LKQ CORP
Form 10-Q
July 31, 2017

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

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to
Commission File Number: 000-50404

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

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

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

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

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

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

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

At July 21, 2017, the registrant had issued and outstanding an aggregate of 308,861,013 shares of Common Stock.

PART I
FINANCIAL INFORMATION
Item 1. Financial Statements
LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Income
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$2,458,411	$2,304,806	$4,801,254	$4,226,282
Cost of goods sold	1,493,402	1,398,990	2,906,152	2,560,029
Gross margin	965,009	905,816	1,895,102	1,666,253
Facility and warehouse expenses	190,936	177,378	380,716	334,983
Distribution expenses	194,392	184,326	380,202	336,669
Selling, general and administrative expenses	278,942	250,086	546,169	468,404
Restructuring and acquisition related expenses	2,521	9,080	5,449	23,891
Depreciation and amortization	53,645	52,501	102,301	84,189
Operating income	244,573	232,445	480,265	418,117
Other expense (income):				
Interest expense, net	24,596	24,649	48,584	39,241
Loss on debt extinguishment	—	—	—	26,650
Gains on foreign exchange contracts - acquisition related	—	—	—	(18,342)
Gain on bargain purchase	(3,077)	—	(3,077)	—
Other income, net	(2,731)	(462)	(3,777)	(3,351)
Total other expense, net	18,788	24,187	41,730	44,198
Income from continuing operations before provision for income taxes	225,785	208,258	438,535	373,919
Provision for income taxes	75,862	70,262	148,017	123,390
Equity in earnings (loss) of unconsolidated subsidiaries	991	(186)	1,205	(548)
Income from continuing operations	150,914	137,810	291,723	249,981
Income (loss) from discontinued operations, net of tax	—	4,975	(4,531)	4,975
Net income	$150,914	$142,785	$287,192	$254,956
Basic earnings per share:				
Income from continuing operations	$0.49	$0.45	$0.95	$0.82
Income (loss) from discontinued operations	—	0.02	(0.01)	0.02
Net income [1]	$0.49	$0.47	$0.93	$0.83
Diluted earnings per share:				
Income from continuing operations	$0.49	$0.45	$0.94	$0.81
Income (loss) from discontinued operations	—	0.02	(0.01)	0.02
Net income [1]	$0.49	$0.46	$0.93	$0.82

[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 consolidated financial statements.

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Unaudited Condensed Consolidated Statements of Comprehensive Income
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$150,914	$142,785	$287,192	$254,956
Other comprehensive income (loss):				
Foreign currency translation	93,597	(73,257)	115,176	(73,117)
Net change in unrecognized gains/losses on derivative instruments, net of tax	(930)	(3,614)	2,233	(3,182)
Net change in unrealized gains/losses on pension plans, net of tax	(862)	120	(3,903)	267
Net change in other comprehensive loss from unconsolidated subsidiaries	(439)	—	(601)	—
Total other comprehensive income (loss)	91,366	(76,751)	112,905	(76,032)
Total comprehensive income	$242,280	$66,034	$400,097	$178,924

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

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

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$303,544	$227,400
Receivables, net	1,001,246	860,549
Inventories	2,063,462	1,935,237
Prepaid expenses and other current assets	132,483	87,768
Assets of discontinued operations	—	456,640
Total current assets	3,500,735	3,567,594
Property and equipment, net	841,608	811,576
Intangible assets:		
Goodwill	3,191,613	3,054,769
Other intangibles, net	595,333	584,231
Equity method investments	181,996	183,467
Other assets	119,657	101,562
Total assets	$8,430,942	$8,303,199
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$724,201	$633,773
Accrued expenses:		
Accrued payroll-related liabilities	106,811	118,755
Other accrued expenses	246,747	209,101
Other current liabilities	47,041	37,943
Current portion of long-term obligations	96,860	66,109
Liabilities of discontinued operations	—	145,104
Total current liabilities	1,221,660	1,210,785
Long-term obligations, excluding current portion	2,890,708	3,275,662
Deferred income taxes	225,262	199,657
Other noncurrent liabilities	236,627	174,146
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 308,620,187 and 307,544,759 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	3,086	3,075
Additional paid-in capital	1,130,318	1,116,690
Retained earnings	2,877,551	2,590,359
Accumulated other comprehensive loss	(154,270)	(267,175)
Total stockholders' equity	3,856,685	3,442,949
Total liabilities and stockholders' equity	$8,430,942	$8,303,199

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

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

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$287,192	$254,956
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	106,606	90,882
Stock-based compensation expense	12,443	11,425
Loss on debt extinguishment	—	26,650
Loss on sale of business	8,580	—
Gains on foreign exchange contracts - acquisition related	—	(18,342)
Other	(4,740)	7,193
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Receivables, net	(98,362)	(83,515)
Inventories	(20,378)	42,548
Prepaid income taxes/income taxes payable	4,418	16,542
Accounts payable	63,589	31,004
Other operating assets and liabilities	2,749	(17,428)
Net cash provided by operating activities	362,097	361,915
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(91,545)	(102,319)
Acquisitions, net of cash acquired	(100,728)	(1,268,841)
Proceeds from disposals of business/investment	301,297	10,304
Proceeds from foreign exchange contracts	—	18,342
Other investing activities, net	4,712	1,009
Net cash provided by (used in) investing activities	113,736	(1,341,505)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	5,151	4,889
Taxes paid related to net share settlements of stock-based compensation awards	(3,955)	(2,281)
Debt issuance costs	—	(16,171)
Proceeds from issuance of Euro notes	—	563,450
Borrowings under revolving credit facilities	162,794	1,822,020
Repayments under revolving credit facilities	(585,454)	(1,012,362)
Borrowings under term loans	—	338,478
Repayments under term loans	(18,590)	(4,721)
Borrowings under receivables securitization facility	150	97,000
Repayments under receivables securitization facility	(5,000)	(66,480)
Borrowings (repayments) of other debt, net	19,591	(7,824)
Payments of Rhiag debt and related payments	—	(543,347)
Payments of other obligations	(2,079)	(1,436)
Other financing activities, net	4,316	65
Net cash (used in) provided by financing activities	(423,076)	1,171,280
Effect of exchange rate changes on cash and cash equivalents	16,271	(5,884)
Net increase in cash and cash equivalents	69,028	185,806
Cash and cash equivalents of continuing operations, beginning of period	227,400	87,397
Add: Cash and cash equivalents of discontinued operations, beginning of period	7,116	—

Cash and cash equivalents of continuing and discontinued operations, beginning of period	234,516	87,397
Cash and cash equivalents of continuing and discontinued operations, end of period	303,544	273,203
Less: Cash and cash equivalents of discontinued operations, end of period	—	21,340
Cash and cash equivalents, end of period	$303,544	$251,863
Supplemental disclosure of cash paid for:		
Income taxes, net of refunds	$150,555	$115,346
Interest	46,606	42,340
Supplemental disclosure of noncash investing and financing activities:		
Contingent consideration liabilities	$4,279	$—
Notes payable and other financing obligations, including notes issued and debt assumed in connection with business acquisitions	5,965	555,335
Noncash property and equipment additions	4,185	3,555
Notes and other financing receivables in connection with disposals of business/investment	5,848	—

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

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

	Common Stock					
	Shares Issued	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders’ Equity
BALANCE, January 1, 2017	307,545	$ 3,075	$ 1,116,690	$ 2,590,359	$ (267,175)	$ 3,442,949
Net income	—	—	—	287,192	—	287,192
Other comprehensive income	—	—	—	—	112,905	112,905
Restricted stock units vested, net of shares withheld for employee tax	477	5	(2,760)	—	—	(2,755)
Stock-based compensation expense	—	—	12,443	—	—	12,443
Exercise of stock options	633	6	5,145	—	—	5,151
Tax withholdings related to net share settlements of stock-based compensation awards	(34)	—	(1,200)	—	—	(1,200)
BALANCE, June 30, 2017	308,621	$ 3,086	$ 1,130,318	$ 2,877,551	$ (154,270)	$ 3,856,685

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

LKQ CORPORATION AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Interim Financial Statements
The unaudited financial statements presented in this report represent the consolidation of LKQ Corporation, a Delaware corporation, and its subsidiaries. LKQ Corporation is a holding company and all operations are conducted by subsidiaries. When the terms "LKQ," "the Company," "we," "us," or "our" are used in this document, those terms refer to LKQ Corporation and its consolidated subsidiaries.
We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial statements. Accordingly, certain information related to our significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normally recurring adjustments) necessary to fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented.
Operating results for interim periods are not necessarily indicative of the results that can be expected for any subsequent interim period or for a full year. These interim financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our most recent Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 27, 2017.

