to:

A. Receive Information About Your Agreement and Benefits

Examine, without charge, at the Agreement Administrator's office and at other specified locations, such as work sites, all documents governing the Agreement.

Obtain, upon written request to the Agreement Administrator, copies of documents governing the operation of the Agreement. The Agreement Administrator may impose a reasonable charge for the copies.

B. Prudent Actions by Agreement Fiduciaries

In addition to creating rights for Agreement participants, ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate your Agreement, called “fiduciaries” of the Agreement, have a duty to do so prudently and in the interest of you and other Agreement participants and beneficiaries. No one, including your employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

C. Enforce Your Rights

If your claim for a welfare benefit is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of Agreement documents and do not receive it within 30 days, you may file suit in a federal court. In such a case, the court may require the Agreement Administrator to provide the materials and pay you up to \$110.00 per day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Agreement Administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court after you have completed the Agreement's administrative appeals process. If you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

D. Assistance With Your Questions

If you have any questions about the Agreement, you should contact the Agreement Administrator. If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Agreement Administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory, or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

ADDITIONAL AGREEMENT INFORMATION

Name of Agreement:	Change of Control Agreement
Employer Sponsoring Agreement:	LKQ Corporation. 500 West Madison Street, Suite 2800, Chicago, IL 60661
Employer Identification Number:	36-4215970
Agreement Number:	531
Agreement Year:	Calendar Year
Agreement Administrator:	LKQ Corporation c/o Senior Vice President of Human Resources 500 West Madison Street, Suite 2800, Chicago, IL 60661 Telephone No. (312) 621-1950
Agent for Service of Legal Process:	Agreement Administrator, at the above address
Type of Agreement:	Employee Welfare Benefit Plan providing for severance benefits
Agreement Costs:	The cost of the Agreement is paid by LKQ Corporation
Type of Administration:	Self-administered by the Agreement Administrator

EXHIBIT B

WAIVER AND GENERAL RELEASE AGREEMENT

This Waiver and Release Agreement (this "Release") is entered into as of the date indicated on the signature page of this Release by and between LKQ Corporation, a Delaware corporation (the "Company") and ("Employee"). Employee has been employed by the Company, and the parties are entering into this Release because the employment relationship is ending, without fault or wrongdoing on the part of either the Company or Employee, who agree as follows:

1. Release.
 - a. In exchange for the valuable consideration set forth in the Change of Control Agreement dated as of _____, 20____ (the "Letter Agreement"), between Employee and the Company, the receipt and adequacy of which are herein acknowledged, Employee hereby agrees to release and forever discharge the Company and its present, former and future partners, shareholders, affiliates, direct and indirect parents, subsidiaries, successors, directors, officers, employees, agents, attorneys, heirs and assigns (the "Released Parties"), from any and all claims, actions and causes of action (the "Claims") arising out of (i) his employment relationship with and service as an employee of the Company and its
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affiliates, and the termination of such relationship or service, or (ii) any event, condition, circumstance or obligation that occurred, existed or arose on or prior to the date hereof, including, but not limited to any Claims under Title VII of the Civil Rights Act of 1964, the Rehabilitation Act of 1973, the Americans With Disabilities Act of 1990, the Civil Rights Act of 1866, the Civil Rights Act of 1991, the Employee Retirement Income Security Act of 1974 (ERISA), the Family and Medical Leave Act of 1993, the California Fair Employment and Housing Act; the California Workers' Compensation Act; the California Unruh and Ralph Civil Rights Laws; the California Alcohol and Drug Rehabilitation Law and any other federal, state or local law, statute, regulation or ordinance, or law of any foreign jurisdiction, whether such Claim arises under statute or common law and whether or not Employee is presently aware of the existence of such Claim. Employee also forever releases, discharges and waives any right he may have to recover in any proceeding brought by any federal, state or local agency against the Released Parties to enforce any laws. To ensure that this Release is fully enforceable in accordance with its terms, Employee agrees to waive any and all rights to any Claims, whether or not he knows or suspects them to exist in his favor, which if known to him would have materially affected his execution of this Release. Notwithstanding the foregoing, this Release does not apply to Employee's rights, claims, or benefits under the Letter Agreement or to Employee's rights, if any, to payment of benefits pursuant to any employee benefit plan. This Release also does not apply to Employee's rights, claims, or benefits claims for unemployment compensation benefits, workers compensation benefits, claims under the Fair Labor Standards Act, health insurance benefits under the Consolidated Omnibus Budget Reconciliation Act (COBRA), or claims with regard to vested benefits under a retirement plan governed by ERISA.

