WILLIAMS COMPANIES INC
Form 424B3
July 12, 2018
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EXPLANATORY NOTE

On May 16, 2018, The Williams Companies, Inc. (Williams), SCMS LLC (Merger Sub), a wholly owned subsidiary of Williams, Williams Partners L.P. (Williams Partners), and WPZ GP LLC (the WPZ General Partner), the general partner of Williams Partners, entered into an Agreement and Plan of Merger (the Merger Agreement). Pursuant to the Merger Agreement, Merger Sub will merge with and into Williams Partners, with Williams Partners surviving as a wholly owned subsidiary of Williams (the Merger).

Pursuant to the Merger Agreement, all outstanding common units representing limited partner interests in Williams Partners (WPZ Common Units) at the effective time of the Merger, other than WPZ Common Units held directly or indirectly by Williams and its subsidiaries (all such units held by persons other than Williams or its subsidiaries, the WPZ Public Units and holders of such units, the WPZ Public Unitholders), will be canceled and each WPZ Public Unit will be converted into the right to receive 1.494 shares of Williams common stock, par value $1.00 per share (Williams Common Stock), provided that if the Merger closes on or following September 7, 2018, each WPZ Public Unit will be converted into the right to receive 1.513 shares of Williams Common Stock (as applicable, the Exchange Ratio). No fractional shares of Williams Common Stock will be issued in the Merger, and holders of WPZ Public Units who otherwise would have received a fractional share of Williams Common Stock in the Merger will, instead, receive cash in lieu of such fractional shares.

Prior to the Merger, Williams will hold a special meeting of its stockholders (the Williams Special Meeting) to approve (i) an amendment to Williams Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Williams Common Stock (the Charter Amendment), (ii) subject to and conditioned upon the effectiveness of the Charter Amendment, the issuance of Williams Common Stock pursuant to the terms of the Merger Agreement in connection with the Merger (the Stock Issuance) and (iii) the adjournment of the Williams Special Meeting from time to time, if necessary or appropriate to solicit additional proxies if there are insufficient votes at the time of the Williams Special Meeting to approve the Charter Amendment or the Stock Issuance (the Adjournment).

On May 16, 2018, the board of directors of Williams (the Williams Board) determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, and in connection with the Merger, the Charter Amendment and the Stock Issuance, are in the best interests of Williams and its stockholders, approved and declared advisable the Merger Agreement, the Charter Amendment, and the Stock Issuance, and resolved to submit the Charter Amendment and Stock Issuance to a vote of Williams stockholders and recommend approval of the adoption of the Charter Amendment and approval of the Stock Issuance (the Williams Board Recommendation).

The conflicts committee (the WPZ Conflicts Committee) of the board of directors of the WPZ General Partner (the WPZ Board) unanimously determined that the Merger Agreement and the transactions contemplated thereby are in the best interests of Williams Partners and the WPZ Public Unitholders, approved the Merger Agreement and the transactions contemplated thereby, including the Merger (such approval constituting Special Approval as defined in the Williams Partners partnership agreement), and recommended the approval of the Merger Agreement and the transactions contemplated thereby, including the Merger, to the WPZ Board. Based upon such approval and recommendation, the WPZ Board approved the Merger Agreement and the transactions contemplated thereby, including the Merger, and resolved to submit the Merger Agreement to a vote of holders of WPZ Common Units and Williams Partners Convertible Class B Units (the WPZ Class B Units and together with the WPZ Common Units, the WPZ Units and such holders, the WPZ Unitholders) and authorized the WPZ Unitholders to act by written consent pursuant to the Williams Partners partnership agreement.

The Williams Board has set July 9, 2018 as the record date (the Williams Vote Record Date) for determining holders of Williams Common Stock (the Williams Stockholders) entitled to vote at the Williams Special Meeting. If you are a record holder of outstanding Williams Common Stock as of the close of business on the Williams Vote Record Date, you may vote at the Williams Special Meeting. See the section titled The Williams Special Meeting of Stockholders beginning on page 27 of this joint consent statement/proxy statement/prospectus. The approval of the adoption of the Charter Amendment requires the affirmative vote of holders of a majority of the outstanding shares of Williams Common Stock entitled to vote thereon. The approval of the Stock Issuance requires the affirmative vote of a majority of the votes cast on the proposal at the Williams Special Meeting, provided a quorum is present. The approval of the Adjournment requires the affirmative vote of a majority of the votes cast on the proposal at the Williams Special Meeting, regardless of whether a quorum is present.

The approval and adoption of the Merger Agreement and the Merger by Williams Partners requires the affirmative vote or consent of holders of a majority of the outstanding WPZ Units (the Required WPZ Unitholder Written Consent). Pursuant to the terms of a Support Agreement, dated as of May 16, 2018, by and between Williams Gas Pipeline Company, LLC (Williams Gas Pipeline) and Williams Partners (the Support Agreement), Williams Gas Pipeline, which as of May 15, 2018 beneficially owned 702,218,502 WPZ Common Units and 18,442,649 WPZ Class B Units representing approximately 73.8% of the outstanding WPZ Units, has irrevocably agreed to deliver a written consent adopting and approving in all respects the Merger Agreement and the transactions contemplated thereby, including the Merger (the WGP Written Consent), within two business days after the effectiveness of the registration statement of which this joint consent statement/proxy statement/prospectus forms a part. **The delivery of the WGP Written Consent by Williams Gas Pipeline with respect to the WPZ Units it owns will be sufficient to approve the Merger Agreement and the transactions contemplated thereby, including the Merger, on behalf of Williams Partners.**

The WPZ Board has set July 9, 2018 as the record date (the WPZ Record Date) for determining holders of WPZ Units entitled to execute and deliver written consents with respect to the Merger. If you are a record holder of outstanding WPZ Units as of the close of business on the WPZ Record Date, you may complete, date and sign the enclosed written consent and promptly return it to Williams Partners. See the section titled Written Consents of Holders of WPZ Units beginning on page 26 of this joint consent statement/proxy statement/prospectus.

This joint consent statement/proxy statement/prospectus provides you with detailed information about the proposed Merger, the proposed Charter Amendment and Stock Issuance, and related matters. Williams and Williams Partners both encourage you to read the entire document carefully. In particular, please read Risk Factors beginning on page 19 of this joint consent statement/proxy statement/prospectus for a discussion of risks relevant to the Merger and the combined company.

The WPZ Common Units are listed on the New York Stock Exchange (NYSE) under the symbol WPZ, and the Williams Common Stock is listed on the NYSE under the symbol WMB.

Stephen W. Bergstrom

Alan S. Armstrong

Chairman of the Board of Directors of WPZ GP LLC	*Chairman of the Board of Directors of The Williams Companies, Inc.*

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SHARES OF WILLIAMS COMMON STOCK TO BE ISSUED IN THE MERGER OR DETERMINED IF THIS JOINT CONSENT STATEMENT/PROXY STATEMENT/PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this joint consent statement/proxy statement/prospectus is July 12, 2018 and it was first mailed to Williams Stockholders and WPZ Unitholders on or about July 12, 2018.

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One Williams Center

Tulsa, Oklahoma 74172-0172

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To the Stockholders of The Williams Companies, Inc.:

Notice is hereby given that a special meeting of stockholders of The Williams Companies, Inc. will be held on August 9, 2018 at 10:00 a.m., local time, at One Williams Center, Tulsa, Oklahoma 74172-0172 to consider and vote upon the following proposals:

Proposal 1: to adopt an amendment to the Williams certificate of incorporation to increase the number of authorized shares of capital stock from 990,000,000 shares to 1,500,000,000 shares, consisting of 1,470,000,000 shares of Williams Common Stock and 30,000,000 shares of Williams preferred stock, par value $1.00 per share (the Charter Amendment Proposal);

Proposal 2: to approve, subject to and conditioned upon the effectiveness of the Charter Amendment, the issuance of Williams Common Stock in the Merger pursuant to the Merger Agreement (the Stock Issuance Proposal); and

Proposal 3: to approve the adjournment of the Williams Special Meeting from time to time, if necessary or appropriate to solicit additional proxies if there are insufficient votes at the time of the Williams Special Meeting to approve the Charter Amendment Proposal or the Stock Issuance Proposal (the Adjournment Proposal and together with the Charter Amendment Proposal and the Stock Issuance Proposal, the Proposals).

The Proposals and related transactions are described in detail in the accompanying joint consent statement/proxy statement/prospectus, which you should read before you vote. **If either of the Charter Amendment Proposal or the Stock Issuance Proposal are not approved by the Williams Stockholders, the Merger cannot be completed.**

Only holders of record of Williams Common Stock at the close of business on July 9, 2018 will be entitled to notice of and to vote at the Williams Special Meeting and any adjournments or postponements thereof.

Your vote is very important. To ensure your representation at the Williams Special Meeting, please complete and return the enclosed proxy card or submit your proxy by telephone or via the Internet. Please vote promptly whether or not you expect to attend the Williams Special Meeting. Submitting a proxy now will not prevent you from revoking the proxy and voting in person at the Williams Special Meeting. If your shares are held in the name of a bank, broker, or other nominee, please follow the instructions on the voting instruction card furnished to you by such bank, broker, or other nominee.

On May 16, 2018, the Williams Board approved the Merger Agreement and the transactions contemplated thereby, including the Merger, and in connection with the Merger, approved the Charter Amendment and the Stock Issuance, and determined that they are in the best interests of Williams and its stockholders and recommends that you vote FOR all proposals.

BY ORDER OF THE BOARD OF DIRECTORS

Joshua H. De Rienzis

Corporate Secretary

July 12, 2018

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IMPORTANT NOTE ABOUT THIS JOINT CONSENT STATEMENT/PROXY STATEMENT/PROSPECTUS

This joint consent statement/proxy statement/prospectus incorporates by reference important business and financial information about Williams and Williams Partners and their respective subsidiaries from documents filed with the Securities and Exchange Commission (SEC) that have not been included in or delivered with this joint consent statement/proxy statement/prospectus. This information is available without charge at the SEC s website at www.sec.gov, as well as from other sources. See Where You Can Find More Information.

Holders of outstanding WPZ Units and holders of outstanding shares of Williams Common Stock may also request copies of these publicly filed documents from Williams or Williams Partners without charge, upon written request to One Williams Center, Tulsa, Oklahoma 74172-0172, Attention: Investor Relations or by calling the Williams Partners or Williams Investor Relations Departments at 800-600-3782.

In order to receive timely delivery of requested documents in advance of the Williams Special Meeting, your request should be received no later than August 2, 2018. If you request any documents, Williams or Williams Partners, as applicable, will mail them to you by first class mail, or another equally prompt means, after receipt of your request.

Except as otherwise specifically noted, or the context otherwise requires, as used in this joint consent statement/proxy statement/prospectus:

Merger Sub refers to SCMS LLC, a wholly owned subsidiary of Williams;

Merger Consideration means the shares of Williams Common Stock to be issued to the WPZ Public Unitholders pursuant to the Merger;

Williams and WMB refer to The Williams Companies, Inc.;

Williams Parties refers to Williams, Williams Gas Pipeline Company LLC and their respective subsidiaries (other than Williams Partners and its subsidiaries);

Williams Partners and WPZ refer to Williams Partners L.P.;

WPZ Conflicts Committee refers to the conflicts committee of the board of directors of WPZ General Partner;

WPZ General Partner refers to WPZ GP LLC, the general partner of Williams Partners;

WPZ Parties refers to Williams Partners, WPZ General Partner and their respective subsidiaries;

WPZ Public Units means all WPZ Units that are not held by the Williams Parties or Williams Partners; and

WPZ Public Unitholder refers to a holder of WPZ Public Units.

In Questions and Answers and in the Summary below, selected information from this joint consent statement/proxy statement/prospectus is highlighted, but not all of the information that may be important to you is included. To better understand the Merger Agreement and the Merger, and for a more complete description of its legal terms, you should carefully read this entire joint consent statement/proxy statement/prospectus, including the section entitled Risk Factors on page 19, as well as the documents that are incorporated by reference into this joint consent statement/proxy statement/prospectus. See Where You Can Find More Information.

You should rely only on the information contained or incorporated by reference in this joint consent statement/proxy statement/prospectus. None of Williams, Williams Partners, or any of their affiliates has authorized anyone to provide you with information different from that contained or incorporated by reference in this joint consent statement/proxy statement/prospectus. Therefore, if anyone gives you information of this sort, you should not rely on it. The information contained in this joint consent statement/proxy statement/prospectus and the documents incorporated herein by reference is accurate only as of its respective dates, regardless of the time of delivery of this joint consent statement/proxy statement/prospectus. Williams and Williams Partners business, financial condition, results of operations and prospects may have changed since those dates.

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QUESTIONS AND ANSWERS

The following section provides brief answers to certain questions that you may have regarding the Merger Agreement, the proposed Merger, the Charter Amendment, and the Stock Issuance. Please note that this section does not address all issues that may be important to you as a Williams Stockholder and/or a WPZ Unitholder. Accordingly, you should carefully read this entire joint consent statement/proxy statement/prospectus, including each of the annexes, and the documents that have been incorporated by reference into this joint consent statement/proxy statement/prospectus.