Note 2. Business Combinations
During the six months ended June 30, 2017, we completed ten acquisitions, including three wholesale businesses in North America, six wholesale businesses in Europe and a Specialty vehicle aftermarket business. Total acquisition date fair value of the consideration for these acquisitions was $107.8 million, composed of $99.0 million of cash paid (net of cash acquired), $4.3 million for the estimated value of contingent payments to former owners (with maximum potential payments totaling $13.9 million), $4.2 million of other purchase price obligations (non-interest bearing), and $0.3 million of notes payable. We typically fund our acquisitions using borrowings under our credit facilities or other financing arrangements. During the six months ended June 30, 2017, we recorded $32.6 million of goodwill related to these acquisitions, of which we expect $17.4 million to be deductible for income tax purposes. In the period between the acquisition dates and June 30, 2017, these acquisitions generated revenue of $21.2 million and an operating loss of $2.0 million.
On July 3, 2017, we acquired four aftermarket parts distribution businesses in Belgium for a combined purchase price of €120.1 million ($136.5 million), composed of €103.1 million ($117.2 million) of cash paid (net of cash acquired) and €17.0 million ($19.3 million) of notes payable. The objective of these acquisitions is to transform the existing three-step distribution model in Belgium to a two-step distribution model to align with our Netherlands operations. We are in the process of completing the purchase accounting for these acquisitions and as a result, we are unable to disclose the amounts recognized for each major class of assets acquired and liabilities assumed, or the pro forma effect of the acquisitions on our results of operations.
On March 18, 2016, LKQ acquired Rhiag-Inter Auto Parts Italia S.p.A. ("Rhiag"), a distributor of aftermarket spare parts for passenger cars and commercial vehicles in Italy, Czech Republic, Slovakia, Switzerland, Hungary, Romania, Ukraine, Bulgaria, Poland and Spain. This acquisition expanded LKQ's geographic presence in continental Europe, and we believe the acquisition will generate potential purchasing synergies. Total acquisition date fair value of the consideration for our Rhiag acquisition was €534.2 million ($602.0 million), composed of €533.6 million ($601.4 million) of cash paid (net of cash acquired) and €0.6 million ($0.6 million) of intercompany balances considered to be effectively settled as part of the transaction. In addition, we assumed €488.8 million ($550.8 million) of existing Rhiag debt as of the acquisition date. We recorded $590.7 million ($585.4 million in 2016 and $5.3 million in the three months ended March 31, 2017) of goodwill related to our acquisition of Rhiag, which we do not expect to be deductible for income tax purposes.

Related to the funding of the purchase price of the Rhiag acquisition, LKQ entered into foreign currency forward contracts in March 2016 to acquire a total of €588 million. The rates locked in under the foreign currency forwards were favorable to the spot rate on the settlement date, and as a result, these derivative contracts generated a gain of $18.3 million during the year ended December 31, 2016. The gain on the foreign currency forwards was recorded in Gains on foreign exchange contracts - acquisition related on our Unaudited Condensed Consolidated Statement of Income for the year ended December 31, 2016.

On April 21, 2016, LKQ acquired Pittsburgh Glass Works LLC ("PGW"). At acquisition, PGW's business comprised aftermarket automotive replacement glass distribution services and automotive glass manufacturing. The acquisition expanded

our addressable market in North America. Additionally, we believe the acquisition will create potential distribution synergies with our existing network. Total acquisition date fair value of the consideration for our PGW acquisition was $661.7 million, consisting of cash paid (net of cash acquired). We recorded $207.6 million ($205.1 million in 2016 and $2.5 million in the six months ended June 30, 2017) of goodwill related to our acquisition of PGW, of which we expect $104.0 million to be deductible for income tax purposes.

On October 4, 2016, we acquired substantially all of the business assets of Andrew Page Limited ("Andrew Page"), a distributor of aftermarket automotive parts in the U.K., out of receivership. The acquisition is subject to regulatory approval by the Competition and Markets Authority ("CMA") in the U.K. The CMA's review is ongoing as of the date of this report. Total acquisition date fair value of the consideration for this acquisition was £15.7 million ($20.1 million). In connection with the acquisition, we recorded a gain on bargain purchase of $10.1 million ($8.2 million recorded in the fourth quarter of 2016 and $1.9 million recorded in the second quarter of 2017), which is recorded on a separate line in our consolidated statement of income. We believe that we were able to acquire the net assets of Andrew Page for less than fair value as a result of (i) Andrew Page's financial difficulties that put the company into receivership prior to our acquisition and (ii) a motivated seller that desired to complete the sale in an expedient manner to ensure continuity of the business. We continue to evaluate the purchase price allocation, including the opening value of inventory, fixed assets, intangible assets, accrued liabilities, and deferred taxes, which may require us to adjust the recorded gain.

In addition to our acquisitions of Rhiag, PGW and Andrew Page, we acquired seven wholesale businesses in Europe and five wholesale businesses in North America during the year ended December 31, 2016. Total acquisition date fair value of the consideration for these acquisitions was $76.1 million, composed of $67.8 million of cash paid (net of cash acquired), $4.1 million of notes payable and $4.2 million of other purchase price obligations (non-interest bearing). During the year ended December 31, 2016, we recorded $52.3 million of goodwill related to these acquisitions and immaterial adjustments to preliminary purchase price allocations related to certain of our 2015 acquisitions. We expect that substantially all of the goodwill recorded for these acquisitions will not be deductible for income tax purposes.

Our acquisitions are accounted for under the purchase method of accounting and are included in our unaudited condensed consolidated financial statements from the dates of acquisition. The purchase prices were allocated to the net assets acquired based upon estimated fair market values at the dates of acquisition. The purchase price allocations for the acquisitions made during the six months ended June 30, 2017 and the last six months of the year ended December 31, 2016 are preliminary as we are in the process of determining the following: 1) valuation amounts for certain receivables, inventories and fixed assets acquired; 2) valuation amounts for certain intangible assets acquired; 3) the acquisition date fair value of certain liabilities assumed; and 4) the final estimation of the tax basis of the entities acquired. We have recorded preliminary estimates for certain of the items noted above and will record adjustments, if any, to the preliminary amounts upon finalization of the valuations.

From the date of our preliminary allocation for Rhiag in the first quarter of 2016 through March 31, 2017, we recorded adjustments based on our valuation procedures for our acquisition of Rhiag that resulted in the allocation of $149.0 million of goodwill to acquired assets, primarily intangible assets and property and equipment; this amount includes a $5.3 million increase to goodwill recorded in 2017, primarily attributable to a decline in the value allocated to property and equipment. Additionally, from the date of our preliminary allocation for PGW in the second quarter of 2016 through June 30, 2017, we recorded adjustments based on our valuation procedures that resulted in a $23.6 million increase to goodwill recorded for our PGW acquisition, of which $2.5 million was recorded in 2017. These adjustments were primarily attributable to a decline in the value allocated to property and equipment, partially offset by an increase in the value allocated to deferred taxes. Finally, from the date of our preliminary allocations for our acquisitions completed in the first quarter of 2017 through June 30, 2017, we recorded adjustments based on our valuation procedures that resulted in a decrease to goodwill of $14.5 million. This decrease to goodwill was primarily a result of an increase in the value allocated to intangible assets and a decrease in our estimate of the acquisition date fair value of the contingent payment liability to the former owners. The income statement effect of these measurement period adjustments for our Rhiag and PGW acquisitions and our acquisitions completed in the first quarter of 2017 that would have been recorded in previous reporting periods if the adjustments had been recognized as of the

acquisition dates was immaterial. The balance sheet impact and income statement effect of other measurement-period adjustments recorded for acquisitions completed in prior periods were immaterial.