- b. **To ensure that this Release is fully enforceable in accordance with its terms, Employee hereby agrees to waive any and all rights under Section 1542 of the California Civil Code (to the extent applicable) as it exists from time to time, which provides:**

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

In addition, to ensure that this Release is fully enforceable in accordance with its terms, Employee hereby agrees to waive any protection that may exist under any comparable or similar statute and under any principle of common law of the United States or any and all States.

EMPLOYEE UNDERSTANDS THAT, BY SIGNING THIS RELEASE, EMPLOYEE WILL HAVE WAIVED ANY RIGHT THAT HE MAY HAVE TO BRING A LAWSUIT OR MAKE ANY CLAIM AGAINST THE COMPANY AND THE RELEASED PARTIES BASED ON ANY ACT OR OMISSIONS BY THEM UP TO THE DATE OF SIGNING THIS AGREEMENT.

- c. In further consideration of the payments and benefits provided to Employee under the Letter Agreement, Employee hereby releases and forever discharges the Released Parties from any and all Claims that he may have as of the date he signs this Release arising under the federal Age Discrimination in Employment Act of 1967, as amended, and the applicable rules and regulations promulgated thereunder ("ADEA"). By signing this Release, Employee hereby acknowledges and confirms the following: (i) he was advised by the Company in connection with his termination to consult with an attorney of his choice prior to signing this

Release and to have such attorney explain to him the terms of this Release, including, without limitation, the terms relating to his release of claims arising under the ADEA; (ii) if Employee is 40 years of age or older as of the date of execution of this Release, he was given a period of not fewer than 21 calendar days to consider the terms of this Release and to consult with an attorney of his choosing with respect thereto; (iii) he is providing the release and discharge set forth in this Paragraph 1(c) only in exchange for consideration in addition to anything of value to which he is already entitled and (iv) he can revoke this Release without it becoming effective as described below.

2. No Legal Claim. Employee has not commenced any legal action, which term includes, without limitation, any demand for arbitration proceedings and any charge, complaint, filing or submission with any federal, state or local agency, court or other tribunal, to assert any Claim against a Released Party, and covenants and agrees not to do so in the future with respect to the matters released herein. If Employee commences or joins any legal action against a Released Party, Employee agrees that such an action is prohibited by this Release, and further agrees to promptly indemnify such Released Party for its reasonable costs and attorneys fees incurred in defending such action as well as forfeit or return any monetary judgment obtained by Employee against any Released Party in such action. Nothing in this Paragraph 2 is intended to reflect any party's belief that Employee's waiver of claims under the ADEA is invalid or unenforceable under this Release, it being the intent of the parties that such claims are waived.
 3. Nondisparagement. Employee agrees to refrain, except as required by law or in connection with a judicial proceeding, from making directly or indirectly, now or at any time in the future, any written or oral statements, representations or other communications that disparage or are otherwise damaging to the business or reputation of the Released Parties.
 4. Continuing Obligations. This Release shall not supersede any continuing obligations Employee may have under the terms of the Letter Agreement or any other agreement between Employee and the Company.
 5. Disclaimer. Employee hereby certifies that Employee has read the terms of this Release, that Employee has been advised by the Company to consult with an attorney of Employee's own choice prior to executing this Release, that Employee has had an opportunity to do so, and that Employee understands the provisions and consequences of this Release. Employee further certifies that the Company has not made any representation to Employee concerning this Release other than those contained herein.
 6. Governing Law. This Release is governed by ERISA and, to the extent applicable, the laws of the State of Delaware without regard to conflicts of law.
 7. Separability of Clauses. If any provisions of this Release shall be finally determined to be invalid or unenforceable under applicable law by a court of competent jurisdiction, that part shall be ineffective to the extent of such invalidity or unenforceability only, without in any way affecting the remaining provisions of this Release.
 8. Counterparts. This Release may be executed by the parties hereto in counterparts, each of which shall be deemed an original, but both such counterparts shall together constitute one and the same document.
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9. **Effectiveness.** This Release shall be effective only when it has been executed by Employee and the executed original has been returned to the Company, and any applicable revocation period has expired.