General Questions and Answers

Q. Why am I receiving these materials?

A. Williams and the WPZ General Partner have agreed that Merger Sub, a wholly owned subsidiary of Williams, will merge with and into Williams Partners, with Williams Partners surviving as a wholly owned subsidiary of Williams.

Each of Williams and Williams Partners is sending these materials to the Williams Stockholders and the WPZ Unitholders, as applicable, to help them decide how to vote their shares of Williams Common Stock, or deliver their consent with respect to their WPZ Units, regarding the matters described herein.

This document constitutes both a proxy statement and prospectus of Williams, and a consent statement of Williams Partners. This document is a proxy statement because the Williams Board is soliciting proxies from the Williams Stockholders in connection with the approval of the proposed Charter Amendment and Stock Issuance. This document is a consent statement because WPZ Unitholders are being afforded the opportunity to sign a written consent to the Merger using this document. This document is a prospectus because Williams, in connection with the Merger, is offering Williams Common Stock in exchange for outstanding WPZ Public Units.

Q. What will happen to Williams Partners as a result of the Merger?

A. If the Merger is successfully completed, Merger Sub will be merged with and into Williams Partners, with Williams Partners surviving as a wholly owned subsidiary of Williams. Following the closing of the Merger, it is expected that Williams Partners will merge with and into Williams, with Williams surviving, and Williams Partners will cease to exist.

Q. When will the Merger be completed?

A. Williams and Williams Partners are working to complete the Merger as soon as possible, but the Merger cannot be completed before the day following the record date for the regular quarterly cash distribution on the WPZ Common Units that is paid or payable during the calendar quarter ending September 30, 2018. A number of conditions must be satisfied before Williams and Williams Partners can complete the Merger. Although Williams and Williams Partners cannot be sure when all of the conditions to the Merger will be satisfied, Williams and Williams Partners expect to complete the Merger as soon as practicable following the Williams Special Meeting (assuming the Stock Issuance and the Charter Amendment are both approved at the Williams Special Meeting). See the section titled The Merger Agreement Conditions to the Merger. Assuming timely satisfaction of other closing conditions, including approval of the Stock Issuance and the Charter Amendment at the Williams Special Meeting, the Merger is targeted to close on or about August 10, 2018.

Q. What percentage of outstanding Williams Common Stock will WPZ Public Unitholders own after the successful consummation of the Merger?

A. If the Merger is successfully completed, based on the number of shares of Williams Common Stock and WPZ Units outstanding as of the date of this joint consent statement/proxy statement/prospectus, the shares of Williams Common Stock that the WPZ Public Unitholders receive in the Merger will collectively represent approximately 31.6% of the outstanding shares of Williams Common Stock following completion of the Merger.

Q. Who do I call if I have further questions about the Merger Agreement, the Merger, the Charter Amendment, or the Stock Issuance?

A. If WPZ Unitholders or Williams Stockholders have further questions or if they would like additional copies, without charge, of this document, they may call Williams Partners or Williams Investor Relations Departments at 800-600-3782, or may contact OKAPI Partners LLC (Okapi), which is acting as Williams proxy solicitation agent in connection with the Williams Special Meeting, by phone at (888) 785-6617 or email at williamsinfo@okapipartners.com.

Q. What happens if the Merger is not consummated?

A. If for any reason the Merger is not consummated, WPZ Common Units will continue to be listed and traded on the NYSE.

If the Charter Amendment Proposal is approved, the Charter Amendment will be effected, regardless of whether the Merger is consummated.

Questions and Answers Specific to Williams Stockholders

Q. When and where will the Williams Special Meeting be held?

A. The Williams Special Meeting will be held on August 9, 2018 at 10:00 a.m., local time, at One Williams Center, Tulsa, Oklahoma 74172-0172.

Q. Who is entitled to vote at the Williams Special Meeting?

A. If you are a record holder of Williams Common Stock as of the close of business on the Williams Vote Record Date, you may vote at the Williams Special Meeting. See the section titled The Williams Special Meeting of Stockholders beginning on page 27 of this document.

Q. What are Williams Stockholders being asked to vote on at the Williams Special Meeting?

A. Williams Stockholders are being asked to consider and vote on the following proposals:

Charter Amendment Proposal. A proposal to adopt an amendment to the Williams certificate of incorporation to increase the number of authorized shares of capital stock from 990,000,000 shares to 1,500,000,000 shares, consisting of 1,470,000,000 shares of Williams Common Stock and 30,000,000 shares of Williams preferred stock, par value $1.00 per share.

Stock Issuance Proposal. A proposal to approve, subject to and conditioned upon the effectiveness of the Charter Amendment, the issuance of Williams Common Stock in the Merger pursuant to the Merger Agreement.

Adjournment Proposal. A proposal to approve the adjournment of the Williams Special Meeting from time to time, if necessary or appropriate to solicit additional proxies if there are insufficient votes at the time of the

Williams Special Meeting to approve the Charter Amendment Proposal or the Stock Issuance Proposal.

Q. What vote is required to approve each of the Proposals?

A. The approval of the Charter Amendment Proposal requires the affirmative vote of holders of a majority of the outstanding shares of Williams Common Stock entitled to vote thereon. The approval of the Stock Issuance Proposal requires the affirmative vote of a majority of the votes cast on the proposal at the Williams Special Meeting, provided a quorum is present. The approval of the Adjournment Proposal requires the affirmative vote of a majority of the votes cast on the proposal at the Williams Special Meeting, regardless of whether a quorum is present.

Q. What constitutes a quorum for the Williams Special Meeting?

A. The presence, in person or by proxy, of Williams Stockholders representing a majority of the shares of Williams Common Stock outstanding on the Williams Vote Record Date will constitute a quorum for the Williams Special Meeting.

Q. What if I do not vote my Williams Common Stock or if I abstain from voting?

A. The Stock Issuance Proposal and the Adjournment Proposal each require the affirmative vote of a majority of the votes cast on such proposal at the Williams Special Meeting (provided in the case of the Stock Issuance Proposal that a quorum is present). Abstentions will be counted as votes cast for purposes of the Stock Issuance Proposal, but will not be treated as votes cast for purposes of the Adjournment Proposal. As a result, if you abstain from voting on the Stock Issuance Proposal, your shares of Williams Common Stock will be counted as present for purposes of establishing a quorum, but the abstention will have the same effect as a vote against that proposal. If you abstain from voting on the Adjournment Proposal, your shares of Williams Common Stock will be disregarded for purposes of determining the votes cast for the Adjournment Proposal, and the abstention will therefore have no effect on the adoption of that proposal. If you fail to vote on the Stock Issuance Proposal or the Adjournment Proposal, such failure to vote will not affect the adoption of such proposal, except with respect to the Stock Issuance Proposal to the extent that your failure to vote prevents the establishment of a quorum at the Williams Special Meeting.

The approval of the Charter Amendment Proposal requires the affirmative vote of holders of a majority of the outstanding shares of Williams Common Stock entitled to vote thereon. As a result, if you do not vote your shares of Williams Common Stock in favor of the Charter Amendment Proposal or abstain from voting on the Charter Amendment Proposal, it will have the same effect as a vote against the Charter Amendment Proposal.

The obligations of the parties to complete the Merger are conditioned upon approval of both the Charter Amendment Proposal and the Stock Issuance Proposal (collectively, the Williams Stockholder Approval). Accordingly, a vote against or an abstention with respect to either of such proposals will have the same effect as a vote against the Merger (although no vote for or against the Merger is taking place).

Q. What proposals at the Williams Special Meeting must be passed in order for the Merger to be completed?

A. The Merger will not be completed unless the Charter Amendment Proposal and the Stock Issuance Proposal are each approved. If the Charter Amendment Proposal is approved, the Charter Amendment will be effected, regardless of whether the Stock Issuance Proposal is approved and the Merger is consummated.

Q. How do I submit my proxy for the Williams Special Meeting?

A. If you are a stockholder of record, you may submit a proxy via the Internet, by phone, or by mail. If you hold your Williams Common Stock in street name with a broker, bank, or other nominee, you should follow the instructions provided by your broker, bank, or other nominee. See the section titled The Williams Special Meeting of Stockholders beginning on page 27 of this document.

Q. How many votes do I have?

A. Williams Stockholders have one vote per share of Williams Common Stock on each proposal to be voted upon.

Q. If my shares of Williams Common Stock are held in street name by my bank, broker, or other nominee, will my bank, broker, or other nominee automatically vote my shares for me?

A. No. If your shares of Williams Common Stock are held in street name, you must instruct the broker, bank, or other nominee on how to vote your shares. See the section titled The Williams Special Meeting of Stockholders beginning on page 27 of this document.

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Q. What happens if I sell my Williams Common Stock after the Williams Vote Record Date but before the Williams Special Meeting?

A. If you transfer shares of your Williams Common Stock after the Williams Vote Record Date but before the date of the Williams Special Meeting, you will retain your right to vote at the Williams Special Meeting.

Q. May I change my proxy instructions after I have delivered my proxy card?

A. If you are a stockholder of record, you can change your proxy instructions within the regular voting deadlines by submitting a new proxy by telephone or via the Internet, executing and returning a later dated proxy card, or attending the Williams Special Meeting and voting in person. If you are a stockholder of record, you can revoke your proxy by delivering a written notice of your revocation to Williams Corporate Secretary at One Williams Center, MD 47, Tulsa, Oklahoma 74172. If you hold your Williams Common Stock in street name, you should follow the instructions provided by your banker, broker, or other nominee. See the section titled The Williams Special Meeting of Stockholders beginning on page 27 of this document.

Q. Will I receive anything as a result of the Merger?

A. As a Williams Stockholder, you will not receive any consideration in connection with the Merger. Only WPZ Public Unitholders will receive consideration in connection with the Merger. Williams Stockholders will not be entitled to appraisal rights in connection with the Merger.

Questions and Answers Specific to WPZ Unitholders

Q. Who is entitled to give written consent with respect to the Merger?

A. If you are a record holder of WPZ Units as of the close of business on the WPZ Record Date, you may give written consent with respect to the Merger by filling out the enclosed written consent, dating and signing it, and then promptly delivering it to Williams Partners by one of the means described in the section entitled Written Consents of Holders of WPZ Units Submission of Consents. Williams Partners does not intend to hold a meeting of WPZ Unitholders to consider the Merger Agreement and the Merger.

Q. Can holders of WPZ Units change or revoke their written consents?

A. Yes. If you are a record holder of WPZ Units on the WPZ Record Date, you may revoke your consent or, if you have previously revoked your consent, submit a new written consent at any time before the consents of a sufficient number of WPZ Units to approve the Merger Agreement have been delivered to the secretary of Williams Partners. If you wish to change or revoke your consent before that time, you may do so by sending in a new written consent with a later date by one of the means described in the section entitled Written Consents of Holders of WPZ Units Submission of Consents, or delivering a notice of revocation to the secretary of Williams Partners.

Q. What WPZ Unitholder approval is required to adopt the Merger Agreement?

A. The approval and adoption of the Merger Agreement and the Merger by Williams Partners requires the affirmative vote or consent of holders of a majority of the outstanding WPZ Units. Pursuant to the terms of the Support Agreement, Williams Gas Pipeline, which as of May 15, 2018 beneficially owned 702,218,502 WPZ Common Units and 18,442,649 WPZ Class B Units representing approximately 73.8% of the outstanding WPZ Units, has irrevocably agreed to deliver the WGP Written Consent within two business days after the effectiveness of the registration statement of which this joint consent statement/proxy statement/prospectus forms a part. **The delivery of the WGP Written Consent by Williams Gas Pipeline with respect to the WPZ Units it owns will be sufficient to adopt the Merger Agreement and thereby approve the Merger on behalf of Williams Partners.**

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Q. Should holders of WPZ Units deliver their WPZ Units now?

A. No. After the Merger is completed, holders of WPZ Units who hold their WPZ Units in certificated or book entry form will receive written instructions for exchanging their WPZ Units. If you own WPZ Units in street name, the shares of Williams Common Stock you will receive in connection with the Merger should be credited to your account in accordance with the policies and procedures of your bank, broker, or other nominee within a few days following the closing date of the Merger.

Q. What will WPZ Public Unitholders be entitled to receive in the Merger?

A. Each WPZ Public Unitholder will be entitled to receive Williams Common Stock in exchange for such holder s WPZ Public Units at the Exchange Ratio. If the Exchange Ratio would result in a WPZ Public Unitholder being entitled to receive a fractional share of Williams Common Stock, such holder will receive cash (payable in U.S. dollars, without interest) in lieu of such fractional share in an amount equal to the product obtained by multiplying (1) such fraction by (2) the average of the closing price of Williams Common Stock as reported on the NYSE Composite Transactions Tape (as reported by Bloomberg Financial Markets or such other source as the parties shall agree in writing) over the five-trading-day period ending on the third trading day immediately preceding the effective time of the Merger. For additional information regarding exchange procedures, please read The Merger Agreement Exchange of Units; Fractional Units.