The preliminary purchase price allocations for the acquisitions completed during the six months ended June 30, 2017 and the year ended December 31, 2016 are as follows (in thousands):

	Six Months Ended June 30, 2017	Year Ended December 31, 2016			
	All Acquisitions [1]	Rhiag	PGW [2]	Other Acquisitions	Total
Receivables	$ 24,697	$230,670	$136,523	$ 13,216	$380,409
Receivable reserves	(4,199)	(28,242)	(7,135)	(794)	(36,171)
Inventories [3]	54,806	239,529	169,159	62,223	470,911
Prepaid expenses and other current assets	(1,428)	10,793	42,573	4,445	57,811
Property and equipment	(3,436)	56,774	225,645	17,140	299,559
Goodwill	40,446	585,415	205,058	52,336	842,809
Other intangibles	16,886	429,360	37,954	2,537	469,851
Other assets [4]	2,575	2,092	57,671	(133)	59,630
Deferred income taxes	150	(110,791)	17,506	(1,000)	(94,285)
Current liabilities assumed	(16,653)	(239,665)	(168,332)	(42,290)	(450,287)
Debt assumed	(2,092)	(550,843)	(4,027)	(2,378)	(557,248)
Other noncurrent liabilities assumed	(1,539)	(23,085)	(50,847)	(103)	(74,035)
Contingent consideration liabilities	(4,279)	—	—	—	—
Other purchase price obligations	(3,615)	—	—	(6,698)	(6,698)
Notes issued	(258)	—	—	(4,087)	(4,087)
Settlement of pre-existing balances	—	(591)	—	(32)	(623)
Gain on bargain purchase [5]	(3,077)	—	—	(8,207)	(8,207)
Cash used in acquisitions, net of cash acquired [6]	$ 98,984	$601,416	$661,748	$ 86,175	$1,349,339

(1) Includes $6.4 million and $3.1 million of adjustments to reduce property and equipment and other current assets for Rhiag and PGW, respectively.

(2) Includes both continuing and discontinued operations of PGW. See Note 3, "Discontinued Operations" for further information on our discontinued operations.

(3) The PGW inventory balance includes the impact of a $9.8 million step-up adjustment to report the inventory at its fair value.

(4) The balance for PGW includes $23.6 million of investments in unconsolidated subsidiaries which relate to the discontinued portion of our PGW operations.

(5) The amount recorded during the six months ended June 30, 2017 includes a $1.9 million increase to the gain on bargain purchase recorded for our Andrew Page acquisition as a result of changes to our estimate of the fair value of the net assets acquired. The remainder of the gain on bargain purchase recorded during the six months ended June 30, 2017 is an immaterial amount related to another acquisition in Europe completed in the second quarter of 2017, as the fair value of the net assets acquired exceeded the purchase price.

(6) During the six months ended June 30, 2017, we paid $1.7 million for the settlement of other purchase price obligations (non-interest bearing). These payments are reflected in Acquisitions, net of cash acquired on our Unaudited Condensed Consolidated Statement of Cash Flows.

The fair value of our intangible assets is based on a number of inputs including projections of future cash flows, assumed royalty rates and customer attrition rates, all of which are Level 3 inputs. The fair value of our property and equipment is determined using inputs such as market comparables and current replacement or reproduction costs of the asset, adjusted for physical, functional and economic factors; these adjustments to arrive at fair value are not observable in the market, and therefore, these inputs are considered to be Level 3 inputs.

Other noncurrent liabilities recorded for our acquisitions of Rhiag and PGW includes a liability for certain pension and other post-retirement obligations we assumed with the acquisitions. A portion of PGW's liability for pension and post-retirement obligations relates to the glass manufacturing operations business, which was classified as

discontinued operations,

and was recorded within Liabilities of discontinued operations on our consolidated balance sheet as of December 31, 2016; these amounts were included in the net assets disposed of as part of the sale of the business, which occurred in the first quarter of 2017. Due to the immateriality of our pension plans for our continuing operations, we have not provided the detailed disclosures otherwise prescribed by the accounting guidance on pensions and other post-retirement obligations.

The primary objectives of our acquisitions made during the six months ended June 30, 2017 and the year ended December 31, 2016 were to create economic value for our stockholders by enhancing our position as a leading source for alternative collision and mechanical repair products and to expand into other product lines and businesses that may benefit from our operating strengths. Our 2016 acquisition of Rhiag enabled us to expand our market presence in continental Europe. We believe that our Rhiag acquisition will allow for synergies within our European operations, most notably in procurement, and these projected synergies contributed to the goodwill recorded on the Rhiag acquisition. The aftermarket automotive glass distribution business of PGW, which is included within continuing operations, enabled us to enter into new product lines and increase the size of our addressable market. In addition, we believe that the aftermarket automotive glass distribution business of our PGW acquisition will allow for distribution synergies with our existing network in North America, which contributed to the goodwill recorded on the acquisition.

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

The following pro forma summary presents the effect of the businesses acquired during the six months ended June 30, 2017 as though the businesses had been acquired as of January 1, 2016, and the businesses acquired during the year ended December 31, 2016 as though they had been acquired as of January 1, 2015. The pro forma adjustments are based upon unaudited financial information of the acquired entities (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue, as reported	$2,458,411	$2,304,806	$4,801,254	$4,226,282
Revenue of purchased businesses for the period prior to acquisition:				
Rhiag	—	—	—	213,376
PGW [1]	—	19,506	—	102,540
Other acquisitions	6,707	124,095	34,160	248,470
Pro forma revenue	$2,465,118	$2,448,407	$4,835,414	$4,790,668
Income from continuing operations, as reported	$150,914	$137,810	$291,723	$249,981
Income from continuing operations of purchased businesses for the period prior to acquisition, and pro forma purchase accounting adjustments:				
Rhiag	—	60	—	(143)
PGW [1],[2]	—	736	—	7,574
Other acquisitions	(629)	(50)	(803)	(16)
Acquisition related expenses, net of tax [3]	1,148	1,665	2,333	10,155
Pro forma income from continuing operations	$151,433	$140,221	$293,253	$267,551
Earnings per share from continuing operations, basic—as reported	$0.49	$0.45	$0.95	$0.82
Effect of purchased businesses for the period prior to acquisition:				
Rhiag	—	0.00	—	(0.00)
PGW [1],[2]	—	0.00	—	0.02
Other acquisitions	(0.00)	(0.00)	(0.00)	(0.00)
Acquisition related expenses, net of tax [3]	0.00	0.01	0.01	0.03
Pro forma earnings per share from continuing operations, basic [4]	$0.49	$0.46	$0.95	$0.87
Earnings per share from continuing operations, diluted—as reported	$0.49	$0.45	$0.94	$0.81
Effect of purchased businesses for the period prior to acquisition:				
Rhiag	—	0.00	—	(0.00)
PGW [1],[2]	—	0.00	—	0.02
Other acquisitions	(0.00)	(0.00)	(0.00)	(0.00)
Acquisition related expenses, net of tax [3]	0.00	0.01	0.01	0.03
Pro forma earnings per share from continuing operations, diluted [4]	$0.49	$0.46	$0.94	$0.86

(1) PGW reflects the results for the continuing aftermarket automotive glass distribution business only.

(2) Excludes $5.4 million of corporate costs for the six months ended June 30, 2016 that we do not expect to incur going forward as a result of the sale of our glass manufacturing business.

(3)

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

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

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

Note 3. Discontinued Operations

On March 1, 2017, LKQ completed the sale of the glass manufacturing business of its PGW subsidiary to a subsidiary of Vitro S.A.B. de C.V. ("Vitro") for a sales price of $301.3 million, including cash received of $316.1 million, net of cash disposed of $14.8 million. In addition, we recorded a purchase price receivable of $3.6 million subject to post sale adjustments. Related to this transaction, the remaining portion of the Glass operating segment was combined with our Wholesale - North America operating segment, which is part of our North America reportable segment, in the first quarter of 2017. See Note 14, "Segment and Geographic Information" for further information regarding our segments.
Upon execution of the Stock and Asset Purchase Agreement (the "Vitro Agreement") in December 2016, LKQ concluded that the glass manufacturing business met the criteria to be classified as held for sale in LKQ’s consolidated financial statements. As a result, the assets related to the glass manufacturing business were reflected on the Consolidated Balance Sheet at the lower of the net asset carrying value or fair value less cost to sell as of December 31, 2016. The fair value of the assets was determined using the negotiated sale price as an indicator of fair value, which is considered a Level 2 input as it is observable in a non-active market.
As part of the Vitro Agreement, the Company and Vitro entered into a twelve-month Transition Services Agreement commencing on the transaction date with two six-month renewal periods, a three-year Purchase and Supply Agreement, and an Intellectual Property Agreement.
The following table summarizes the operating results of the Company’s discontinued operations related to the sale described above for the three and six months ended June 30, 2017 and 2016, as presented in “Income (loss) from discontinued operations, net of tax” on the Unaudited Condensed Consolidated Statements of Income (in thousands):

	Three Months Ended	Six Months Ended	
	June 30, [1]	June 30,	
	2016	2017	2016
Revenue	$145,887	$111,130	$145,887
Cost of goods sold	129,756	100,084	129,756
Operating expenses	5,392	8,369	5,392
Operating income	10,739	2,677	10,739
Interest and other expenses, net [2]	(3,533)	1,204	(3,533)
Income from discontinued operations before provision for income taxes	7,206	3,881	7,206
Provision for income taxes [3]	2,564	3,598	2,564
Equity in earnings (loss) of unconsolidated subsidiaries	333	(534)	333
Income (loss) from discontinued operations, net of tax	4,975	(251)	4,975
Loss on sale of discontinued operations, net of tax [4]	—	(4,280)	—
Net income (loss) from discontinued operations, net of tax	$4,975	$(4,531)	$4,975

(1) There were no discontinued operations for the three months ended June 30, 2017 as the glass manufacturing business was sold on March 1, 2017.