IN WITNESS WHEREOF, the Company has caused this Release to be signed by its duly authorized officer, and Employee has executed this Release as of the day and year indicated below Employee's signature.

LKQ CORPORATION

By:

Name:

Title:

If Employee is 40 years of age or older as of the date of execution of this Release, Employee shall have the right to revoke this Release during the seven-day period (the "**Revocation Period**") commencing immediately following the date he signs and delivers this Release to the Company. The Revocation Period shall expire at 5:00 p.m. [INSERT TIME ZONE] Time on the last day of the Revocation Period; **provided, however,** that if such seventh day is not a business day, the Revocation Period shall extend to 5:00 p.m. on the next succeeding business day. In the event Employee revokes this Release, all obligations of the Company under this Release and under any agreement which are conditional upon this Release shall terminate and be of no further force and effect as of the date of such revocation. No such revocation by Employee shall be effective unless it is in writing and signed by him and received by the Company prior to the expiration of the Revocation Period at the following address:

**LKQ Corporation
ATTN: General Counsel
500 W. Madison Street, Suite 2800
Chicago, IL 60661**

I HAVE READ AND AGREE
TO THIS RELEASE:

Name:

Date:

INDEMNIFICATION AGREEMENT

This Agreement, made and entered into this 15th day of September 2022 (“Agreement”), by and between LKQ Corporation, a Delaware corporation (“Corporation”), and Rick Galloway (“Indemnitee”):

WHEREAS, highly competent persons are becoming more reluctant to serve corporations as directors, officers or in other capacities unless they are provided with adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of the corporation; and

WHEREAS, the current impracticability of obtaining adequate insurance and the uncertainties relating to indemnification have increased the difficulty of attracting and retaining such persons;

WHEREAS, the Board of Directors of the Corporation (the “Board”) has determined that the inability to attract and retain such persons is detrimental to the best interests of the Corporation’s stockholders and that the Corporation should act to assure such persons that there will be increased certainty of such protection in the future; and

WHEREAS, it is reasonable, prudent and necessary for the Corporation contractually to obligate itself to indemnify such persons to the fullest extent permitted by applicable law and the Certificate of Incorporation and resolutions of the Corporation so that they will serve the Corporation free from undue concern that they will not be indemnified;

WHEREAS, this Agreement is a supplement to and in furtherance of Article Ninth of the Certificate of Incorporation of the Corporation and any resolutions adopted pursuant thereto and shall not be deemed to be a substitute therefor nor to diminish or abrogate any rights of Indemnitee thereunder, and

WHEREAS, Indemnitee is willing to serve the Corporation on the condition that he be so indemnified;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Corporation and Indemnitee do hereby covenant and agree as follows:

Section 1. Services by Indemnatee. Indemnatee agrees to serve as a director, officer, employee, agent or fiduciary of the Corporation, and, at its request, as a director, officer, employee, agent or fiduciary of certain other corporations and entities. Indemnatee may at any time and for any reason resign from such position or positions (subject to any other contractual obligation or any obligation imposed by operation of law), in which event the Corporation shall have no obligation under this Agreement to continue Indemnatee in any such position.

Section 2. Indemnification - General. The Corporation shall indemnify, and advance Expenses (as hereinafter defined), to Indemnatee as provided in this Agreement and to the fullest extent permitted by applicable law and the Certificate of Incorporation and resolutions of the Corporation in effect on the date hereof and to such greater extent as applicable law may thereafter from time to time permit. The rights of Indemnatee provided under the preceding sentence shall include, but shall not be limited to, the rights set forth in the other Sections of this Agreement.

Section 3. Proceedings Other Than Proceedings by or in the Right of the Corporation. Indemnatee shall be entitled to the rights of indemnification provided in this Section 3 if, by reason of his Corporate Status (as hereinafter defined), he is, or is threatened to be made, a party to any threatened, pending, or completed Proceeding (as hereinafter defined), other than a Proceeding by or in the right of the Corporation, but including, without limitation, any such Proceeding in existence on the Effective Date. Pursuant to this Section, Indemnatee shall be indemnified against Expenses, judgments, penalties, fines and amounts paid in settlement (including all interest, assessments, excise taxes assessed with respect to any employee benefit plan, and other charges paid or payable in connection with or in respect of such Expenses, judgments, penalties, fines and amounts paid in settlement) actually and reasonably incurred by him or on his behalf in connection with such Proceeding or any claim, issue or matter therein, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal Proceeding, had no reasonable cause to believe his conduct was unlawful.