Q. Where will WPZ Units trade after the Merger?

A. WPZ Units will no longer be publicly-traded following the Merger and will be delisted from the NYSE.

Q. What happens to future distributions with respect to WPZ Public Units?

A. If the Merger is successfully consummated, all outstanding WPZ Public Units will be converted into the right to receive Williams Common Stock at the Exchange Ratio and will no longer receive quarterly distributions from Williams Partners. For a description of the differences between the rights of holders of Williams Common Stock and holders of WPZ Units, please read Comparison of Rights of Williams Stockholders and WPZ Unitholders.

Q. What are the expected U.S. federal income tax consequences to a WPZ Public Unitholder as a result of the Merger?

A. The receipt of Williams Common Stock and any cash in lieu of fractional shares of Williams Common Stock in exchange for WPZ Public Units pursuant to the Merger should be a taxable transaction to U.S. holders (as defined in the section titled Material U.S. Federal Income Tax Consequences) for U.S. federal income tax purposes. In such case, a U.S. holder will generally recognize capital gain or loss on the receipt of Williams Common Stock and any cash received in lieu of fractional shares of Williams Common Stock in exchange for WPZ Public Units. However, a portion of this gain or loss, which portion could be substantial, will be separately computed and taxed as ordinary income or loss to the extent attributable to assets giving rise to depreciation recapture or other unrealized receivables or to inventory items owned by Williams Partners and its subsidiaries. Passive losses that were not deductible by a U.S. holder in prior taxable periods because they exceeded a U.S. holder s share of Williams Partners income may become available to offset a portion of the gain recognized by such U.S. holder. See the section titled Material U.S. Federal Income Tax Consequences for a more complete discussion of certain U.S. federal income tax consequences of the Merger.

Q. What are the expected U.S. federal income tax consequences for a WPZ Public Unitholder of the ownership of shares of Williams Common Stock after the Merger is completed?

A. Williams is classified as a corporation for U.S. federal income tax purposes, and thus, Williams (and not its stockholders) is subject to U.S. federal income tax on its taxable income. A distribution of cash by Williams to a stockholder who is a U.S. holder (as defined in the section titled Material U.S. Federal Income Tax Consequences) will generally be included in such U.S. holder s income as ordinary dividend income to the extent of Williams current or accumulated earnings and profits as determined under U.S. federal income tax principles. Any portion of the cash distributed to Williams Stockholders by Williams after the Merger that exceeds Williams current and accumulated earnings and profits will be treated as a non-taxable return of capital reducing a U.S. holder s adjusted tax basis in such U.S. holder s shares of Williams Common Stock and, to the extent the distribution exceeds such stockholder s adjusted tax basis, as capital gain from the sale or exchange of such shares of Williams Common Stock. See the section titled Material U.S. Federal Income Tax Consequences for a more complete discussion of certain U.S. federal income tax consequences of owning and disposing of shares of Williams Common Stock.

Q. Are holders of WPZ Units entitled to appraisal rights in connection with the Merger?

A. No. Holders of WPZ Units do not have appraisal rights under applicable law or contractual appraisal rights under the Williams Partners partnership agreement or the Merger Agreement.

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SUMMARY

This summary highlights selected information in this joint consent statement/proxy statement/prospectus and does not contain all the information that may be important to you. To fully understand the Merger Agreement and the transactions contemplated thereby, including the Merger, the Charter Amendment and the Stock Issuance, and for a more complete description of the terms of the Merger Agreement, you should carefully read this entire joint consent statement/proxy statement/prospectus, including the annexes, as well as the documents incorporated by reference into this joint consent statement/proxy statement/prospectus, and the other documents to which you are referred. For information on how to obtain the documents that Williams and Williams Partners have filed with the SEC, see Where You Can Find More Information.

The Merger (page 32)

Williams and the WPZ General Partner have agreed to merge Merger Sub, a wholly owned subsidiary of Williams, with and into Williams Partners, with Williams Partners surviving as a wholly owned subsidiary of Williams.

The Merger Parties Businesses (page 91)

Williams

Williams is a publicly traded Delaware corporation founded in 1908, originally incorporated under the laws of the state of Nevada in 1949 and reincorporated under the laws of the state of Delaware in 1987. Williams is an energy infrastructure company focused on connecting North America s significant hydrocarbon resource plays to markets for natural gas and natural gas liquids (NGLs). Williams operations are located principally in the United States.

Williams interstate gas pipeline and midstream interests are largely held through its significant investment in Williams Partners.

Williams Partners

Williams Partners is a publicly traded energy infrastructure master limited partnership focused on connecting North America s significant hydrocarbon resource plays to growing markets for natural gas and NGLs through its gas pipeline and midstream businesses. WPZ General Partner, a Delaware limited liability company indirectly wholly owned by Williams, is Williams Partners general partner.

SCMS LLC

SCMS LLC, which is referred to in this joint consent statement/proxy statement/prospectus as Merger Sub, is a Delaware limited liability company and a wholly owned subsidiary of Williams. Merger Sub was formed on May 8, 2015 solely for the purpose of consummating a merger with Williams Partners and has no operating assets. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with a potential merger with Williams Partners.

Executive Offices of Williams, Williams Partners, and Merger Sub

The principal executive offices of Williams, Williams Partners, and Merger Sub are located at One Williams Center, Tulsa, Oklahoma 74172-0172, their telephone number is (918) 573-2000, and their website is located at http://co.williams.com. Williams and Williams Partners each makes available its periodic reports and other

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information filed with or furnished to the SEC, free of charge, through this website, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. Information on the website or any other website is not incorporated by reference into this joint consent statement/proxy statement/prospectus and does not constitute a part of this joint consent statement/proxy statement/prospectus.

See the section titled The Merger Parties Businesses for more information.

Required Approval of the Merger by the Williams Partners Unitholders (page 26)

The approval and adoption of the Merger Agreement and the Merger by Williams Partners requires the affirmative vote or consent of holders of a majority of the outstanding WPZ Units. Pursuant to the terms of the Support Agreement, Williams Gas Pipeline, which as of May 15, 2018 beneficially owned 702,218,502 WPZ Common Units and 18,442,649 WPZ Class B Units representing approximately 73.8% of the outstanding WPZ Units, has irrevocably agreed to deliver the WGP Written Consent adopting and approving in all respects the Merger Agreement and the transactions contemplated thereby, including the Merger, within two business days after the effectiveness of the registration statement of which this joint consent statement/proxy statement/prospectus forms a part. **The delivery of the WGP Written Consent by Williams Gas Pipeline with respect to the WPZ Units it owns will be sufficient to adopt the Merger Agreement and thereby approve the Merger on behalf of Williams Partners.**

All of the directors and executive officers of Williams Partners beneficially owned, in the aggregate, approximately 0.01% of the outstanding WPZ Common Units as of the record date. Williams and Williams Partners believe that the directors and executive officers of Williams Partners will deliver written consents with respect to the Merger Agreement and the Merger.

Williams Ownership Interest In and Control of Williams Partners (page 32)

Williams holds a controlling ownership interest in Williams Partners. Williams controls Williams Partners through Williams indirect ownership of 100% of the membership interests of the WPZ General Partner, which owns 100% of the general partner interest in Williams Partners, and through Williamsd width="12%" colspan="2" valign="bottom" style="padding:0in 0in 0in 0in;width:12.0%;">

Restructuring expenses	1,174

Depreciation and amortization	7,258	3,317
Operating income	61,508	27,262

Other (income) expense:		
Interest expense, net	10,301	1,733
Other income, net	(269)	(648)
Total other expense		

10,032

1,085

Income before provision for income taxes

51,476

26,177

Provision for income taxes

20,598

10,383

Net income	$	30,878
	$	15,794
Net income per share:		
Basic		

$	0.23
$	0.15
Diluted	
$	0.22
$	0.14
Weighted average common shares outstanding:	

Basic	
	134,558
	106,633
Diluted	
	139,682
	112,004

See notes to unaudited consolidated condensed financial statements.

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Condensed Statements of Cash Flows

(In thousands)

	Three Months Ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 30,878	$ 15,794
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,875	3,453
Stock-based compensation expense	1,304	1,167
Deferred income taxes	399	686
Excess tax benefit from exercise of stock options	(1,103)	(157)
Other adjustments	(68)	3
Changes in operating assets and liabilities, net of effects from purchase transactions:		
Receivables	(8,338)	(8,167)
Inventory	(8,772)	(10,807)
Prepaid income taxes/income taxes payable	18,625	7,453
Other operating assets and liabilities	(8,448)	1,005
Net cash provided by operating activities	32,352	10,430
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, equipment and other long term assets	(13,196)	(9,080)
Cash used in acquisitions	(4,186)	(14,574)
Net cash used in investing activities	(17,382)	(23,654)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	939	202
Repurchase and retirement of redeemable common stock		(1,125)
Excess tax benefit from exercise of stock options	1,103	157
Debt issuance costs	(173)	
Net (repayments) borrowings of long-term debt	(5,549)	15,840
Net cash (used in) provided by financing activities	(3,680)	15,074
Effect of exchange rate changes on cash and equivalents	(121)	
Net increase in cash and equivalents	11,169	1,850
Cash and equivalents, beginning of period	74,241	4,031
Cash and equivalents, end of period	$ 85,410	$ 5,881
Supplemental disclosure of cash flow information:		
Notes issued in connection with business acquisitions	$	$ 750
Stock issued in connection with business acquisitions	18,006	
Cash paid for income taxes, net of refunds	1,506	2,234
Cash paid for interest	10,311	1,594

See notes to unaudited consolidated condensed financial statements.

LKQ CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Condensed Statements of Stockholders Equity and Other Comprehensive Income

(In thousands)

	Common Stock					
	Shares Issued	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
BALANCE, December 31, 2007	134,149	$ 1,341	$ 705,778	$ 142,039	$ 619	$ 849,777
Net income				30,878		30,878
Unrealized loss on change in fair value of interest rate swap agreements, net of tax of $65					(99)	(99)
Foreign currency translation					(10)	(10)
Total comprehensive income						30,769
Stock issued in business acquisition	838	8	17,998			18,006
Stock issued as director compensation	1	1	30			31
Stock-based compensation expense			1,114			1,114
Activity related to restricted stock awards	190	2	157			159
Exercise of stock options, including related tax benefits of $1,103	203	2	2,040			2,042
BALANCE, March 31, 2008	135,381	$ 1,354	$ 727,117	$ 172,917	$ 510	$ 901,898

See notes to unaudited consolidated condensed financial statements.

LKQ Corporation and Subsidiaries

Notes to Unaudited Consolidated Condensed 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 the Company, we, us, or our are used in this document, those terms refer to LKQ Corporation and its consolidated subsidiaries. All intercompany transactions and accounts have been eliminated.

We have prepared the accompanying Unaudited Consolidated Condensed 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 have been condensed or omitted. These Unaudited Consolidated Condensed Financial Statements reflect, in the opinion of management, all material adjustments (which include only normal 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 report on Form 10-K for the year ended December 31, 2007 filed with the SEC.

Note 2. Significant Accounting Policies

Revenue Recognition

Revenue is recognized when products are shipped and title has transferred, subject to an allowance for estimated returns, discounts and allowances that we estimate based upon historical information. We have recorded a reserve for estimated returns, discounts and allowances of approximately $8.3 million and $7.5 million at March 31, 2008 and December 31, 2007, respectively.

Receivables

We have recorded a reserve for uncollectible accounts of approximately $4.0 million and $4.3 million at March 31, 2008 and December 31, 2007, respectively.

Inventory

Inventory consists of the following (in thousands):

	March 31, 2008	December 31, 2007
Salvage products	$ 124,693	$ 111,775
Aftermarket and refurbished products	200,705	201,408
Core facilities inventory	6,029	7,055
	$ 331,427	$ 320,238

Intangibles

Intangible assets consist primarily of goodwill (the cost of purchased businesses in excess of the fair value of the net assets acquired), and other specifically identifiable intangible assets such as the tradename acquired in connection with our acquisition of Keystone Automotive Industries, Inc. (Keystone) during the fourth quarter of 2007, covenants not to compete and trademarks.

The change in the carrying amount of goodwill during the three months ended March 31, 2008 is as follows (in thousands):

Balance as of December 31, 2007	$	825,881
Adjustment of previously recorded goodwill		1,484
Exchange rate effects		(762)
Business acquisitions		16,955
Balance as of March 31, 2008	$	843,558

We adjusted previously recorded goodwill primarily due to a final inventory valuation adjustment of approximately $0.4 million for a business acquired during the second quarter of 2007 and the establishment of additional reserves in connection with our Keystone restructuring activities (see Note 9) of approximately $1.0 million.

Other intangible assets totaled approximately $73.9 million and $75.0 million, net of accumulated amortization of $2.0 million and $1.0 million, at March 31, 2008 and December 31, 2007, respectively. Amortization expense was approximately $1.0 million during the three months ended March 31, 2008. The amount for the corresponding 2007 period was immaterial. Estimated annual amortization expense is $3.8 million for each of the years 2008 through 2012.