(2)

The Company elected to allocate interest expense to discontinued operations based on the expected debt to be repaid. Under this approach, allocated interest from January 1, 2017 through the date of sale was $1.6 million and from April 21, 2016 to June 30, 2016 was $1.7 million. The other expenses, net were foreign currency gains and losses.

(3) The provision for income taxes for 2017 includes a return to provision adjustment related to its international operations.

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(4) In the first quarter of 2017, upon closing of the sale and write-off of the net assets of the glass manufacturing business, we recorded a pre-tax loss on sale of $8.6 million, and a $4.3 million tax benefit. The incremental loss primarily reflects a $5.7 million payable for intercompany sales from the glass manufacturing business to the aftermarket automotive glass distribution business incurred prior to closing which was paid by LKQ during the second quarter of 2017 and capital expenditures in 2017 that were not reimbursed by the buyer. No adjustments to the loss on sale were recorded in the second quarter of 2017.

The glass manufacturing business had $3.9 million of operating cash outflows, $3.6 million of investing cash outflows mainly consisting of capital expenditures, and $15.0 million of financing cash inflows made up of parent financing for the period from January 1, 2017 through March 1, 2017. The glass manufacturing business had $31.2 million of operating cash inflows, $7.3 million of investing cash outflows mainly consisting of capital expenditures, and $7.8 million of financing cash outflows made up of parent financing for the period from April 21, 2016 through June 30, 2016.

Pursuant to the Purchase and Supply Agreement, our aftermarket automotive glass distribution business will source various products from Vitro's glass manufacturing business annually for a three year period beginning on March 1, 2017. Between January 1, 2017 and the sale date of March 1, 2017, intercompany sales between the glass manufacturing business and the continuing aftermarket automotive glass distribution business of PGW which were eliminated in consolidation were $7.8 million. Purchases under the Purchase and Supply Agreement through June 30, 2017 were $16.7 million.

Note 4. Financial Statement Information

Revenue Recognition

The majority of our revenue is derived from the sale of vehicle parts. Revenue is recognized when the products are shipped to, delivered to or picked up by customers and title has transferred, subject to an allowance for estimated returns, discounts and allowances that we estimate based upon historical information. We recorded a reserve for estimated returns, discounts and allowances of approximately $40.0 million and $38.3 million at June 30, 2017 and December 31, 2016, respectively. We present taxes assessed by governmental authorities collected from customers on a net basis. Therefore, the taxes are excluded from revenue on our Unaudited Condensed Consolidated Statements of Income and are shown as a current liability on our Unaudited Condensed Consolidated Balance Sheets until remitted. We recognize revenue from the sale of scrap metal, other metals, and cores when title has transferred, which typically occurs upon delivery to the customer.

Allowance for Doubtful Accounts

We have a reserve for uncollectible accounts which was approximately $52.0 million and $45.6 million at June 30, 2017 and December 31, 2016, respectively.

Inventories

Inventories consists of the following (in thousands):

	June 30, 2017	December 31, 2016
Aftermarket and refurbished products	$1,613,871	$1,540,257
Salvage and remanufactured products	449,591	394,980
Total inventories	$2,063,462	$1,935,237

Our acquisitions completed during 2017 contributed $19.0 million of the increase in our aftermarket and refurbished products inventory and $35.8 million of the increase in our salvage and remanufactured products inventory. See Note 2, "Business Combinations" for further information on our acquisitions.

Intangible Assets

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

The changes in the carrying amount of goodwill by reportable segment during the six months ended June 30, 2017 are as follows (in thousands):

	North America [1]	Europe	Specialty [1]	Total
Balance as of January 1, 2017	$1,661,800	$1,099,976	$292,993	$3,054,769
Business acquisitions and adjustments to previously recorded goodwill	29,945	9,835	666	40,446
Exchange rate effects	4,206	92,394	(202)	96,398
Balance as of June 30, 2017	$1,695,951	$1,202,205	$293,457	$3,191,613

(1) In the first quarter of 2017, we realigned a portion of our North America operations under our Specialty segment. Prior year amounts have been recast to reflect the shift in reporting structure.

The components of other intangibles acquired during the six months ended June 30, 2017, are as follows (in thousands):

	Gross Amount All 2017 Acquisitions
Trade names and trademarks	$ 5,540
Customer and supplier relationships	10,550
Software and other technology related assets	796
	$ 16,886

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

	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trade names and trademarks	$312,886	$(64,775)	$248,111	$286,008	$(51,104)	$234,904
Customer and supplier relationships	430,348	(128,863)	301,485	395,284	(92,079)	303,205
Software and other technology related assets	89,979	(47,784)	42,195	77,329	(35,648)	41,681
Covenants not to compete	12,028	(8,486)	3,542	11,726	(7,285)	4,441
	$845,241	$(249,908)	$595,333	$770,347	$(186,116)	$584,231

Our estimated useful lives for our finite lived intangible assets are as follows:

	Method of Amortization	Useful Life
Trade names and trademarks	Straight-line	4-30 years
Customer and supplier relationships	Accelerated	4-20 years
Software and other technology related assets	Straight-line	3-6 years
Covenants not to compete	Straight-line	1-5 years

Amortization expense for intangibles was $47.9 million and $33.2 million during the six months ended June 30, 2017 and 2016, respectively. Estimated amortization expense for each of the five years through the period ending December 31, 2021 is $49.4 million (for the remaining six months of 2017), $84.5 million, $69.8 million, $55.0 million and $46.0 million, respectively.

Property and Equipment

Included in Cost of Goods Sold on the Unaudited Condensed Consolidated Statements of Income is depreciation expense associated with our refurbishing, remanufacturing, and furnace operations as well as our distribution centers. Total depreciation expense was $58.7 million and $53.9 million during the six months ended June 30, 2017 and 2016, respectively.

Investments in Unconsolidated Subsidiaries

Our investment in unconsolidated subsidiaries was $182.0 million and $183.5 million as of June 30, 2017 and December 31, 2016, respectively. On December 1, 2016, we acquired a 26.5% equity interest in Mekonomen AB ("Mekonomen") from AxMeko AB, an affiliate of Axel Johnson AB, for an aggregate purchase price of $181.3 million. Headquartered in Stockholm, Sweden, Mekonomen is the leading independent car parts and service chain in the Nordic region of Europe, offering a range of products including spare parts and accessories for cars, and workshop services for consumers and businesses. We are accounting for our interest in Mekonomen using the equity method of accounting, as our investment gives us the ability to exercise significant influence, but not control, over the investee. As of June 30, 2017, the book value of our investment in Mekonomen exceeded our share of the book value of Mekonomen's net assets by $116.6 million; this difference is primarily related to goodwill and the fair value of other intangible assets. We are reporting our equity in the net earnings of Mekonomen on a one quarter lag, and therefore we recorded no equity in earnings for this investment in 2016. For the three and six months ended June 30, 2017, we recorded equity in earnings totaling $2.0 million and $2.3 million, respectively, related to our investment in Mekonomen, which represents our share of the results from the investment date through March 31, 2017, including adjustments to convert the results to US GAAP and to recognize the impact of our purchase accounting adjustments. In May 2017, we received a cash dividend of $7.5 million (SEK 66.6 million) related to our investment in Mekonomen. The level 1 fair value of our equity investment in the publicly traded Mekonomen common stock at June 30, 2017 was $188.5 million compared to a carrying value of $179.7 million.