Section 4. Proceedings by or in the Right of the Corporation. Indemnatee shall be entitled to the rights of indemnification provided in this Section 4 if, by reason of

his Corporate Status, he is, or is threatened to be made, a party to any threatened, pending or completed Proceeding brought by or in the right of the Corporation to procure a judgment in its favor, including, without limitation, any such Proceeding in existence on the Effective Date. Pursuant to this Section, Indemnatee shall be indemnified against Expenses actually and reasonably incurred by him or on his behalf in connection with such Proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation. Notwithstanding the foregoing, no indemnification against such Expenses shall be made in a respect of any claim, issue or matter in such Proceeding as to which Indemnatee shall have been adjudged to be liable to the Corporation if applicable law prohibits such indemnification; provided, however, that, if applicable law so permits, indemnification against Expenses shall nevertheless be made by the Corporation in such event if and only to the extent that the Court of Chancery of the State of Delaware, or the court in which such Proceeding shall have been brought or is pending, shall determine.

Section 5. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement, to the extent that Indemnatee is, by reason of his Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If Indemnatee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Corporation shall indemnify Indemnatee against all Expenses actually and reasonably incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 6. Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnatee is, by reason of his Corporate Status, a witness in any Proceeding, he shall be indemnified against all Expenses Actually and reasonably incurred by him or on his behalf in connection therewith.

Section 7. Advancement of Expenses. The Corporation shall advance all reasonable Expenses incurred by or on behalf of Indemnatee in connection with any Proceeding within ten days after the receipt by the Corporation of a statement or statements from Indemnatee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnatee and shall include or be preceded or accompanied by an undertaking by or on behalf of Indemnatee to repay any Expenses advanced if it shall ultimately be determined that Indemnatee is not entitled to be indemnified against such Expenses.

Section 8. Procedure for Determination of Entitlement to Indemnification.

(a) To obtain indemnification under this Agreement, Indemnatee shall submit to the Corporation a written request, including therein or therewith such documentation and information as is reasonably available to Indemnatee and is reasonably necessary to determine whether and to what extent Indemnatee is entitled to indemnification. The Secretary of the Corporation shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnatee has requested indemnification.

(b) Upon written request by Indemnatee for indemnification pursuant to the first sentence of Section 8(a) hereof, a determination, if required by applicable law, with respect to Indemnatee's entitlement thereto shall be made in the specific case: (i) if a Change in Control (as hereinafter defined) shall have occurred, by Independent Counsel (as hereinafter defined) unless Indemnatee shall request that such determination be made by the Board of Directors or the stockholders, in which case by the person or persons or in the manner provided for in clauses (ii) or (iii) of this Section 8(b)) in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnatee; (ii) if a Change of Control shall not have occurred, (A) by the Board of Directors by a majority vote of the Disinterested Directors (as hereinafter defined), even though less than a quorum, of (B) if there are no such Disinterested Directors or, if such Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnatee, or (C) by the stockholders of the Corporation; or (iii) as provided in Section 9(b) of this Agreement; and, if it is so

determined that Indemnatee is entitled to indemnification, payment to Indemnatee shall be made within ten days after such determination. Indemnatee shall cooperate with the person, persons or entity making such determination with respect to Indemnatee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnatee and reasonably necessary to such determination. Any costs or expenses (including reasonable attorneys' fees and disbursements) incurred by Indemnatee in so cooperating with the person, persons or entity making such determination shall be borne by the Corporation (irrespective of the determination as to Indemnatee's entitlement to indemnification) and the Corporation hereby indemnifies and agrees to hold Indemnatee harmless therefrom.