Depreciation Expense

Included in Cost of Goods Sold is depreciation expense associated with refurbishing and smelting operations.

Stock-Based Compensation

We account for stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123R).

The fair value of stock options has been estimated using the Black-Scholes option-pricing model. The following table summarizes the assumptions used to compute the weighted average fair value of stock option grants:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Expected life (in years)	6.4	6.4
Risk-free interest rate	3.27%	4.39%
Volatility	39.3%	40.0%
Dividend yield	0%	0%
Weighted average fair value of options granted	$ 8.51	$ 4.75

Expected life The expected life represents the period that our stock-based awards are expected to be outstanding. Due to the limited information available regarding historical exercise experience, we have elected to use the simplified expected term method as permitted by the SEC Staff Accounting Bulletin No. 107 (SAB 107), as amended by Staff Accounting Bulletin No. 110 (SAB 110).

Risk-free interest rate We base the risk free interest rate used in the Black-Scholes option-pricing model on the implied yield currently available on U.S. Treasury zero-coupon issues with the same or substantially equivalent remaining term as the expected life of the options granted.

Expected volatility We use the trading history and historical volatility of our common stock, and because of limited historical data available on the price of our own publicly traded shares, the volatility of similar entities whose share prices are publicly available in determining an estimated volatility factor for the Black-Scholes option-pricing model.

Expected dividend yield We have not declared and have no plans to declare cash dividends and have therefore used a zero value for the expected dividend yield in the Black-Scholes option-pricing model.

Estimated forfeitures When estimating forfeitures, we consider voluntary and involuntary termination behavior as well as analysis of historical forfeitures. For options granted in 2008, a forfeiture rate of 8.0% has been used for valuing employee option grants, while a forfeiture rate of 0% has been used for valuing executive officer option grants.

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Stock options	$ 1,114	$ 1,149
Restricted stock	159	
Stock issued in lieu of quarterly cash compensation for non-employee directors	31	18
Total stock-based compensation	$ 1,304	$ 1,167

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

	Three Months Ended March 31, 2008	2007
Cost of goods sold	$ 3	$ 3
Facility and warehouse expenses	473	238
Selling, general and administrative expenses	828	926
	1,304	1,167
Income tax benefit	(522)	(455)
Total stock based compensation, net of tax	$ 782	$ 712

We have not capitalized any stock-based compensation cost during the three months ended March 31, 2008 and 2007. As of March 31, 2008, unrecognized compensation expense related to unvested stock options and restricted stock is expected to be recognized as follows (in millions):

	Stock Options	Restricted Stock	Total
Remainder of 2008	$ 3.5	$ 0.6	$ 4.1
2009	4.5	0.7	5.2
2010	4.2	0.7	4.9
2011	3.3	0.7	4.0
2012	2.4	0.8	3.2
	$ 17.9	$ 3.5	$ 21.4

SFAS 123R requires any reduction in taxes payable resulting from tax deductions that exceed the recognized compensation expense (excess tax benefits) to be classified as financing cash flows. We have included $1.1 million and $0.2 million of excess tax benefits in its cash flows from financing activities for the three months ended March 31, 2008 and 2007, respectively.

Segments

The following table sets forth our revenue by product category (in thousands):

	Three Months Ended March 31, 2008	2007
Recycled products	$ 152,895	$ 129,308
Aftermarket and refurbished products	272,263	60,826
Other	66,750	45,184

	$	491,908	$	235,318

Recent Accounting Pronouncements

Effective January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements (SFAS 157) as it pertains to financial assets and liabilities. In accordance with the provisions of FASB Staff Position 157-2, we elected to defer the adoption of SFAS 157 relating to the fair value of non-financial assets and liabilities. We are currently evaluating the impact, if any, of applying SFAS 157 to our non-financial assets and liabilities. SFAS 157 established a framework for reporting fair value and expands disclosures required for fair value measurements. Although the adoption of SFAS 157 did not have a significant impact on our consolidated financial position, results of operations or cash flows, we are now required to provide additional disclosures as part of our financial statements. These additional disclosures are provided in Note 10.

Effective January 1, 2008, we adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). The adoption of SFAS 159 did not have a significant impact on our consolidated financial position, results of operations or cash flows.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). Under SFAS 141R, companies will be required to, among other things, recognize the assets acquired, liabilities assumed, including contractual contingencies, and contingent consideration at fair value on the date of acquisition. SFAS 141R also requires that acquisition-related expenses be expensed as incurred, restructuring costs be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred income tax asset valuation allowances and acquired income tax uncertainties after the measurement period be included in income tax expense. SFAS 141R will be effective in calendar 2009 and will change our accounting for business combinations upon adoption. We are currently assessing the impact that the adoption of SFAS 141R will have on our consolidated financial position, results of operations, and cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133 (SFAS 161). SFAS 161 requires enhanced disclosures about derivative and hedging activities and is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We are currently assessing the impact that the adoption of SFAS 161 will have on our consolidated financial position, results of operations, and cash flows.

Note 3. Capital Structure

On September 25, 2007, we completed the sale of 23,600,000 shares of our common stock pursuant to a registration statement filed with the Securities and Exchange Commission. Pursuant to the same registration statement, the selling stockholders named in the registration statement sold 4,000,000 shares of our common stock. We received $349.5 million, net of underwriting discount, and net of offering related expenses of approximately $0.7 million, for the common stock we issued and sold. We did not receive any proceeds from the sale of shares by the selling stockholders. We also received approximately $2.8 million in proceeds from the exercise of 1,000,000 stock options by certain members of management in connection with the offering.

On November 5, 2007, our Board of Directors approved a two-for-one split of our common stock payable as a stock dividend. Each stockholder of record at the close of business on November 16, 2007 received an additional share of common stock for every outstanding share held. The payment date was December 3, 2007, and the common stock began trading on a split-adjusted basis on December 4, 2007. All share and per share amounts for all periods presented have been adjusted to reflect the stock split.

On March 4, 2008, in connection with a business acquisition, we issued 838,073 shares of our common stock.

Note 4. Stock-Based Compensation Plans

We have two stock-based compensation plans, the LKQ Corporation 1998 Equity Incentive Plan (the   Equity Incentive Plan) and the Stock Option and Compensation Plan for Non-Employee Directors (the   Director Plan). Under the Equity Incentive Plan, both qualified and nonqualified stock options, stock appreciation rights, restricted stock, performance shares and performance units may be granted. Under the Director Plan, directors can receive stock option grants.

Stock options expire 10 years from the date they are granted. Most of the options granted under the Equity Incentive Plan vest over a period of five years. Options granted under the Director Plan vest six months after the date of grant. We expect to issue new shares of common stock to cover future stock option exercises.

On January 11, 2008, we issued 190,000 shares of restricted stock to key employees. The grant-date fair value of the awards was approximately $3.6 million, or $19.14 per share. Vesting of the awards is subject to a continued service condition, with 20% of the awards vesting each year on the anniversary of the grant date. The fair value of each share of restricted stock awarded was equal to the market value of a share of our common stock on the grant date.

A summary of transactions in our stock-based compensation plans for the three months ended March 31, 2008 is as follows:

	Restricted Shares and Options Available For Grant	Restricted Shares Outstanding	Stock Options	
			Number Outstanding	Weighted Average Exercise Price
Balance, December 31, 2007	6,852,680		11,032,102	$ 5.06
Granted	(1,583,750)	190,000	1,393,750	19.14
Exercised			(203,030)	4.63
Cancelled	35,165		(35,165)	13.23
Balance, March 31, 2008	5,304,095	190,000	12,187,657	$ 6.65

The following table summarizes information about outstanding and exercisable stock options at March 31, 2008:

Range of Exercise Prices	Shares	Outstanding Weighted Average Remaining Contractual Life (Yrs)	Weighted Average Exercise Price	Shares	Exercisable Weighted Average Remaining Contractual Life (Yrs)	Weighted Average Exercise Price
$ 0.75	278,000	2.8	$ 0.75	278,000	2.8	$ 0.75
2.00 - 2.50	1,446,070	4.4	2.10	1,445,870	4.4	2.10
3.13 - 3.99	2,306,400	3.4	3.51	2,131,200	3.2	3.52
4.16 - 4.72	4,454,502	6.4	4.43	4,112,682	6.4	4.44
7.56 - 8.64	246,000	7.5	7.59	243,000	7.5	7.59
9.33 - 12.42	1,978,060	8.3	10.04	710,860	8.3	10.18
18.87 - 21.45	1,478,625	9.8	19.12		9.6	18.87
	12,187,657	6.3	$ 6.65	8,921,612	5.4	$ 4.27

At March 31, 2008, a total of 12,080,834 options with an average exercise price of $6.57 and a weighted average remaining contractual life of 6.2 years were expected to vest. The total grant-date fair value of options that vested during the three months ended March 31, 2008 was approximately $1.0 million.

The aggregate intrinsic value (market value of stock less option exercise price) of outstanding, expected to vest and exercisable stock options at March 31, 2008 is $192.8 million, $192.1 million and $162.4 million, respectively. The aggregate intrinsic value represents the total pre-tax intrinsic value, based on the Company s closing stock price of $22.47 on March 31, 2008, which would have been received by the option holders had all option holders exercised their options as of that date. This amount changes based upon the fair market value of our common stock. The total intrinsic value of stock options exercised was $3.1 million during the three months ended March 31, 2008. There were 58,940 stock options exercised during the three months ended March 31, 2007 with an intrinsic value of $0.4 million.

Note 5. Long-Term Obligations

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

	March 31, 2008	December 31, 2007
Senior secured debt financing facility:		
Term loans payable	$ 646,464	$ 650,252
Revolving credit facility		
Notes payable to individuals in monthly installments through November 2010, interest at 3.5% to 10.0%	5,139	8,210
	651,603	658,462
Less current maturities	(17,452)	(16,936)
	$ 634,151	$ 641,526

On February 17, 2004, we entered into an unsecured revolving credit facility that originally was scheduled to mature in February 2007, replacing a secured credit facility that would have expired on June 30, 2005. This revolving credit facility initially had a maximum availability of $75 million, which was amended to $100 million on January 31, 2005. On June 1, 2005, the agreement was further amended to increase the maximum availability to $135 million, extend the maturity date to June 1, 2010 and modify certain other terms. On April 25, 2007, the agreement was further amended to increase the maximum availability to $205.0 million, to provide, with the consent of the participating banks, for a further increase in the maximum availability to $305.0 million, to extend the maturity to April 25, 2012, and to modify certain other terms. On May 30, 2007, the agreement was further amended and restated to enable us, among other things, to borrow funds in either U.S. or Canadian dollars. On October 12, 2007, we entered into a new senior secured debt financing facility and the unsecured credit agreement was terminated. We were in compliance with all covenants as of each quarterly reporting period through September 30, 2007.

In order to finance our acquisition of Keystone and to re-finance our unsecured credit facility, we obtained a senior secured debt financing facility (Credit Agreement) from Lehman Brothers Inc. (Lehman) and Deutsche Bank Securities, Inc. (Deutsche Bank) on October 12, 2007, which was amended on October 26, 2007. The Credit Agreement has a six year term and includes a $610 million term loan, a $40 million Canadian currency term loan, a $100 million U.S. dollar revolving credit facility, and a $15 million dual currency facility for drawings of either U.S. dollars or Canadian dollars. The Credit Agreement also provides for the issuance of letters of credit of up to $35 million in U.S. dollars and up to $10 million in either U.S. or Canadian dollars, for a swing line credit facility of $25 million under the $100 million revolving credit facility, and the opportunity for us to add additional term loan facilities and/or increase the $100 million revolving credit facility s commitments, provided that such additions or increases do not exceed $150 million in the aggregate. The letter of credit facilities and the swing line facility are part of the revolving credit facilities identified above and use of such facilities is taken into account when determining availability under such credit facilities. All of the obligations under the Credit Agreement are unconditionally guaranteed by each of our domestic subsidiaries. Obligations under the Credit Agreement, including the related guarantees, are collateralized by a security interest in substantially all of our domestic assets and our U. S. subsidiaries and a pledge of not more than 65% of the total outstanding voting interests of any direct or indirect non-U.S. subsidiary of ours that is a controlled foreign corporation. Amounts under each term loan facility are due and payable in quarterly installments of increasing amounts beginning in 2008, with the balance payable in full at the end of year six. Amounts due under each revolving credit facility will be due and payable at the end of year six. We are also required to prepay the term loan facilities upon the sale of certain assets, upon the incurrence of certain debt, upon receipt of certain insurance and condemnation proceeds, and with up to 50% of our excess cash flow, with the amount of such excess cash flow determined based upon our total leverage ratio.