Warranty Reserve

Some of our salvage mechanical products are sold with a standard six month warranty against defects. Additionally, some of our remanufactured engines are sold with a standard three year warranty against defects. We also provide a limited lifetime warranty for certain of our aftermarket products. We record the estimated warranty costs at the time of sale using historical warranty claim information to project future warranty claims activity. Our warranty reserve is recorded within Other accrued expenses and Other Noncurrent Liabilities on our Unaudited Condensed Consolidated Balance Sheets based on the expected timing of the related payments. The changes in the warranty reserve are as follows (in thousands):

Balance as of January 1, 2017	$19,634
Warranty expense	18,369
Warranty claims	(16,762)
Balance as of June 30, 2017	$21,241

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). This update outlines a new comprehensive revenue recognition model that supersedes most current revenue recognition guidance and requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has issued several updates to ASU 2014-09. ASU 2014-09 will be effective for the Company during the first quarter of our fiscal year 2018. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. We will continue to evaluate the potential effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures; however, we do not plan to early adopt. Entities adopting the standard have the option of using either a full retrospective or modified retrospective approach in the application of this guidance. We are still determining which method of transition we will follow. We are currently in the process of completing customer contract reviews, determining necessary adjustments to existing accounting policies, evaluating new disclosure requirements and identifying and implementing changes to business processes as deemed necessary to support recognition and disclosure under the new guidance. Based on our preliminary assessment, we do not expect a significant impact for the majority of our revenue transactions as they generally consist of single performance obligations to transfer promised goods or services; however, we do expect the new guidance will change the way we present sales returns in our consolidated financial statements. We are still in the process of determining the magnitude of impact for this change, but expect to report sales returns on a gross basis on the balance sheet by presenting a refund liability and a

return asset separately. We also expect an adjustment to revenue on the income statement for the gross up of returns reserve adjustments, which are currently recorded as a net amount within revenue.

In July 2015, the FASB issued Accounting Standards Update 2015-11, "Simplifying the Measurement of Inventory" ("ASU 2015-11"), which requires entities to measure inventory at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. We adopted ASU 2015-11 during the first quarter of 2017 on a prospective basis.

Effective January 1, 2017, we are recording our inventory at the lower of cost or net realizable value, including application of the concept in determining our inventory reserves, in accordance with ASU 2015-11. The adoption of ASU 2015-11 did not have a material impact on our recorded inventory value.
In January 2016, the FASB issued Accounting Standards Update No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”), which changes how entities will recognize, measure, present and make disclosures about certain financial assets and financial liabilities. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017; early adoption is permitted. The guidance requires adoption on a prospective basis. We are still evaluating the impact that ASU 2016-01 will have on our consolidated financial statements and related disclosures, but we do not expect to early adopt in 2017.
In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases" ("ASU 2016-02"), to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between current GAAP and ASU 2016-02 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The standard requires that entities apply the effects of these changes using a modified retrospective approach, which includes a number of optional practical expedients. While we are still in the process of quantifying the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements and related disclosures, we anticipate the adoption will materially affect our consolidated balance sheet and disclosures, as the majority of our operating leases will be recorded on the balance sheet under ASU 2016-02. While we do not anticipate the adoption of this accounting standard to have a material impact on our consolidated statements of income at this time, this conclusion may change as we finalize our assessment. In order to assist in our timely implementation of the new standard, we have purchased new software to track our leases. We have engaged a third party to assist with the implementation of the new software with an expectation to complete the implementation by the end of 2018.
In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" (“ASU 2016-09”), to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, the treatment of forfeitures, and calculation of earnings per share. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. During the third quarter of 2016, the Company elected to early adopt ASU 2016-09 effective January 1, 2016. With the adoption of ASU 2016-09, excess tax benefits are recognized as a component of the income tax provision, whereas these amounts were previously recognized in equity. Adopting this standard resulted in a $2.1 million and $6.5 million reduction in tax expense for the three and six months ended June 30, 2016, respectively. The presentation of excess tax benefits on share-based payments was adjusted retrospectively within the Consolidated Statements of Cash Flows, resulting in a $6.7 million increase in operating cash flows for the six months ended June 30, 2016 with a corresponding decrease to financing cash flows.
In August 2016, the FASB issued Accounting Standards Update No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), to add and clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. ASU 2016-15 includes guidance on classification for the following items: debt prepayment or debt extinguishment costs, settlement of zero coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and corporate-owned or bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and other separately identifiable cash flows where application of the predominance principle is prescribed. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017; early adoption is permitted. The guidance requires retrospective application to all periods presented unless it is impracticable to do so. We are still evaluating the impact that ASU 2016-15 will have on our consolidated financial statements and related disclosures, but we do not expect to early adopt in 2017.
In January 2017, the FASB issued Accounting Standards Update No. 2017-04, "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"), which simplifies the accounting for goodwill impairment by eliminating step 2 from

the goodwill impairment test. Under the new guidance, if the carrying value of a reporting unit exceeds the fair value, an impairment loss will be recognized for the amount of that excess, limited to the goodwill allocated to that reporting unit. ASU 2017-04 is effective for fiscal years and any interim impairment tests for periods beginning after December 15, 2019; early adoption is permitted for entities with annual and interim impairment tests occurring after January 1, 2017, and we early adopted for the quarter ended June 30, 2017, although we do not expect an impairment test to be performed until our annual impairment test in the fourth quarter of 2017. The guidance requires adoption on a prospective basis. At this time, we do not expect adoption of this standard to have a significant impact on our financial position, results of operations, or cash flows.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, "Scope of Modification Accounting" ("ASU 2017-09"), which provides guidance on changes to share based payment awards requiring application of modification accounting under FASB Accounting Standards Codification Topic 718, "Compensation - Stock Compensation". Under this ASU, modification accounting for awards will not be required if the fair value, vesting conditions, and classifications of awards

both prior to and after the modification are the same. ASU 2017-09 is effective for fiscal years and interim periods beginning after December 15, 2017; early adoption is permitted with amendments resulting from the ASU applied prospectively to awards modified after the effective date. We early adopted for the quarter ended June 30, 2017; the adoption of ASU 2017-09 did not have a material impact on our consolidated financial statements and related disclosures.

Note 5. Restructuring and Acquisition Related Expenses

Acquisition Related Expenses

Acquisition related expenses, which include external costs such as legal, accounting, and advisory fees, totaled $2.1 million and $4.8 million for the three and six months ended June 30, 2017, respectively. Our 2017 expenses related to completed acquisitions and acquisitions that were pending as of June 30, 2017. Acquisition related expenses incurred during the three and six months ended June 30, 2016 totaled $3.0 million and $15.7 million. Of our 2016 expenses, $11.0 million was related to our acquisition of Rhiag, $3.9 million was related to our acquisition of PGW, and $0.8 million was related to other completed acquisitions and acquisitions that were pending as of June 30, 2016.

Acquisition Integration Plans

During the three and six months ended June 30, 2017, we incurred $0.4 million and $0.7 million of restructuring expenses, respectively. Expenses incurred during the three and six months ended June 30, 2017 were primarily a result of our ongoing integration activities in our Specialty segment, which was formed in 2014 and subsequently expanded through acquisitions, including our 2015 Coast acquisition. Expenses incurred were primarily related to facility closure and the merger of existing facilities into larger distribution centers.

During the three and six months ended June 30, 2016, we incurred $6.1 million and $8.2 million of restructuring expenses, respectively. These expenses were primarily a result of the integration of our acquisition of Parts Channel into our existing North America wholesale business, the integration of our Coast acquisition into our existing Specialty business, and the integration of our Keystone Specialty acquisition and the rationalization of certain warehousing and distribution functions between our Keystone Specialty acquisition and our existing North America wholesale business. Expenses incurred were primarily related to facility closure and relocation costs for duplicate facilities, the merger of existing facilities into larger distribution centers, and the termination of employees.

We expect to incur additional expenses related to the integration of certain of our acquisitions into our existing operations in 2017. These integration activities are expected to include the closure of duplicate facilities, rationalization of personnel in connection with the consolidation of overlapping facilities with our existing business, and moving expenses. Future expenses to complete these integration plans are expected to be less than $5.0 million.

Note 6. Stock-Based Compensation

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

RSUs

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

The fair value of RSUs that vested during the six months ended June 30, 2017 was $17.8 million.