(c) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 8(b) hereof, the Independent Counsel shall be selected as provided in this Section 8(c). If a Change of Control shall not have occurred, the Independent Counsel shall be selected by the Board of Directors, and the Corporation shall give written notice to Indemnatee advising him of the identity of the Independent Counsel so elected. If a Change of Control shall have occurred, the Independent Counsel shall be selected by Indemnatee (unless Indemnatee shall request that such selection be made by the Board of Directors, in which event the proceeding sentence shall apply), and Indemnatee shall give written notice to the Corporation advising it of the identity of the Independent Counsel so elected. In either event, Indemnatee or the Corporation, as the case may be, within seven days after such written notice of selection shall have been given, deliver to the Corporation or to Indemnatee, as the case may be, a written objection to such selection. Such objection may be asserted only on the ground that the Independent Counsel so elected does not meet the requirements of "Independent Counsel" as defined in Section 17 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection made, the Independent Counsel so selected may not serve as Independent Counsel unless and until a court has determined that such objection is without merit. Either the Corporation or Indemnatee may petition

the Court of Chancery of the State of Delaware or other court of competent jurisdiction if the parties have been unable to agree on such selection within 20 days after submission by Indemnitee of a written request for indemnification pursuant to Section 8(a) hereof. Such petition may request a determination whether an objection to a party's selection is without merit and/or seek the appointment as Independent Counsel of a person elected by the Court or by such other person as the Court shall designate. A person so appointed by the Court shall act as Independent Counsel under Section 8(b) hereof. The Corporation shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting pursuant to Section 8(b) hereof, and the Corporation shall pay all reasonable fees and expenses incident to the procedures of this Section 8(c), regardless of the manner in which such Independent Counsel was selected or appointed. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 10(a)(iii) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

Section 9. Presumptions and Effect of Certain Proceedings.

(a) If a Change of Control shall have occurred, in making a determination with respect to entitlement to indemnification hereunder, the person, persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 8(a) of this Agreement, and the Corporation shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption.

(b) If the person, persons or entity empowered or selected under Section 8 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within 60 days after receipt by the Corporation of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially

misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional 30 days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 9(b) shall not apply (i) if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 9(b) of this Agreement and if (A) within 15 days after receipt by the Corporation of the request for such determination the Board of Directors has resolved to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within 75 days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within 15 days after such receipt for the purpose of making such determination, such meeting is held for such purpose within 60 days after having been so called and such determination is made thereto, or (ii) if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 8(b) of this Agreement.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnatee to indemnification or create a presumption that Indemnatee did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation or, with respect to any criminal Proceeding, that Indemnatee had reasonable cause to believe that his conduct was unlawful.

Section 10. Remedies of Indemnatee.

(a) In the event that (i) a determination is made pursuant to Section 8 of this Agreement that Indemnatee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 7 of this Agreement, (iii) the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 8(b) of this Agreement and such determination

shall not have been made and delivered in a written opinion within 90 days after receipt by the Corporation of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 6 of this Agreement within ten days after receipt by the Corporation of a written request therefor, or (v) payment of indemnification is not made within ten days after a determination has been made that Indemnitee is entitled to indemnification or such determination is deemed to have been made pursuant to Sections 8 or 9 of this Agreement, Indemnitee shall be entitled to an adjudication in the Court of Chancery of the State of Delaware, or in any other court of competent jurisdiction, of his entitlement of such indemnification or advancement of Expenses. Alternatively, Indemnitee, at his option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the rules of the American Arbitration Association. Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 10(a). The Corporation shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 8 of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 10 shall be conducted in all respects as a de novo trial, or arbitration, on the merits, and Indemnitee shall not be prejudiced by reason of that adverse determination. If a Change of Control shall have occurred, in any judicial proceeding or arbitration commenced pursuant to this Section 10, the Corporation shall have the burden of proving that Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) If a determination shall have been made or deemed to have been made pursuant to Section 8 or 9 of this Agreement that Indemnitee is entitled to indemnification, the Corporation shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 10, absent (i) a misstatement by Indemnitee of a material fact or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Corporation shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 10 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Corporation is bound by all the provisions of this Agreement.

(e) In the event that Indemnatee, pursuant to this Section 10, seeks a judicial adjudication of or an award in arbitration to enforce his rights under, or to recover damages for breach of this Agreement, Indemnatee shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation against, any and all expenses (of the types described in the definition of Expenses in Section 17 of this Agreement) actually and reasonably incurred by him in such judicial adjudication or arbitration, but only if he prevails therein. If it shall be determined in such judicial adjudication or arbitration that Indemnatee is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by Indemnatee in connection with such judicial adjudication or arbitration shall be appropriately prorated.

Section 11. Non-Exclusivity; Survival of Rights; Insurance; Subrogation.