Indebtedness made and payable in U.S. dollars under the Credit Agreement bears interest, at our option, at (i) a base rate (the higher of (x) the rate that is the prime lending rate as set forth on the British Banking Association Reuters Page 5 or, under certain circumstances, such other comparable page as the agents may choose, as in effect from time to time, and (y) 0.5% in excess of the overnight federal funds rate) plus an applicable margin currently of 1.25% per annum, or (ii) a Eurodollar rate as determined by the administrative agent for the respective interest period plus an applicable margin currently of 2.25% per annum, except that indebtedness in respect of swing line loans bears interest only at the rate referred to in clause (i). Indebtedness made and payable in Canadian dollars under the Credit Agreement is made, at our option, as bankers acceptance loans or loans that bear interest at a rate equal to the rate per annum of interest publicly quoted or established as the prime rate of Deutsche Bank AG Canada Branch for commercial loans in Canadian dollars to its Canadian borrowers (which does not necessarily represent the lowest or best rate actually available) plus an applicable margin currently of 1.25% per annum. Under each bankers acceptance loan, each Canadian lender will purchase a bill of exchange, including a depository bill issued in accordance with the Depository Bills and Notes Act (Canada), denominated in Canadian dollars and discount notes, and we will sell such bill of exchange, at the applicable discount rate which, (1) in respect of any bill of exchange accepted by a lender named on Schedule I to the Bank Act (Canada), is the average of the annual rates for bankers acceptances having the same specified term and face amount as the loan to be made to us that is reported by the Reuters Screen CDOR Page as of 10:00 a.m. on such day (or the next preceding business day if such day is not a business day) (or if not reported by the Reuters Screen, then will be the average of the discount rate offered by the five largest (by assets) Canadian charter banks) and (2) in respect of any other lender, the CDOR described above plus .10%. We will also pay an acceptance fee for each bankers acceptance loan currently equal to 2.25% per annum. The applicable margin and acceptance fee for loans under the revolving credit facilities are subject to a decrease of 0.25% based upon our total leverage ratio and the interest rate option chosen. Interest will be payable quarterly in arrears, except that interest based on a Eurodollar rate or bankers acceptance loans is payable in arrears on the last day of the relevant interest period and, for any Eurodollar interest period longer than three months, quarterly. Any default in the payment of principal, interest, or other overdue amounts bears interest at 2% above the rate otherwise applicable (or, if there is no applicable rate, at 2% above the base rate referred to in clause (i) above for loans made in U.S. dollars and the prime rate referred to in the second sentence of this paragraph for loans made in Canadian dollars). All overdue amounts are payable on demand.

The Credit Agreement contains customary representations and warranties, and contains customary covenants that restrict our ability to, among other things (i) incur liens, (ii) incur any indebtedness (including guarantees or other contingent obligations), (iii) engage in mergers and consolidations, (iv) engage in sales, transfers, and other dispositions of property and assets (including sale-leaseback transactions), (v) make loans, acquisitions, joint ventures, and other investments, (vi) make dividends and other distributions to, and redemptions and repurchases from, equity holders, (vii) prepay, redeem, or repurchase certain debt, (viii) make changes in the nature of our business, (ix) amend our organizational documents, or amend or otherwise modify certain of our debt documents, (x) change our fiscal quarter and fiscal year ends, (xi) enter into transactions with LKQ s affiliates, (xii) make dividends, loans, and other transfers by subsidiaries of LKQ, and (xiii) issue certain equity interests. The Credit Agreement also requires us to comply with certain financial and affirmative covenants.

The Credit Agreement contains events of default that include (i) the Company s failure to pay principal when due or interest, fees, or other amounts after grace periods, (ii) covenant defaults, (iii) the Company s material breach of any representation or warranty, (iv) cross defaults to certain other indebtedness, (v) bankruptcy, insolvency, or other similar proceedings, (vi) the Company s inability to pay debts, (vii) judgment defaults of $15 million or more, (viii) customary ERISA and environmental defaults, (ix) actual or asserted invalidity of any material provision of the loan documentation or impairment of a portion of the collateral, (x) failure of subordinated indebtedness to be validly and sufficiently subordinated, and (xi) a change of control.

The weighted-average interest rate on borrowings outstanding against the Company s senior secured credit facility at March 31, 2008 and December 31, 2007 was 5.30% and 7.53%, respectively. Borrowings against the senior secured credit facility totaled $646.5 million and $650.3 million at March 31, 2008 and December 31, 2007, respectively, $12.5 million and $10.0 million of which are classified as current maturities, respectively.

During March 2008, we entered into the following interest rate swap agreements in order to hedge a portion of the variable interest rate risk on our variable rate term loans :

Notional Amount	Effective Date	Maturity Date	Fixed Interest Rate
$ 200,000,000	April 14, 2008	April 14, 2011	2.74%
$ 50,000,000	April 14, 2008	April 14, 2010	2.43%

Beginning on the effective dates of the interest rate swap agreements, we will, on a monthly basis through the maturity date, pay the fixed interest rate and receive a variable rate of interest based on the London InterBank Offered Rate (LIBOR) on the notional amount. The interest rate swap agreements qualify as cash flow hedges, as defined by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133). As of March 31, 2008, the fair market value of these market contracts was approximately negative $0.2 million. The fair market value of the interest rate swaps is subject to changes in value due to changes in interest rates.

Note 6. Commitments and Contingencies

We are obligated under noncancelable operating leases for corporate office space, warehouse and distribution facilities, trucks and certain equipment. The future minimum lease commitments under these leases at March 31, 2008 are as follows (in thousands):

Nine months ended December 31, 2008	$	33,398
Years ended December 31:		
2009		35,737
2010		27,105
2011		19,257
2012		13,592
2013		10,791
Thereafter		19,262
	$	159,142

Litigation and Related Contingencies

On December 2, 2005, Ford Global Technologies, LLC (Ford) filed a complaint under Section 337 of the Tariff Act of 1930 with the United States International Trade Commission (USITC) against Keystone and five other named Respondents, including four Taiwan-based manufacturers. On December 12, 2005, Ford filed an Amended Complaint. Both the Complaint and the Amended Complaint contended that Keystone and the other Respondents infringed 14 design patents that Ford alleges cover eight parts on the 2004-2005 Ford F-150 truck (the Ford Design Patents). Ford asked the USITC to issue a permanent general exclusion order excluding from entry into the United States all automotive parts that infringe the Ford Design Patents and that are imported into the United States, sold for importation in the United States, or sold within the United States after importation. Ford also sought a permanent order directing Keystone and the other Respondents to cease and desist from, among other things, selling, marketing, advertising, distributing and offering for sale imported automotive parts that infringe the Ford Design Patents. On December 28, 2005, the USITC issued a Notice of Investigation based on Ford s Amended Complaint. The USITC s Notice of Investigation was published in the Federal Register on January 4, 2006.

On January 23, 2006, Keystone filed its Response to the Complaint and Notice of Investigation. In the Response, Keystone denied, among other things, that any of the Ford Design Patents is valid and/or enforceable and, accordingly, denied each and every allegation of infringement. Keystone further asserted several affirmative defenses. In interlocutory rulings, the Administrative Law Judge (ALJ) struck Keystone s affirmative defenses of patent exhaustion, permissible repair, license and patent misuse and Keystone s affirmative defense that each of the patents is invalid for failure to comply with the ornamentality requirement of 35 U.S.C.§171. Additionally, the ALJ granted Ford s request to drop four patents from the investigation. A hearing before the ALJ took place the last week of August 2006.

On December 4, 2006, the ALJ issued an Initial Determination upholding seven of Ford s design patents and declaring the remaining three design patents to be invalid. Both Ford and the Company petitioned the USITC to review and set aside portions of the ALJ s Initial Determination. Keystone s petition also sought review of the ALJ s interlocutory rulings concerning certain of its affirmative defenses. On March 20, 2007, the USITC decided not to review the ALJ s Initial Determination.

On June 6, 2007, the USITC issued its Notice of Final Determination. The Notice of Final Determination denied Respondents petition for reconsideration and their motion for leave to supplement their petition. In addition, the USITC issued a general exclusion order prohibiting the importation of certain automotive parts found to infringe the seven Ford design patents found valid. The USITC s decision became final on August 6, 2007 upon the expiration without action of the 60-day Presidential review period. On May 18, 2007, Ford filed a Notice of Appeal with the United States Federal Circuit Court of Appeals with regard to the three patents declared invalid in the ALJ s Initial Determination. On August 23, 2007, the Respondents filed a Notice of Appeal with the United States Federal Court of Appeals. The appeals were consolidated, and the parties have submitted their respective briefs to the appellate court.

On May 2, 2008, Ford filed with the USITC another complaint under section 337 of the Tariff Act of 1930. The complaint alleges that LKQ Corporation, Keystone Automotive Industries, Inc., and six other entities import and sell certain automotive parts relating to the 2005 Ford Mustang that infringe eight Ford design patents. The USITC has 30 days from the date of filing to determine whether it is going to institute an investigation.

We will continue to defend the December 2005 action, and intend to defend the May 2008 action, vigorously. At the time the exclusion order was issued in the December 2005 action, the parts that are subject to the order comprised only a minimal amount of our sales. Similarly, the parts that relate to the May 2008 action comprise only a minimal amount of our sales. However, as such parts become incorporated into more vehicles over time, it is likely that the amount of our sales of such parts will increase or would have increased substantially. If the design patents in question are ultimately upheld as valid and infringed, it is not anticipated that the loss of sales of these parts over time will be materially adverse to our financial condition, cash flows or results of operations. However, depending upon the nature and extent of any adverse ruling, auto manufacturers may attempt to assert similar allegations based upon design patents on a significant number of parts for several of their models, which over time could have a material adverse impact on the entire aftermarket parts industry.

In July 2007, two class action lawsuits captioned *Lynch v. Keystone Automotive Industries, Inc.*, Case No. BC374399, and *Shoys v. Keystone Automotive Industries, Inc.*, Case No. BC374480, were filed in the Superior Court of the State of California, County of Los Angeles in connection with our acquisition of Keystone. On September 17, 2007, Keystone entered into a conditional memorandum of understanding with plaintiffs counsel and the other named defendants in the actions pursuant to which the parties agreed to settle the actions, subject to certain conditions, including confirmatory discovery and court approval of the final settlement. On April 28, 2008, the court approved the settlement, which was covered by insurance, other than our costs for the $250,000 deductible and approximately $100,000 in fees and expenses.

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

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 March 31, 2008	Three Months Ended March 31, 2007
Net income	$ 30,878	$ 15,794
Denominator for basic earnings per share- Weighted-average shares outstanding	134,558	106,633
Effect of dilutive securities:		
Stock options	5,031	5,371
Nonvested restricted shares	93	
Denominator for diluted earnings per share- Adjusted weighted-average shares outstanding	139,682	112,004
Earnings per share, basic	$ 0.23	$ 0.15
Earnings per share, diluted	$ 0.22	$ 0.14

The following chart sets forth the number of employee stock options outstanding but not included in the computation of diluted earnings per share because their effect would have been antidilutive (in thousands):

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Antidilutive securities:		
Stock options	1,486	2,122

Note 8. Business Combinations

During the three month period ended March 31, 2008, we acquired a 100% equity interest in each of two businesses in the recycled OEM parts business, including on March 4, 2008, Texas Best Diesel, L.P., a recycled OEM heavy truck parts business. The aggregate consideration for these businesses totaled approximately $4.2 million in cash and $18.0 million in stock issued. The acquisitions enabled us to serve new market areas and become a provider of recycled OEM heavy truck parts.

During the three month period ended March 31, 2007, we acquired a 100% equity interest in each of four businesses (two in the recycled OEM automotive parts business, one in the aftermarket automotive parts business and, on January 1, 2007, Northern Light Refinishing, Inc., a business that refurbishes and distributes head and tail light assemblies) for an aggregate of $14.5 million in cash and $0.8 million in notes issued. The acquisitions enabled us to serve new market areas and become a significant provider of refurbished headlight assemblies.

On October 12, 2007, we completed our acquisition of 100% of the outstanding common stock of Keystone. The acquisition of Keystone enabled us to become the largest nationwide provider of aftermarket collision replacement products and refurbished bumper covers and wheels.

The acquisitions are being accounted for under the purchase method of accounting and are included in the Company s 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. In connection with acquisitions made subsequent to March 31, 2007, the purchase price allocations are preliminary as the Company is in the process of determining the following: 1) whether any operations acquired will be closed or combined with existing operations; 2) valuation amounts for certain of the inventories and fixed assets acquired and the fair value of liabilities assumed; and 3) the final estimation of the tax basis of the entities acquired. During the quarter ended March 31, 2008, the Company made adjustments to the preliminary purchase allocations to finalize the inventory valuations and the estimated tax basis for certain of the businesses acquired in 2007 and to adjust restructuring reserves directly related to the Keystone acquisition (see Note 9). These adjustments increased goodwill related to these 2007 acquisitions by approximately $1.5 million.

The purchase price allocations for acquisitions completed and adjustments made to preliminary purchase price allocations during the three months ended March 31, 2008 and 2007 are as follows (in thousands):

	2008	2007
Receivables, net	$ 311	$ 247
Inventory	2,783	3,746
Prepaid expenses and other assets	11	17
Property and equipment	1,943	1,029
Goodwill	18,439	10,670
Current liabilities assumed	(1,295)	(465)
Purchase price payable in subsequent period		(20)
Notes issued		(750)
Stock issued (See Note 3)	(18,006)	
Payment of prior year purchase price payable		100
Cash used in acquisitions, net of cash acquired	$ 4,186	$ 14,574

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We recorded goodwill of $18.4 million during the three month period ended March 31, 2008, none of which is expected to be deductible for income tax purposes. All of the $10.7 million of goodwill recorded during the three month period ended March 31, 2007 is expected to be deductible for income tax purposes.