The following table summarizes activity related to our RSUs under the Equity Incentive Plan for the six months ended June 30, 2017:

	Number Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Unvested as of January 1, 2017	1,873,737	$ 27.58		
Granted	727,846	$ 31.71		
Vested	(564,768)	$ 26.15		
Forfeited / Canceled	(125,447)	$ 31.29		
Unvested as of June 30, 2017	1,911,368	$ 29.33		
Expected to vest after June 30, 2017	1,813,925	$ 29.39	2.9	$ 59,769

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

Stock Options

Stock options vest over periods of up to five years, subject to a continued service condition. Stock options expire either six or ten years from the date they are granted. No options were granted during the six months ended June 30, 2017. The total grant-date fair value of options that vested during the six months ended June 30, 2017 was $0.7 million.

The following table summarizes activity related to our stock options under the Equity Incentive Plan for the six months ended June 30, 2017:

	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Balance as of January 1, 2017	2,623,217	$ 9.19		
Exercised	(632,773)	$ 8.42		$ 14,773
Forfeited / Canceled	(9,692)	$ 18.96		
Balance as of June 30, 2017	1,980,752	$ 9.39	2.0	$ 46,672
Exercisable as of June 30, 2017	1,980,752	$ 9.39	2.0	$ 46,672
Exercisable as of June 30, 2017 and expected to vest thereafter	1,980,752	$ 9.39	2.0	$ 46,672

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

The following table summarizes the components of pre-tax stock-based compensation expense for our continuing operations (in thousands):

	Three Months Ended June 30,	Six Months Ended June 30,

	2017	2016	2017	2016
RSUs	$5,158	$5,446	$12,437	$11,325
Stock options	—	29	6	66
Total stock-based compensation expense	$5,158	$5,475	$12,443	$11,391

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As of June 30, 2017, unrecognized compensation expense related to unvested RSUs is $42.3 million. Stock-based compensation expense related to these awards will be different to the extent that forfeitures are realized.

Note 7. Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Income from continuing operations	$150,914	$137,810	$291,723	$249,981
Denominator for basic earnings per share—Weighted-average shares outstanding	308,407	306,718	308,218	306,437
Effect of dilutive securities:				
RSUs	453	796	509	689
Stock options	1,536	2,264	1,622	2,360
Denominator for diluted earnings per share—Adjusted weighted-average shares outstanding	310,396	309,778	310,349	309,486
Basic earnings per share from continuing operations	$0.49	$0.45	$0.95	$0.82
Diluted earnings per share from continuing operations	$0.49	$0.45	$0.94	$0.81

Our earnings per share calculation for the three and six months ended June 30, 2016 reflects the adoption of ASU 2016-09 as discussed in Note 4, "Financial Statement Information."

The following table sets forth the number of employee stock-based compensation awards outstanding but not included in the computation of diluted earnings per share because their effect would have been antidilutive for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Antidilutive securities:				
RSUs	—	—	73	114
Stock options	76	83	77	85

Note 8. Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended				
	June 30, 2017				
	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized (Loss) Gain on Pension Plans	Other Comprehensive (Loss) Income from Unconsolidated Subsidiaries	Accumulated Other Comprehensive (Loss) Income
Beginning balance	$(250,950)	$11,254	$(5,778)	$(162)	$(245,636)
Pretax income (loss)	93,597	(30,179)	(724)	—	62,694
Income tax effect	—	11,136	275	—	11,411
Reclassification of unrealized loss (gain)	—	28,702	(550)	—	28,152
Reclassification of deferred income taxes	—	(10,589)	137	—	(10,452)
	—	—	—	(439)	(439)

Other comprehensive (loss) income from unconsolidated subsidiaries					
Ending balance	$(157,353)	$10,324	$(6,640)	$(601)	$(154,270)

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	Three Months Ended June 30, 2016			
	Foreign Currency Translation	Unrealized (Loss) Gain on Cash Flow Hedges	Unrealized (Loss) Gain on Pension Plans	Accumulated Other Comprehensive (Loss) Income
Beginning balance	$(96,750)	$ (500)	$ (7,501)	$ (104,751)
Pretax loss	(73,257)	(6,528)	—	(79,785)
Income tax effect	—	2,250	—	2,250
Reclassification of unrealized loss	—	984	160	1,144
Reclassification of deferred income taxes	—	(320)	(40)	(360)
Ending balance	$(170,007)	$ (4,114)	$ (7,381)	$ (181,502)

	Six Months Ended June 30, 2017				
	Foreign Currency Translation	Unrealized (Loss) Gain on Cash Flow Hedges	Unrealized (Loss) Gain on Pension Plans	Other Comprehensive (Loss) Income from Unconsolidated Subsidiaries	Accumulated Other Comprehensive (Loss) Income
Beginning balance	$(272,529)	$ 8,091	$ (2,737)	$ —	$ (267,175)
Pretax (loss) income	113,665	(29,347)	112	—	84,430
Income tax effect	—	10,780	(43)	—	10,737
Reclassification of unrealized loss	—	32,959	(721)	—	32,238
Reclassification of deferred income taxes	—	(12,159)	185	—	(11,974)
Disposal of business	1,511	—	(3,436)	—	(1,925)
Other comprehensive (loss) income from unconsolidated subsidiaries	—	—	—	(601)	(601)
Ending balance	$(157,353)	$ 10,324	$ (6,640)	$ (601)	$ (154,270)

	Six Months Ended June 30, 2016			
	Foreign Currency Translation	Unrealized (Loss) Gain on Cash Flow Hedges	Unrealized (Loss) Gain on Pension Plans	Accumulated Other Comprehensive (Loss) Income
Beginning balance	$(96,890)	$ (932)	$ (7,648)	$ (105,470)
Pretax loss	(73,117)	(6,672)	—	(79,789)
Income tax effect	—	2,278	—	2,278
Reclassification of unrealized loss	—	1,790	357	2,147
Reclassification of deferred income taxes	—	(578)	(90)	(668)
Ending balance	$(170,007)	$ (4,114)	$ (7,381)	$ (181,502)

Net unrealized gains on our interest rate swap contracts totaling $1.7 million and $2.8 million were reclassified to interest expense in our Unaudited Condensed Consolidated Statements of Income during the three and six months ended June 30, 2017, respectively. We also reclassified losses of $30.4 million and $35.8 million related to our cross currency swaps to Other income, net in our Unaudited Condensed Consolidated Statements of Income during the three and six months ended June 30, 2017, respectively. During the three and six months ended June 30, 2016, unrealized losses on our interest rate swap contracts totaling $1.0 million and $1.8 million, respectively, were reclassified to interest expense. The deferred income taxes related to our cash flow hedges were reclassified from Accumulated other comprehensive income (loss) to provision for income taxes.

Note 9. Long-Term Obligations

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

	June 30, 2017	December 31, 2016
Senior secured credit agreement:		
Term loans payable	$714,094	$732,684
Revolving credit facilities	951,010	1,358,220
Senior notes	600,000	600,000
Euro notes	571,300	525,850
Receivables securitization facility	95,150	100,000
Notes payable through October 2025 at weighted average interest rates of 2.2% and 2.1%, respectively	10,055	11,808
Other long-term debt at weighted average interest rates of 2.0% and 2.4%, respectively	68,318	37,125
Total debt	3,009,927	3,365,687
Less: long-term debt issuance costs	(19,965)	(21,611)
Less: current debt issuance costs	(2,394)	(2,305)
Total debt, net of issuance costs	2,987,568	3,341,771
Less: current maturities, net of debt issuance costs	(96,860)	(66,109)
Long term debt, net of debt issuance costs	$2,890,708	$3,275,662

Senior Secured Credit Agreement

On January 29, 2016, LKQ Corporation, LKQ Delaware LLP, and certain other subsidiaries (collectively, the "Borrowers") entered into the Fourth Amended and Restated Credit Agreement ("Credit Agreement"), which amended the Company’s Third Amended and Restated Credit Agreement by modifying certain terms to (1) extend the maturity date by approximately two years to January 29, 2021; (2) increase the total availability under the credit agreement from $2.3 billion to $3.2 billion (composed of $2.45 billion in the revolving credit facility's multicurrency component; and $750 million of term loans, which consist of term loans of approximately $500 million and €230 million); (3) increase our ability to incur additional indebtedness; and (4) make other immaterial or clarifying modifications and amendments to the terms of the Third Amended and Restated Credit Agreement. The additional term loan borrowing was used to repay outstanding revolver borrowings and the amount outstanding under our receivables securitization facility, and to pay fees and expenses relating to the amendment and restatement. The remaining additional term loan borrowing was used for general corporate purposes.