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnatee may at any time be entitled under applicable law, the Certificate of Incorporation, the By-Laws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or any provision hereof shall be effective as to any Indemnatee with respect to any action taken or omitted by such Indemnatee in his Corporate Status prior to such amendment, alteration or repeal.

(b) To the extent that the Corporation maintains an insurance policy or policies providing liability insurance for directors, officers, employees, agents or fiduciaries of the Corporation or of any other corporation, partnership, joint venture, trust employee benefit plan or other enterprise which such person serves at the request of the Corporation, Indemnatee shall be covered by such policy or policies in accordance with

its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies.

(c) In the event of any payment under this Agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnatee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Corporation to bring suit to enforce such rights.

(d) The Corporation shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnatee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

Section 12. Duration of Agreement. This Agreement shall continue until and terminate upon the later of: (a) ten years after the date that Indemnatee shall have ceased to serve as director, officer, employee, agent or fiduciary of the Corporation or of any other corporation, partnership, joint venture, trust, employee benefit plan or the enterprise which Indemnatee served at the request of the Corporation; or (b) the final termination of all pending Proceedings in respect of which Indemnatee is granted rights of indemnification or advancement of expense hereunder and of any proceeding commenced by Indemnatee pursuant to Section 10 of this Agreement relating thereto. This Agreement shall be binding upon the Corporation and its successors and assigns and shall inure to the benefit of Indemnatee and his heirs, executors and administrators.

Section 13. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Agreement (including without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall

be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Section 14. Exception to Right to Indemnification or Advancement of Expenses. Except as provided in Sections 8(c) and 10(e) hereof, Indemnatee shall not be entitled to indemnification or advancement of Expenses under this Agreement with respect to any Proceeding, or any claim therein, brought or made by him against the Corporation.

Section 15. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

Section 16. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

Section 17. Definition. For purposes of this Agreement:

(a) “Affiliate” and “Associate” shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations (as in effect on the date hereof) under the Securities Exchange Act of 1934 (the “Act”).

(b) “Change in Control” means a change in control of the Corporation or its successor occurring after the Effective Date of a nature that would be required to be reported in response to Item 1 of Form 8-K (as in effect on the date of this Agreement) promulgated under the Act, whether or not the Corporation is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if after the Effective Date (i) the Corporation is merged or consolidated or reorganized into or with another corporation or other legal person (an “Acquiror”) and as a result of such merger, consolidation or reorganization less than 75% of the outstanding voting securities or other capital interests of the surviving, resulting or acquiring corporation or other legal person are owned in the aggregate by the stockholders of the Corporation, directly or indirectly, immediately prior to such merger, consolidation or reorganization, other than by the Acquiror or any

corporation or other legal person controlling, controlled by or under common control with the Acquiror; or (ii) the Corporation sells all or substantially all of its business and/or assets to an Acquiror, of which less than 75% of the outstanding voting securities or other capital interests are owned in the aggregate by the stockholders of the Corporation, directly or indirectly, immediately prior to such sale, other than by a corporation or other legal person controlling, controlled by or under common control with the Acquiror; or (iii) there is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), disclosing that any person or group (as the terms “person” and “group” are used in Section 13(d)(3) or Section 14(d)(2) of the Exchange Act and the rules and regulations promulgated thereunder) has become the beneficial owner (as the term “beneficial owner” is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of 20% or more of the issued and outstanding shares of voting securities of the Corporation; or (iv) during any period of two consecutive years, individuals who at the beginning of any such period constitute the directors of the Corporation cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election by the Corporation’s stockholders, of each new director of the Corporation was approved by a vote of at least two-thirds of such directors of the Corporation then still in office who were directors of the Corporation at the beginning of any such period.

(c) “Corporate Status” describes the status of a person who is or was a director, officer, employee, agent or fiduciary of the Corporation or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the request of the Corporation.

(d) “Disinterested Director” means a director of the Corporation who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnatee.

(e) “Effective Date” means the date of this Agreement.

(f) “Expenses” shall include all reasonable attorneys’ fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and

all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

(g) “Independent Counsel” means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Corporation or Indemnitee in any matter material to either such party, or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Corporation or Indemnitee in an action to determine Indemnitee’s rights under this Agreement.

(h) “Proceeding” includes any action, suit, arbitration, alternative dispute resolution mechanism, investigation, administrative hearing or any other proceeding whether civil, criminal, administrative or investigative and including any and all appeals relating thereto.