The following pro forma summary presents the effect of the businesses acquired during 2008 and 2007 as though the businesses had been acquired as of January 1, 2007 and is based upon unaudited financial information of the acquired entities (in thousands, except per share data):

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenue as reported	$ 491,908	$ 235,318
Revenue of purchased businesses for the period prior to acquisition:		
Keystone, net of eliminations		199,286
Other acquisitions	2,054	16,441
Pro forma revenue	$ 493,962	$ 451,045
Net income as reported	$ 30,878	$ 15,794
Net income of purchased businesses for the period prior to acquisition, including adjustments for interest and amortization:		
Keystone	659	2,871
Other acquisitions	360	815
Pro forma net income	$ 31,897	$ 19,480
Earnings per share-basic as reported	$ 0.23	$ 0.15
Effect of purchased businesses for the period prior to acquisition:		
Keystone	0.01	0.02
Other acquisitions		0.01
Pro forma earnings per share-basic	$ 0.24	$ 0.18
Earnings per share-diluted as reported	$ 0.22	$ 0.14
Effect of purchased businesses for the period prior to acquisition:		
Keystone	0.01	0.02
Other acquisitions		0.01
Pro forma earnings per share-diluted	$ 0.23	$ 0.17

Unaudited pro forma supplemental information is based upon accounting estimates and judgments that we believe are reasonable. Revenue between LKQ and Keystone has been eliminated. The unaudited pro forma supplemental information also includes purchase accounting adjustments (including a $2.2 million increase in Keystone s reported cost of goods sold during the three months ended March 31, 2007 resulting from a write-up of Keystone s inventory to fair value and adjustments to depreciation on acquired property and equipment), amortization expense associated with the Keystone tradename, adjustments to interest expense, and the related tax effects. These pro forma results are not necessarily indicative either of what would have occurred if the acquisitions had been in effect for the period presented or of future results.

Note 9. Restructuring and Integration Costs

We have undertaken certain restructuring activities in connection with our acquisition of Keystone during the fourth quarter of 2007. The restructuring activities primarily include reductions in staffing levels resulting from the elimination of duplicative functions and staffing and the closure of excess facilities resulting from overlap with existing LKQ facilities. To the extent these restructuring activities are associated with Keystone operations, they are being accounted for in accordance with EITF Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination (EITF 95-3). Restructuring activities associated with our existing operations are being accounted for in accordance with SFAS No. 146, Accounting for Costs Associated With Exit or Disposal Activities.

In connection with the Keystone restructuring activities, as part of the cost of the acquisition, we established reserves as detailed below. In accordance with EITF 95-3, we intend to finalize our restructuring plans no later than one year from the date of our acquisition of Keystone. Upon finalization of restructuring plans or settlement of obligations for less than the expected amount, any excess reserves will be reversed with a corresponding decrease in goodwill. Accrued acquisition expenses are included in Other accrued expenses in the accompanying Consolidated Balance Sheet.

The changes in accrued acquisition expenses directly related to the Keystone acquisition during 2007 and the three months ended March 31, 2008 are as follows (in thousands):

	Severance Related Costs	Excess Facility Costs	Other	Total
Reserves established	$ 11,233	$ 2,823	$ 488	$ 14,544
Payments	(1,727)	(85)	(488)	(2,300)
Balance at December 31, 2007	9,506	2,738		12,244
Reserves established	575	452		1,027
Payments	(575)	(423)		(998)
Balance at March 31, 2008	$ 9,506	$ 2,767	$	$ 12,273

The severance related costs are expected to be paid in 2008. The excess facility costs are expected to be paid over the remaining terms of the leases through 2013.

Restructuring and integration costs associated with our existing operations are included in Restructuring expenses on the accompanying Consolidated Condensed Statements of Income. These costs, which include severance costs and costs associated with the closure of existing facilities that overlap with acquired Keystone facilities, as well as costs to migrate systems, train employees and standardize processes and procedures, totaled approximately $1.2 million during the three months ended March 31, 2008.

Note 10. Fair Value Measurements

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers 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.

We use the market approach to value our financial assets and liabilities, and there were no changes in valuation techniques during the three months ended March 31, 2008. The following table presents information about our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2008 (in thousands):

	Balance as of March 31, 2008	Fair Value Measurements as of March 31, 2008 Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 60,599	$ 60,599	$	$
Cash surrender value of life insurance	4,925		4,925	
Total Assets	$ 65,524	$ 60,599	$ 4,925	$ -
Liabilities:				
Interest rate swap	$ 164	$	$ 164	$
Deferred compensation liabilities	4,659		4,659	
Total Liabilities	$ 4,823	$ -	$ 4,823	$ -

Note 11. Income Taxes

We calculate our interim income tax provision in accordance with Accounting Principles Board Opinion No. 28, Interim Financial Reporting and FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods. At the end of each interim period, we estimate our annual effective tax rate and apply that rate to our interim earnings. We also record the tax impact of certain unusual or infrequently occurring items, including changes in judgment about valuation allowances and the effects of changes in tax laws or rates, in the interim period in which they occur.

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

Our effective tax rate for the three months ended March 31, 2008 was 40.0% compared with 39.7% for the comparable prior year period.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We provide replacement systems, components, and parts needed to repair vehicles (cars and trucks). Buyers of vehicle replacement products have the option to purchase from primarily three sources: new products produced by original equipment manufacturers (OEMs), which are commonly known as OEM products; new products produced by companies other than the OEMs, which are sometimes referred to generically as aftermarket products; and recycled products originally produced by OEMs, which we refer to as recycled OEM products. We participate in the market for recycled OEM products as well as the market for collision repair aftermarket products. We obtain aftermarket products and salvage vehicles from a variety of sources, and we dismantle the salvage vehicles to obtain a comprehensive range of vehicle products that we distribute into the vehicle repair market. We also refurbish bumpers, wheels, head lamps and tail lamps.

We are the largest nationwide provider of recycled OEM products and related services, with sales, processing, and distribution facilities that reach most major markets in the U.S. In October 2007, we acquired Keystone Automotive Industries, Inc., the nation s leading distributor of aftermarket collision parts. As a result, we are the largest nationwide provider of aftermarket collision replacement products, and refurbished bumper covers and wheels. We believe there are opportunities for growth in both product lines through acquisitions and internal development.

Our revenue, cost of goods sold, and operating results have fluctuated on a quarterly and annual basis in the past and can be expected to continue to fluctuate in the future as a result of a number of factors, some of which are beyond our control. Factors that may affect our operating results include, but are not limited to:

- fluctuations in the pricing of new OEM replacement products;
- the availability and cost of inventory;
- variations in vehicle accident rates;

- competition in the vehicle replacement parts industry;
- changes in state or federal laws or regulations affecting our business;
- changes in the types of replacement parts that insurance carriers will accept in the repair process;
- our ability to integrate and manage all of our acquisitions, including Keystone, successfully, and unanticipated costs of integration;
- fluctuations in fuel prices;
- changes in the demand for our products and the supply of our inventory due to severity of weather and seasonality of weather patterns;
- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our business, operations, and infrastructure; and
- declines in the value of our assets.

Due to the foregoing factors, our operating results in future periods can be expected to fluctuate. Accordingly, our historical results of operations may not be indicative of future performance.

Acquisitions

Since our inception in 1998 we have pursued a growth strategy of both organic growth and acquisitions. We have pursued acquisitions that we believe will help drive profitability, cash flow and stockholder value. Our principal focus for acquisitions is companies that will expand our geographic presence and our ability to provide a wider choice of alternative vehicle replacement products and services to our customers.

In the first quarter of 2008, we acquired two businesses in the recycled OEM parts business. These business acquisitions enabled us to expand our presence in an existing market and become a provider of recycled OEM heavy truck parts.

Sources of Revenue

Since 2005, our revenue from the sale of vehicle replacement products and related services, and since February 2008, heavy truck parts, has ranged between 83% and 91% of our total revenue, of which between 5% and 11% of our total revenue has come from our self-service facilities. We sell the majority of our vehicle replacement products to collision repair shops and mechanical repair shops. Our vehicle replacement products include engines, transmissions, front-ends, doors, trunk lids, bumpers, hoods, fenders, grilles, valances, wheels, head lamps, and tail lamps. We sell extended warranty contracts for certain mechanical products. These contracts cover the cost of parts and labor and are sold for periods of six months, one year, or two years. We defer the revenue from such contracts and recognize it ratably over the term of the contracts. The demand for our products and services is influenced by several factors, including the number of vehicles in operation, the number of miles being driven, the frequency and severity of vehicle accidents, availability and pricing of new parts, seasonal weather patterns, and local weather conditions. Additionally, automobile insurers exert significant influence over collision repair shops as to how an insured vehicle is repaired and the cost level of the products used in the repair process. Accordingly, we consider automobile insurers to be key demand drivers of our products. While they are not our direct customers, we do provide insurance companies services in an effort to promote the increased usage of alternative replacement products in the repair process. Such services include the review of vehicle repair order estimates, as well as direct quotation services to their adjusters. There is no standard price for recycled OEM products, but rather a pricing structure that varies from day to day based upon such factors as product availability, quality, demand, new OEM replacement product prices, the age of the vehicle being repaired, and competitor pricing. The pricing for aftermarket and refurbished products is determined based on a number of factors, including availability, quality, demand, new OEM replacement product prices, and competitor pricing.

Since 2005, approximately 9% to 17% of our revenue has been obtained from other sources. These include bulk sales to mechanical remanufacturers, scrap sales, sales of aluminum ingots and sows, and sales of damaged vehicles to vehicle repairers. Our revenue from other sources has increased since 2004 primarily due to our obtaining an aluminum smelter through a business acquisition in 2006, higher scrap sales from our recycle and wheel operations, and higher bulk sales of certain products.

When we obtain mechanical products from dismantled vehicles and determine they are damaged, or when we have a surplus of a certain mechanical product type, we sell them in bulk to mechanical remanufacturers. The majority of these products are sorted by product type and model type. Examples of such products are engine blocks and heads, transmissions, starters, alternators, and air conditioner compressors. After we have recovered all the products we intend to resell, the remaining materials are crushed and sold to scrap processors.

Cost of Goods Sold

Our cost of goods sold for recycled OEM products includes the price we pay for the salvage vehicle and, where applicable, auction, storage, and towing fees. We are facing increasing competition in the purchase of salvage vehicles from shredders and scrap recyclers, internet-based buyers, and others. Our cost of goods sold also includes labor and other costs we incur to acquire and dismantle such vehicles. Since 2005, our labor and labor-related costs related to acquisition and dismantling have accounted for approximately 9% to 10% of our cost of goods sold for vehicles we dismantle. The acquisition and dismantling of salvage vehicles is a manual process and, as a result, energy costs are not material.

Our cost of goods sold for aftermarket products includes the price we pay for the parts, freight, and other inventoried costs such as import fees and duties, where applicable. Our aftermarket products are acquired from a number of vendors. Our cost of goods sold for refurbished wheels, bumpers and lights includes the price we pay for inventory, freight, and costs to refurbish the parts, including direct and indirect labor, rent, depreciation and other overhead costs related to refurbishing operations.

In the event we do not have a recycled OEM product or suitable aftermarket product in our inventory to fill a customer order, we attempt to purchase the part from a competitor. We refer to these parts as brokered products. Since 2005, the revenue from brokered products that we sell to our customers has ranged from 2% to 8% of our total revenue. The gross margin on brokered product sales as a percentage of revenue is generally less than half of what we achieve from sales of our own inventory because we must pay higher prices for these products.

Some of our mechanical products are sold with a standard six-month warranty against defects. We record the estimated warranty costs at the time of sale using historical warranty claim information to project future warranty claims activity and related expenses. Our warranty activity during the first three months of 2008 was as follows (in thousands):

Balance as of January 1, 2008	$	580
Warranty expense		905
Warranty claims		(915)
Balance as of March 31, 2008	$	570

We also sell separately priced extended warranty contracts for certain mechanical products. The expense related to extended warranty claims is recognized when the claim is made.

Expenses

Our facility and warehouse expenses primarily include our costs to operate our distribution, self-service, and warehouse facilities. These costs include labor for both plant management and facility and warehouse personnel, stock-based compensation, facility rent, property and liability insurance, utilities, and other occupancy costs.

Our distribution expenses primarily include our costs to deliver our products to our customers. Included in our distribution expense category are labor costs for drivers, local delivery and transfer truck rentals and subcontractor costs, vehicle repairs and maintenance, insurance, and fuel.