On December 14, 2016, LKQ Corporation entered into Amendment No. 1 to the Fourth Amended and Restated Credit Agreement under which the €230 million term loan was prepaid in full using proceeds from borrowings on the multicurrency revolving credit facility. Simultaneously, LKQ Corporation borrowed incremental U.S. dollar ("USD") term loans under the Credit Agreement, which were used to repay outstanding borrowings on the USD revolving credit facility. LKQ Corporation borrowed additional USD amounts on the revolving credit facility and entered into a cross currency swap transaction to exchange the borrowed USD for euro and transferred these amounts to LKQ Netherlands B.V. as an intercompany loan, which LKQ Netherlands B.V. used to repay the multicurrency revolving credit facility borrowings. These transactions had the effect of replacing the euro term loan with a USD term loan. Refer to Note 10, "Derivative Instruments and Hedging Activities" for additional information related to our cross currency swaps.

Amounts under the revolving credit facility are due and payable upon maturity of the Fourth Amended and Restated Credit Agreement on January 29, 2021. Amounts under the initial and additional term loan borrowings were due and payable in quarterly installments equal to 0.625% of the original principal amount on each of June 30, September 30, and December 31, 2016, and are due and payable in quarterly installments thereafter equal to 1.25% of the original principal amount beginning on March 31, 2017, with the remaining balance due and payable on the maturity date of the Fourth Amended and Restated Credit Agreement.

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

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

Borrowings under the Credit Agreement bear interest at variable rates, which depend on the currency and duration of the borrowing elected, plus an applicable margin. The applicable margin is subject to change in increments of 0.25% depending on our net leverage ratio. Interest payments are due on the last day of the selected interest period or quarterly in arrears depending on the type of borrowing. Including the effect of the interest rate swap agreements described in Note 10, "Derivative Instruments and Hedging Activities," the weighted average interest rate on borrowings outstanding under the Credit Agreement at June 30, 2017 and December 31, 2016 was 2.1% and 2.0%, respectively. We also pay a commitment fee based on the average daily unused amount of the revolving credit facilities. The commitment fee is subject to change in increments of 0.05% depending on our net leverage ratio. In addition, we pay a participation commission on outstanding letters of credit at an applicable rate based on our net leverage ratio, as well as a fronting fee of 0.125% to the issuing bank, which are due quarterly in arrears.

Of the total borrowings outstanding under the Credit Agreement, $37.2 million was classified as current maturities at June 30, 2017 and December 31, 2016. As of June 30, 2017, there were letters of credit outstanding in the aggregate amount of $72.2 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 June 30, 2017 was $1.4 billion.

Related to the execution of the Credit Agreement in January 2016, we incurred $6.1 million of fees, of which $5.0 million were capitalized as an offset to Long-Term Obligations and are amortized over the term of the agreement. The remaining $1.1 million of fees, together with $1.8 million of capitalized debt issuance costs related to our Third Amended and Restated Credit Agreement, were expensed during the year ended December 31, 2016 as a loss on debt extinguishment.

Senior Notes

In April 2014, LKQ Corporation completed an offer to exchange $600 million aggregate principal amount of 4.75% Senior Notes due 2023 (the "U.S. Notes") for notes previously issued through a private placement. The U.S. Notes are governed by the Indenture dated as of May 9, 2013 among LKQ Corporation, certain of our subsidiaries (the "Guarantors") and U.S. Bank National Association, as trustee. The U.S. Notes are substantially identical to those previously issued through the private placement, except the U.S. Notes are registered under the Securities Act of 1933. The U.S. Notes bear interest at a rate of 4.75% per year from the most recent payment date on which interest has been paid or provided for. Interest on the U.S. Notes is payable in arrears on May 15 and November 15 of each year. The first interest payment was made on November 15, 2013. The U.S. Notes are fully and unconditionally guaranteed, jointly and severally, by the Guarantors.

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

Repayment of Rhiag Acquired Debt and Debt Related Liabilities

On March 24, 2016, LKQ Netherlands B.V., a wholly-owned subsidiary of LKQ Corporation, borrowed €508 million under our multi-currency revolving credit facility to repay the Rhiag acquired debt and debt related liabilities. The borrowed funds were passed through an intercompany note to Rhiag and then were used to pay (i) $519.6 million (€465.0 million) for the principal of Rhiag senior note debt assumed with the acquisition, (ii) accrued interest of $8.0 million (€7.1 million) on the notes, (iii) the call premium of $23.8 million (€21.2 million) associated with early redemption of the notes and (iv) $4.9 million (€4.4 million) to terminate Rhiag’s outstanding interest rate swap related to the floating portion of the notes. The call premium is recorded as a loss on debt extinguishment in the Unaudited Condensed Consolidated Statements of Income.

Euro Notes

On April 14, 2016, LKQ Italia Bondco S.p.A. (the “Issuer”), 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”) 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 are governed by the Indenture dated as of April 14, 2016 (the “Indenture”) among the Issuer, LKQ Corporation and certain of our subsidiaries (the “Euro Notes Subsidiaries”), the trustee, and the paying agent, transfer agent, and registrar.

The Euro Notes bear interest at a rate of 3.875% per year from the date of original issuance or from the most recent payment date on which interest has been paid or provided for. Interest on the Euro Notes is payable in arrears on April 1 and October 1 of each year, beginning on October 1, 2016. The Euro Notes are fully and unconditionally guaranteed by LKQ Corporation and the Euro Notes Subsidiaries (the "Euro Notes Guarantors").

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

Related to the execution of the Euro Notes in April 2016, we incurred $10.3 million of fees which were capitalized as an offset to Long-Term Obligations and are amortized over the term of the offering.

Receivables Securitization Facility

On November 29, 2016, we amended the terms of the receivables securitization facility with The Bank of Tokyo-Mitsubishi UFJ, LTD. ("BTMU") to: (i) extend the term of the facility to November 8, 2019; (ii) increase the maximum amount available to $100 million; and (iii) make other clarifying and updating changes. Under the facility, LKQ sells an ownership interest in certain receivables, related collections and security interests to BTMU for the benefit of conduit investors and/or financial institutions for cash proceeds. Upon payment of the receivables by customers, rather than remitting to BTMU the amounts collected, LKQ retains such collections as proceeds for the sale of new receivables generated by certain of the ongoing operations of the Company.

The sale of the ownership interest in the receivables is accounted for as a secured borrowing in our Unaudited Condensed Consolidated Balance Sheets, under which the receivables included in the program collateralize the amounts invested by BTMU, the conduit investors and/or financial institutions (the "Purchasers"). The receivables are held by LKQ Receivables Finance Company, LLC ("LRFC"), a wholly-owned bankruptcy-remote special purpose subsidiary of LKQ, and therefore, the receivables are available first to satisfy the creditors of LRFC, including the investors. As of June 30, 2017 and December 31, 2016, $153.3 million and $140.3 million, respectively, of net receivables were collateral for the investment under the receivables facility.

Under the receivables facility, we pay variable interest rates plus a margin on the outstanding amounts invested by the Purchasers. The variable rates are based on (i) commercial paper rates, (ii) the London InterBank Offered Rate ("LIBOR"), or (iii) base rates, and are payable monthly in arrears. Commercial paper rates will be the applicable variable rate unless conduit investors are not available to invest in the receivables at commercial paper rates. In such case, financial institutions will invest at the LIBOR rate or at base rates. We also pay a commitment fee on the excess of the investment maximum over the average daily outstanding investment, payable monthly in arrears. As of June 30, 2017, the interest rate under the receivables facility was based on commercial paper rates and was 2.0%. The outstanding balances of $95.2 million and $100.0 million as of June 30, 2017 and December 31, 2016, respectively, were classified as long-term on the Unaudited Condensed Consolidated Balance Sheets because we have the ability and intent to refinance these borrowings on a long-term basis.

Note 10. Derivative Instruments and Hedging Activities

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

Cash Flow Hedges

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

recorded in Accumulated Other Comprehensive Income (Loss) and is reclassified to interest expense when the underlying interest payment has an impact on earnings. The ineffective portion of changes in the fair value of the interest rate swap agreements is reported in interest expense. Our interest rate swap contracts have maturity dates ranging from January to June 2021.