(i) “Significant Stockholder” shall mean any individual, firm, corporation, limited liability company, partnership, trust or other entity who or which, together with all its Affiliates and Associates, shall be the “beneficial owner” (as defined above) of securities of the Corporation representing 30% or more of the combined voting power of the Corporation’s then outstanding securities.

Section 18. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 19. Notice by Indemnitee. Indemnitee agrees promptly to notify the Corporation in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder.

Section 20. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(a) If to Indemnitee, to:

Rick Galloway
500 West Madison Street
Suite 2800
Chicago, Illinois 60661

(b) If to Corporation to:

LKQ Corporation
500 West Madison Street
Suite 2800
Chicago, Illinois 60661
Attention: General Counsel

or to such other address as may have been furnished to Indemnitee by the Corporation or to the Corporation by Indemnitee, as the case may be.

Section 21. Governing Law. The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware.

Section 22. Miscellaneous. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate.

Section 23. Contribution.

(a) If the indemnification provided in this Agreement should under applicable law be unenforceable or insufficient to hold Indemnitee harmless in respect of any and all Expenses, judgments, penalties, fines, and amounts paid in settlement in connection with a Proceeding, then the Corporation agrees, subject to the provisions of Subsection (b) below, that for purposes of this Section the Corporation shall be treated as

if it were a party which was or was threatened to be made a party to such Proceeding and that the Corporation shall contribute to the amounts paid or payable by the Indemnatee as a result of such Expenses, judgments, penalties, fines, and amounts paid in settlement of such Proceeding in such proportion as is appropriate to reflect the relative benefits accruing to the Corporation on the one hand and Indemnatee on the other which arose out of the event underlying such Proceeding and also the relative fault of the Corporation on the one hand and Indemnatee on the other in connection with such event, as well as any other relevant equitable considerations. For purposes of this Section, the relative benefit of the Corporation shall be deemed to be the benefits accruing to it and to all of its directors, officers, employees and agents (other than Indemnatee) on the one hand, as a group and treated as one entity, and the relative benefit of Indemnatee shall be deemed to be an amount not greater than Indemnatee's annual compensation from the Corporation and its subsidiaries during the first calendar year in which the event forming the basis for such Proceeding was alleged to have occurred (except that, if Indemnatee is both a director of the Corporation and an officer of the Corporation and/or one or more subsidiaries of the Corporation, and the Proceeding is brought against Indemnatee only in his capacity as a director of the Corporation, then the relative benefit of Indemnatee shall be deemed to be an amount no greater than the highest annual compensation paid by the Corporation for such year to any of its directors who is not also an officer of the Corporation or of any of its subsidiaries). The relative fault shall be determined by reference to, among other things, the fault of the Corporation and all of its directors, officers, employees and agents (other than Indemnatee) on the one hand, as a group and treated as one entity, and Indemnatee's and such group's relative intent, knowledge,

access to information and opportunity to have altered or prevented the action or inaction, or alleged action or inaction, forming the basis for such Proceeding.

(b) No provision of this Section shall operate to create a right of contribution in favor of Indemnatee if it is judicially determined that, with respect to any such Proceeding to which paragraph (a) pertains, Indemnatee intentionally caused or contributed to the injury complained of with the knowledge that such injury would occur.

Section 24. Period of Limitations. No legal action shall be brought, and no cause of action shall be asserted by or on behalf of the Corporation or any subsidiary or other affiliate of the Corporation against Indemnatee or Indemnatee's spouse, heirs, executors, or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Corporation or its subsidiaries or other affiliates shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

LKQ CORPORATION

By: /s/ Matthew J. McKay

Name: Matthew J. McKay

Title: SVP – General Counsel

/s/ Rick Galloway
Rick Galloway

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 1, 2022

/s/ DOMINICK ZARCONE

Dominick Zarcone

President and Chief Executive Officer

CERTIFICATION

I, Rick Galloway, 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 1, 2022

/s/ RICK GALLOWAY

Rick Galloway

Senior Vice President and Chief Financial Officer

**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, 2022, 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 1, 2022

/s/ DOMINICK ZARCONE

Dominick Zarcone

President and Chief Executive Officer

**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, 2022, 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 1, 2022

/s/ RICK GALLOWAY

Rick Galloway

Senior Vice President and Chief Financial Officer