Our selling and marketing expenses primarily include our advertising, promotion, and marketing costs; salary and commission expenses for sales personnel; sales training; telephone and other communication expenses; and bad debt expense. Since 2005, personnel costs have accounted for approximately 77% to 80% of our selling and marketing expenses. Most of our recycled OEM product sales personnel are paid on a commission basis. The number and quality of our sales force is critical to our ability to respond to our customers needs and increase our sales volume. Our objective is to continually evaluate our sales force, develop and implement training programs, and utilize appropriate measurements to assess our selling effectiveness.

Our general and administrative expenses include primarily the costs of our corporate and regional offices that provide corporate and field management, treasury, accounting, legal, payroll, business development, human resources, and information systems functions. These costs include wages and benefits for corporate, regional and administrative personnel, stock-based compensation, long term incentive compensation, accounting, legal and other professional fees, office supplies, telephone and other communication costs, insurance and rent.

Seasonality

Our operating results are subject to quarterly variations based on a variety of factors, influenced primarily by seasonal changes in weather patterns. During the winter months we tend to have higher demand for our products because there are more weather related accidents. In addition, the cost of salvage vehicles tends to be lower as more weather related accidents occur generating a larger supply of total loss vehicles.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). The preparation of these financial statements requires us to make estimates, assumptions, and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, assumptions, and judgments, including those related to revenue recognition, inventory valuation, allowance for doubtful accounts, goodwill impairments, self-insurance programs, contingencies, stock-based compensation, and accounting for income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for our judgments about the carrying values of assets and liabilities and our recognition of revenue. Actual results may differ from these estimates.

Revenue Recognition

We recognize and report revenue from the sale of vehicle replacement products when they are shipped and title has transferred, subject to a reserve for returns, discounts, and allowances that management estimates based upon historical information. A replacement product would ordinarily be returned within a few days of shipment. Our customers may earn discounts based upon sales volumes or sales volumes coupled with prompt payment. Allowances are normally given within a few days following product shipment. We analyze historical returns and allowances activity by comparing the items to the original invoice amounts and dates. We use this information to project future returns and allowances on products sold.

We also sell separately priced extended warranty contracts for certain mechanical products. Revenue from these contracts is deferred and recognized ratably over the term of the contracts.

Inventory Accounting

Salvage Inventory. Salvage inventory is recorded at the lower of cost or market. Our salvage inventory cost is established based upon the price we pay for a vehicle, and includes buying; dismantling; and, where applicable, auction, storage, and towing fees. Inventory carrying value is determined using the average cost to sales percentage at each of our facilities and applying that percentage to the facility s inventory at expected selling prices. The average cost to sales percentage is derived from each facility s historical vehicle profitability for salvage vehicles purchased at auction or from contracted rates for salvage vehicles acquired under direct procurement arrangements.

Aftermarket and Refurbished Product Inventory. Aftermarket and refurbished product inventory is recorded at the lower of cost or market. Our aftermarket inventory cost is based on the average price we pay for parts, and includes expenses incurred for freight and buying, where applicable. For items purchased from foreign sources, import fees and duties and transportation insurance are also included. Our refurbished product inventory cost is based on the average price we pay for wheel cores, and includes expenses incurred for freight, buying and refurbishing overhead.

For all inventory, our carrying value is reduced regularly to reflect the age and current anticipated demand for our products. If actual demand differs from our estimates, additional reductions to our inventory carrying value would be necessary in the period such determination is made.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The allowance for doubtful accounts is based on our assessment of the collectibility of specific customer accounts, the aging of the accounts receivable, and our historical experience. Our allowance for doubtful accounts at March 31, 2008 was approximately $4.0 million, which represents 2.9% of gross receivables. If actual defaults are higher than our historical experience, our allowance for doubtful accounts may be insufficient to cover the uncollectible receivables, which would have an adverse impact on our operating results in the period of occurrence. A 10% change in the 2007 annual write-off rate would result in a change in the estimated allowance for doubtful accounts of approximately $0.2 million. For our vehicle replacement parts operations, our exposure to uncollectible accounts receivable is limited because the majority of our sales are to a large number of small customers that are generally geographically dispersed. We also have certain customers in our vehicle replacement parts operations that pay for products at the time of delivery. The aluminum smelter and our mechanical core operation sell in larger quantities to a small number of distributors, foundry customers and remanufacturers. As a result, our exposure to uncollectible accounts receivable is greater in these operations. We control credit risk through credit approvals, credit limits, and monitoring policies.

Goodwill Impairment

We record goodwill as a result of our acquisitions. Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), requires us to analyze our goodwill for impairment at least annually. The determination of the value of goodwill requires us to make estimates and assumptions that affect our consolidated financial statements. In assessing the recoverability of our goodwill, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets. We perform goodwill impairment tests annually in the fourth quarter and between annual tests whenever events may indicate that an impairment exists. In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses, which could result in an impairment of goodwill.

Our goodwill would be considered impaired if the net book value of a reporting unit exceeded its estimated fair value. The fair value estimates are primarily established using a discounted cash flow methodology, supported by comparative market multiples where appropriate. As of March 31, 2008, we had $843.6 million in goodwill subject to future impairment tests. If we were required to recognize goodwill impairments in future periods, we would report those impairment losses as part of our operating results. We determined that no adjustments were necessary when we performed our annual impairment testing in the fourth quarter of 2007. A 10% decrease in the fair value estimates used in the fourth quarter of 2007 impairment test would not have changed this determination.

Self-Insurance Programs

We self-insure a portion of employee medical benefits under the terms of our employee health insurance program. We also self-insure a portion of automobile, general liability, and workers compensation claims. We have purchased both aggregate (in some cases) and specific (in all cases) stop-loss insurance coverage from third party insurers in order to limit our total liability exposure. The cost of the stop-loss insurance is expensed over the contract periods.

We record an accrual for the claims expense related to our employee medical benefits, automobile, general liability, and workers compensation claims based upon the expected amount of all such claims. If actual claims are higher than what we anticipated, our accrual might be insufficient to cover our claims costs, which would have an adverse impact on our operating results in that period.

Contingencies

We are subject to the possibility of various loss contingencies arising in the ordinary course of business resulting from litigation, claims and other commitments, and from a variety of environmental and pollution control laws and regulations. We consider the likelihood of loss or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. We accrue an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. We determine the amount of reserves, if any, with the assistance of our outside legal counsel. We regularly evaluate current information available to us to determine whether the accruals should be adjusted. If the amount of an actual loss were greater than the amount we have accrued, the excess loss would have an adverse impact on our operating results in the period that the loss occurred. If the loss contingency is subsequently determined to no longer be probable, the amount of loss contingency previously accrued would be included in our operating results in the period such determination was made.

Accounting for Income Taxes

All income tax amounts reflect the use of the liability method. Under this method, deferred tax assets and liabilities are determined based upon the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. We operate in multiple tax jurisdictions with different tax rates, and we determine the allocation of income to each of these jurisdictions based upon various estimates and assumptions.

We record a provision for taxes based upon our effective income tax rate. We record a valuation allowance to reduce our deferred tax assets to the amount that we expect is more likely than not to be realized. We consider historical taxable income, expectations, and risks associated with our estimates of future taxable income and ongoing tax planning strategies in assessing the need for a valuation allowance. We had a valuation allowance of $0.6 million and $0.7 million at March 31, 2008 and December 31, 2007, respectively, against our deferred tax assets. Should we determine that it is more likely than not that we would be able to realize all of our deferred tax assets in the future, an adjustment to the net deferred tax asset would increase income in the period such determination was made. Conversely, should we determine that it is more likely than not that we would not be able to realize all of our deferred tax assets in the future, an adjustment to the net deferred tax assets would decrease income in the period such determination was made.

We adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), effective January 1, 2007. FIN 48 establishes a threshold for the financial statement recognition and measurement of tax positions taken or expected to be taken in tax returns. Only those positions that meet the more-likely-than-not recognition threshold may be recognized in the financial statements. We recognize interest accrued relating to unrecognized tax benefits in our income tax expense. As a result of the implementation of FIN 48, we recorded a $0.4 million increase in the liability for unrecognized tax benefits, an increase in deferred tax assets of $0.1 million and a decrease of $0.3 million in the January 1, 2007 retained earnings balance. Prior to 2007, we recorded accruals for tax contingencies and related interest when it was determined that it was probable that we had incurred a liability and the amount could reasonably be estimated based on specific events such as an audit by a taxing authority. In the normal course of business we will undergo tax audits by various tax jurisdictions. Such audits often require an extended period of time to complete and may result in income tax adjustments if changes to the allocation are required between jurisdictions with different tax rates. Under existing GAAP, changes in accruals for uncertainties arising from the resolution of pre-acquisition contingencies of acquired businesses are charged or credited to goodwill. Adjustments to other tax accruals we make are generally recognized in the period they are determined. Under proposed Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (SFAS 141R), changes in accruals for uncertainties arising from the resolution of pre-acquisition contingencies of acquired businesses will be recorded in earnings in the period the changes are determined after the effective date of SFAS 141R. See Recently Issued Accounting Pronouncements for further discussion of SFAS 141R.

Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment (SFAS 123R), a revision of SFAS 123. SFAS 123R supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS 95, Statement of Cash Flows. SFAS 123R requires us to measure compensation cost for all share-based payments (including employee stock options) at fair value and to recognize the cost over the vesting period, and was effective for us on January 1, 2006. In March 2005, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC staff position concerning the application of SFAS 123R, including interpretive guidance. We implemented the provisions of SFAS 123R and SAB 107 in the first quarter of 2006 using the modified prospective method, pursuant to which prior periods are not restated. Compensation expense for all share-based payments granted or modified after the effective date is recognized prospectively based upon the requirements of SFAS 123R and compensation expense for all unvested share-based payments as of January 1, 2006 that were issued subsequent to the filing of our registration statement for our initial public offering in October 2003 is recognized prospectively based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, Accounting for Stock-Based Compensation, net of estimated forfeitures. We have elected to recognize compensation expense for all awards on a straight-line basis over the requisite service period of the award.

Several key factors and assumptions affect the valuation models currently utilized for valuing our stock option awards under SFAS 123R. We have been in existence since early 1998 and have been a public company since October 2003. As a result, we do not have the historical data necessary to consider using a lattice valuation model at this time. We have therefore elected to use the Black-Scholes valuation model. In December 2007, the SEC issued Staff Accounting Bulletin No. 110 (SAB 110) to amend the SEC s views discussed in SAB 107 regarding the use of the simplified method in developing an estimate of expected life of share options in accordance with SFAS No. 123R. We will continue to use the simplified method until we have the historical data necessary to provide a reasonable estimate of expected life in accordance with SAB 107, as amended by SAB 110. For expected term, we have what SAB 107 defines as plain-vanilla stock options, and therefore used a simple average of the vesting period and the contractual term for options granted subsequent to January 1, 2006 as permitted by SAB 107. Volatility is a measure of the amount by which our stock price is expected to fluctuate during the expected term of the option. For volatility, we considered our own volatility for the limited time we have been a public company as well as the disclosed volatilities of companies that are considered comparable to us. Our forfeiture assumption is based on historical forfeiture rates both pre-IPO and since we have been a public company. SFAS 123R requires that forfeitures be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The dividend yield represents the dividend rate expected to be paid over the option s expected term, and we currently have no plans to pay dividends. The risk-free interest rate is based on zero-coupon U.S. government issues available at the time each option is granted that have a remaining life approximately equal to the option s expected life. Key assumptions used in determining the fair value of stock options granted in January 2008 were: expected term of 6.4 years; risk-free interest rate of 3.27%; dividend yield of 0%; forfeiture rate of 6.7%; and volatility of 39.3%.

Recently Issued Accounting Pronouncements

In July 2006, the FASB issued FIN 48. FIN 48 provides guidance on the measurement, recognition, and disclosure of tax positions taken or expected to be taken in a tax return. FIN 48 provides that a tax position should only be recognized if it is more likely than not that the position will be sustained upon examination by the appropriate taxing authority. This interpretation also provides guidance on derecognition, classification, interest and penalties, transition and disclosure. We adopted FIN 48 in the first quarter of 2007, which resulted in an increase in the liabilities for unrecognized tax benefits of $0.4 million, an increase in our deferred tax assets of $0.1 million, and a decrease in our beginning retained earnings of $0.3 million.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP 157-1) and FSP 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until the calendar year 2009. The measurement and disclosure requirements related to financial assets and liabilities were effective beginning in calendar year 2008. We adopted SFAS 157 in the first quarter of 2008 and its adoption did not have a significant impact on our consolidated financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value, and amends SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We adopted SFAS 159 in the first quarter of 2008 and its adoption did not have a significant impact on our consolidated financial position, results of operations, or cash flows.

In December 2007, the SEC issued SAB 110 to amend the SEC s views discussed in SAB 107 regarding the use of the simplified method in developing an estimate of expected life of share options in accordance with SFAS No. 123R. We will continue to use the simplified method until we have the historical data necessary to provide a reasonable estimate of expected life in accordance with SAB 107, as amended by SAB 110.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). Under SFAS 141R, companies will be required to, among other things, recognize the assets acquired, liabilities assumed, including contractual contingencies, and contingent consideration at fair value on the date of acquisition. SFAS 141R also requires that acquisition related expenses be expensed as incurred, restructuring costs be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred income tax asset valuation allowances and acquired income tax uncertainties after the measurement period be expensed in income tax expense. SFAS 141R will be effective in calendar 2009 and will change our accounting for business combinations upon adoption. We are currently assessing the impact that adoption of SFAS 141R will have on our consolidated financial position, results of operations, and cash flows.