From time to time, we may hold foreign currency forward contracts related to certain foreign currency denominated intercompany transactions, with the objective of minimizing the impact of fluctuating exchange rates on these future cash flows. Under the terms of the foreign currency forward contracts, we will sell the foreign currency in exchange for U.S. dollars at a fixed rate on the maturity dates of the contracts. The effective portion of the changes in fair value of the foreign currency forward contracts is recorded in Accumulated other comprehensive income (loss) and reclassified to other income (expense) when the underlying transaction has an impact on earnings.
In 2016, we entered into three cross currency swap agreements for a total notional amount of $422.4 million (€400 million). The notional amount steps down by €15.0 million annually through 2020 with the remainder maturing in January 2021. These cross currency swaps contain an interest rate swap component and a foreign currency forward contract component that, combined with related intercompany financing arrangements, effectively convert variable rate U.S. dollar-denominated borrowings into fixed rate euro-denominated borrowings. The swaps are intended to minimize the impact of fluctuating exchange rates and interest rates on the cash flows resulting from the related intercompany financing arrangements. The effective portion of the changes in the fair value of the derivative instruments is recorded in Accumulated Other Comprehensive Income (Loss) and is reclassified to interest expense and other income (expense) when the underlying transactions have an impact on earnings.
The following table summarizes the notional amounts and fair values of our designated cash flow hedges as of June 30, 2017 and December 31, 2016 (in thousands):

	Notional Amount		Fair Value at June 30, 2017 (USD)		Fair Value at December 31, 2016 (USD)	
	June 30, 2017	December 31, 2016	Other Assets	Other Noncurrent Liabilities	Other Assets	Other Noncurrent Liabilities
Interest rate swap agreements						
USD denominated	$590,000	$590,000	$15,132	$ —	$16,421	$ —
Cross currency swap agreements						
USD/euro	$414,477	$422,408	1,673	34,054	1,486	3,128
Total cash flow hedges			$16,805	$ 34,054	$17,907	$ 3,128

While certain derivative instruments executed with the same counterparty are subject to master netting arrangements, we present our cash flow hedge derivative instruments on a gross basis in our Unaudited Condensed Consolidated Balance Sheets. The impact of netting the fair values of these contracts would not have a material effect on our Unaudited Condensed Consolidated Balance Sheets at June 30, 2017 or December 31, 2016.
The activity related to our cash flow hedges is included in Note 8, "Accumulated Other Comprehensive Income (Loss)." Ineffectiveness related to our cash flow hedges was immaterial to our results of operations during the three and six months ended June 30, 2017 and 2016. We do not expect future ineffectiveness related to our cash flow hedges to have a material effect on our results of operations.
As of June 30, 2017, we estimate that $0.6 million of derivative losses (net of tax) included in Accumulated other comprehensive income (loss) will be reclassified into our Unaudited Condensed Consolidated Statements of Income within the next 12 months.
Other Derivative Instruments
We hold other short-term derivative instruments, including foreign currency forward contracts, to manage our exposure to variability related to inventory purchases and intercompany financing transactions denominated in a non-functional currency. We have elected not to apply hedge accounting for these transactions, and therefore the contracts are adjusted to fair value through our results of operations as of each balance sheet date, which could result in volatility in our earnings. The notional amount and fair value of these contracts at June 30, 2017 and December 31, 2016, along with the effect on our results of operations during each of the three and six month periods ended June 30, 2017 and 2016, were immaterial.

Note 11. Fair Value Measurements

Financial Assets and Liabilities Measured at Fair Value

We use the market and income approaches to value our financial assets and liabilities, and during the three and six months ended June 30, 2017, there were no significant changes in valuation techniques or inputs related to the financial assets

or liabilities that we have historically recorded at fair value. The tiers in the fair value hierarchy include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.
The following tables present information about our financial assets and liabilities measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation inputs we utilized to determine such fair value as of June 30, 2017 and December 31, 2016 (in thousands):

	Balance as of June 30, 2017	Fair Value Measurements as of June 30, 2017		
		Level 1	Level 2	Level 3
Assets:				
Cash surrender value of life insurance	$40,909	$—	$40,909	$—
Interest rate swaps	16,805	—	16,805	—
Total Assets	$57,714	$—	$57,714	$—
Liabilities:				
Contingent consideration liabilities	$4,948	$—	$—	$4,948
Deferred compensation liabilities	42,650	—	42,650	—
Foreign currency forward contracts	34,054	—	34,054	—
Total Liabilities	$81,652	$—	$76,704	$4,948

	Balance as of December 31, 2016	Fair Value Measurements as of December 31, 2016		
		Level 1	Level 2	Level 3
Assets:				
Cash surrender value of life insurance	$ 36,131	$—	$36,131	$—
Interest rate swaps	17,907	—	17,907	—
Total Assets	$ 54,038	$—	$54,038	$—
Liabilities:				
Contingent consideration liabilities	$ 3,162	$—	$—	$3,162
Deferred compensation liabilities	36,865	—	36,865	—
Foreign currency forward contracts	3,128	—	3,128	—
Total Liabilities	$ 43,155	$—	$39,993	$3,162

The cash surrender value of life insurance is included in Other Assets on our Unaudited Condensed Consolidated Balance Sheets. The current portion of deferred compensation is included in Accrued payroll-related liabilities and the current portion of contingent consideration liabilities is included in Other current liabilities on our Unaudited Condensed Consolidated Balance Sheets; the noncurrent portion of these amounts is included in Other Noncurrent Liabilities on our Unaudited Condensed Consolidated Balance Sheets based on the expected timing of the related payments. The balance sheet classification of the interest rate swaps and foreign currency forward contracts is presented in Note 10, "Derivative Instruments and Hedging Activities."
Our Level 2 assets and liabilities are valued using inputs from third parties and market observable data. We obtain valuation data for the cash surrender value of life insurance and deferred compensation liabilities from third party sources, which determine the net asset values for our accounts using quoted market prices, investment allocations and reportable trades. We value our derivative instruments using a third party valuation model that performs a discounted cash flow analysis based on the terms of the contracts and market observable inputs such as current and forward interest rates and current and forward foreign exchange rates.

Our contingent consideration liabilities are related to our business acquisitions. Under the terms of the contingent consideration agreements, payments may be made at specified future dates depending on the performance of the acquired business subsequent to the acquisition. The liabilities for these payments are classified as Level 3 liabilities because the related fair value measurement, which is determined using an income approach, includes significant inputs not observable in the market.

Financial Assets and Liabilities Not Measured at Fair Value

Our debt is reflected on the Unaudited Condensed Consolidated Balance Sheets at cost. Based on market conditions as of June 30, 2017 and December 31, 2016, the fair value of our credit agreement borrowings reasonably approximated the carrying value of $1.7 billion and $2.1 billion, respectively. In addition, based on market conditions, the fair values of the outstanding borrowings under the receivables facility reasonably approximated the carrying values of $95.2 million and $100.0 million at June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017 and December 31, 2016, the fair values of the U.S. Notes were approximately $614.6 million and $599.5 million, respectively, compared to a carrying value of $600.0 million. As of June 30, 2017 and December 31, 2016, the fair values of the Euro Notes were approximately $619.6 million and $560.6 million compared to carrying values of $571.3 million and $525.9 million, respectively.

The fair value measurements of the borrowings under our credit agreement and receivables facility are classified as Level 2 within the fair value hierarchy since they are determined based upon significant inputs observable in the market, including interest rates on recent financing transactions with similar terms and maturities. We estimated the fair value by calculating the upfront cash payment a market participant would require at June 30, 2017 to assume these obligations. The fair value of our U.S. Notes is classified as Level 1 within the fair value hierarchy since it is determined based upon observable market inputs including quoted market prices in an active market. The fair value of our Euro Notes is determined based upon observable market inputs including quoted market prices in a market that is not active, and therefore is classified as Level 2 within the fair value hierarchy.

Note 12. Commitments and Contingencies

Operating Leases

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

In the second quarter of 2017, we entered into a lease for office space to be constructed for our field support center in Nashville, Tennessee. The commencement date is scheduled for June 30, 2018, with a lease term of 17 years and the option to renew and extend the lease for three consecutive renewal terms of five years each. Rent will escalate annually by 1.5% over the prior year's rent. Under the lease, we can exercise an early purchase option after the first year of the lease.

The future minimum lease commitments under these leases at June 30, 2017 are as follows (in thousands):

Six months ending December 31, 2017	$115,765
Years ending December 31:	
2018	205,391
2019	169,376
2020	136,187
2021	103,497
2022	80,872
Thereafter	527,957