Segment Reporting

Over 95% of our operations are conducted in the U.S. During 2004, we acquired a recycled OEM products business with locations in Guatemala and Costa Rica. In May and July 2007, we acquired two recycled OEM products businesses located in Canada. Keystone has bumper refurbishing operations in Mexico and two aftermarket products businesses in Canada. Revenue generated and properties located outside of the U.S. are not material. We manage our operations geographically. Our vehicle replacement products operations are organized into ten operating segments, eight for recycled OEM products, one for aftermarket products and one for refurbished products. These segments are aggregated into one reportable segment because they possess similar economic characteristics and have common products and services, customers, and methods of distribution. Our vehicle replacement products operations account for over 93% of our revenue, earnings, and assets.

Results of Operations

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

	Three Months Ended March 31, 2008	2007
Statement of Income Data:		
Revenue	100.0%	100.0%
Cost of goods sold	54.6%	54.5%
Gross margin	45.4%	45.5%
Facility and warehouse expenses	9.0%	10.9%
Distribution expenses	9.1%	9.4%
Selling, general and administrative expenses	13.0%	12.2%
Restructuring expenses	0.2%	
Depreciation and amortization	1.5%	1.4%
Operating income	12.5%	11.6%
Other expense, net	2.0%	0.5%
Income before provision for income taxes	10.5%	11.1%
Net income	6.3%	6.7%

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Revenue. Our revenue increased 109.0% to $491.9 million for the three month period ended March 31, 2008, from $235.3 million for the comparable period of 2007. The increase in revenue was primarily due to the higher volume of products we sold and business acquisitions. Since the October 2007 acquisition of Keystone, we have been integrating the sale and distribution of our pre-existing aftermarket, wheel and reconditioned light product offerings with Keystone and with our recycled parts in more locations in order to provide a wider selection of products to our customers. Organic revenue growth was approximately 9% in the three month period ended March 31, 2008, and was calculated assuming we had owned Keystone in the three month period ended March 31, 2007. The integration of our pre-existing aftermarket and wheel operations with Keystone prevents us from measuring revenue growth between Keystone and our pre-existing businesses since the acquisition.

Cost of Goods Sold. Our cost of goods sold increased 109.5% to $268.6 million in the three month period ended March 31, 2008, from $128.2 million in the comparable period of 2007. The increase in cost of goods sold was primarily due to increased volume of products sold. As a percentage of revenue, cost of goods sold increased from 54.5% to 54.6%.

Gross Margin. Our gross margin increased 108.5% to $223.3 million in the three month period ended March 31, 2008, from $107.1 million in the comparable period of 2007. Our gross margin increased primarily due to increased volume. As a percentage of revenue, gross margin decreased from 45.5% to 45.4%.

Facility and Warehouse Expenses. Facility and warehouse expenses increased 73.8% to $44.5 million in the three month period ended March 31, 2008, from $25.6 million in the comparable period of 2007. Our facility and warehouse expenses increased primarily due to $9.4 million in higher wages and fringe benefits resulting from increased headcount and stock option expenses for field personnel and $6.1 million related to higher facility rent, taxes, and utilities. Our acquisition of Keystone accounted for a majority of the increases. As a percentage of revenue, facility and warehouse expenses decreased from 10.9% to 9.0%, as we achieved greater leverage from combining Keystone with our existing LKQ operations.

Distribution Expenses. Distribution expenses increased 101.9% to $44.8 million in the three month period ended March 31, 2008, from $22.2 million in the comparable period of 2007. Our distribution expenses increased primarily due to $11.1 million of higher wage and benefit costs from an increase in the number of employees, higher fuel costs of $5.1 million, higher truck rentals and repairs of $2.9 million, and higher third party freight of $2.2 million. Our acquisition of Keystone accounted for the majority of the increases. As a percentage of revenue, our distribution expenses decreased from 9.4% to 9.1%. The decrease is attributable to the continued integration of the sale and distribution of our aftermarket, wheel and reconditioned light product offerings with recycled parts in more locations as well as combining our pre-existing businesses with Keystone operations.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased 123.1% to $64.1 million in the three month period ended March 31, 2008, from $28.7 million in the comparable period of 2007. The majority of the expense increase was a result of an increase in labor and labor-related expenses of $25.7 million due primarily to higher sales commission expenses and increased headcount. Our selling expenses tend to rise as revenue increases due to our commissioned sales forces. Our remaining selling, general and administrative expenses increased due primarily to higher professional fees of $2.4 million, telephone expense of $1.5 million, advertising and promotion of $1.2 million and travel expenses of $1.2 million. Our acquisition of Keystone accounted for a majority of the increases. As a percentage of revenue our selling, general, and administrative expenses increased from 12.2% to 13.0%.

Restructuring Expenses. Restructuring expenses totaled $1.2 million in the three month period ended March 31, 2008. We had no restructuring expenses in the comparable period of 2007. The restructuring expenses are the result of our integration of Keystone into pre-existing LKQ operations, and include $0.1 million of severance and relocation costs for LKQ employees, LKQ facility closure costs and moving expenses of $0.8 million for pre-existing LKQ facilities, and professional fees of $0.3 million.

Depreciation and Amortization. Depreciation and amortization increased 118.8% to $7.3 million in the three month period ended March 31, 2008, from $3.3 million in the comparable period of 2006. Our acquisition of Keystone accounted for the majority of the increase in depreciation and amortization expense, including $0.9 million of amortization of the Keystone trade name.

Operating Income. Operating income increased 125.6% to $61.5 million in the three month period ended March 31, 2008 from $27.3 million in the comparable period of 2007. As a percentage of revenue, operating income increased from 11.6% to 12.5%.

Other (Income) Expense. Total other expense, net increased 824.6% to $10.0 million for the three month period ended March 31, 2008, from $1.1 million for the comparable period of 2007. As a percentage of revenue, net other expense increased from 0.5% to 2.0%. Net interest expense increased 494.4% to $10.3 million for the three month period ended March 31, 2008, from $1.7 million for the comparable period of 2007. Our average bank borrowings were approximately $553.3 million higher at March 31, 2008 as compared to March 31, 2007, due primarily to acquisitions. Other income decreased $0.4 million, to $0.3 million in the three month period ended March 31, 2008, from $0.6 million for the comparable period of 2007. Included in other income in the three month period ended March 31, 2007 was approximately $0.6 million of proceeds recognized from a corporate owned life insurance policy.

Provision for Income Taxes. The provision for income taxes increased 98.4% to $20.6 million in the three month period ended March 31, 2008, from $10.4 million in the comparable period of 2007, due primarily to improved operating results. Our effective tax rate was 40.0% in 2008 and 39.7% in 2007. The increase in our effective income tax rate in 2008 was due primarily to the recognition in 2007 of nontaxable life insurance proceeds of approximately $0.6 million.

Liquidity and Capital Resources

Our primary sources of ongoing liquidity are cash flow from our operations and our credit facility. At March 31, 2008 we had $85.4 million in cash and cash equivalents. On September 25, 2007 we completed a public offering of 27.6 million shares of our common stock, with 23.6 million shares sold by us and 4.0 million shares sold by selling stockholders. We received approximately $349.5 million in net proceeds from the offering, after deducting underwriting discounts and expenses of the offering. We paid all amounts outstanding under our revolving credit facility at that time and temporarily invested the remaining proceeds in cash equivalents pending the acquisition of Keystone on October 12, 2007.

In order to finance our acquisition of Keystone and to re-finance our unsecured credit facility, we obtained a senior secured debt financing facility (Credit Agreement) from Lehman Brothers Inc. (Lehman) and Deutsche Bank Securities, Inc. (Deutsche Bank) on October 12, 2007, which was amended on October 26, 2007. The Credit Agreement has a six year term and includes a $610 million term loan, a $40 million Canadian currency term loan, a $100 million U.S. dollar revolving credit facility, and a $15 million dual currency facility for drawings of either U.S. dollars or Canadian dollars. The Credit Agreement also provides for the issuance of letters of credit of up to $35 million in U.S. dollars and up to $10 million in either U.S. or Canadian dollars, for a swing line credit facility of $25 million under the $100 million revolving credit facility, and the opportunity for us to add additional term loan facilities and/or increase the $100 million revolving credit facility s commitments, provided that such additions or increases do not exceed $150 million in the aggregate. The letter of credit facilities and the swing line facility are part of the revolving credit facilities identified above and use of such facilities is taken into account when determining availability under such credit facilities. All of the obligations under the Credit Agreement are unconditionally guaranteed by each of our domestic subsidiaries. Obligations under the Credit Agreement, including the related guarantees, are collateralized by a security interest in substantially all of our domestic assets and our U.S. subsidiaries and a pledge of not more than 65% of the total outstanding voting interests of any direct or indirect non-U.S. subsidiary of ours that is a controlled foreign corporation. Amounts under each term loan facility are due and payable in quarterly installments of increasing amounts beginning in 2008, with the balance payable in full at the end of year six. Amounts due under each revolving credit facility will be due and payable at the end of year six. We are also required to prepay the term loan facilities upon the sale of certain assets, upon the incurrence of certain debt, upon receipt of certain insurance and condemnation proceeds, and with up to 50% of our excess cash flow, with the amount of such excess cash flow determined based upon our total leverage ratio.

Indebtedness made and payable in U.S. dollars under the Credit Agreement bears interest, at our option, at (i) a base rate (the higher of (x) the rate that is the prime lending rate as set forth on the British Banking Association Reuters Page 5 or, under certain circumstances, such other comparable page as the agents may choose, as in effect from time to time, and (y) 0.5% in excess of the overnight federal funds rate) plus an applicable margin currently of 1.25% per annum, or (ii) a Eurodollar rate as determined by the administrative agent for the respective interest period plus an applicable margin currently of 2.25% per annum, except that indebtedness in respect of swing line loans bears interest only at the rate referred to in clause (i). Indebtedness made and payable in Canadian dollars under the Credit Agreement is made, at our option, as bankers acceptance loans or loans that bear interest at a rate equal to the rate per annum of interest publicly quoted or established as the prime rate of Deutsche Bank AG Canada Branch for commercial loans in Canadian dollars to its Canadian borrowers (which does not necessarily represent the lowest or best rate actually available) plus an applicable margin currently of 1.25% per annum. Under each bankers acceptance loan, each Canadian lender will purchase a bill of exchange, including a depository bill issued in accordance with the Depository Bills and Notes Act (Canada), denominated in Canadian dollars and discount notes, and we will sell such bill of exchange, at the applicable discount rate which,

(1) in respect of any bill of exchange accepted by a lender named on Schedule I to the Bank Act (Canada), is the average of the annual rates for bankers acceptances having the same specified term and face amount as the loan to be made to us that is reported by the Reuters Screen CDOR Page as of 10:00 a.m. on such day (or the next preceding business day if such day is not a business day) (or if not reported by the Reuters Screen, then will be the average of the discount rate offered by the five largest (by assets) Canadian charter banks) and (2) in respect of any other lender, the CDOR described above plus 0.10%. We will also pay an acceptance fee for each bankers acceptance loan currently equal to 2.25% per annum. The applicable margin and acceptance fee for loans under the revolving credit facilities are subject to a decrease of 0.25% based upon our total leverage ratio and the interest rate option chosen. Interest will be payable quarterly in arrears, except that interest based on a Eurodollar rate or bankers acceptance loans is payable in arrears on the last day of the relevant interest period and, for any Eurodollar interest period longer than three months, quarterly. Any default in the payment of principal, interest, or other overdue amounts bears interest at 2% above the rate otherwise applicable (or, if there is no applicable rate, at 2% above the base rate referred to in clause (i) above for loans made in U.S. dollars and the prime rate referred to in the second sentence of this paragraph for loans made in Canadian dollars). All overdue amounts are payable on demand.

The Credit Agreement contains customary representations and warranties, and contains customary covenants that restrict our ability to, among other things (i) incur liens, (ii) incur any indebtedness (including guarantees or other contingent obligations), (iii) engage in mergers and consolidations, (iv) engage in sales, transfers, and other dispositions of property and assets (including sale-leaseback transactions), (v) make loans, acquisitions, joint ventures, and other investments, (vi) make dividends and other distributions to, and redemptions and repurchases from, equity holders, (vii) prepay, redeem, or repurchase certain debt, (viii) make changes in the nature of our business, (ix) amend our organizational documents, or amend or otherwise modify certain of our debt documents, (x) change our fiscal quarter and fiscal year ends, (xi) enter into transactions with LKQ s affiliates, (xii) make dividends, loans, and other transfers by subsidiaries of LKQ, and (xiii) issue certain equity interests. The Credit Agreement also requires us to comply with certain financial and affirmative covenants.

We generated $32.4 million of cash flow from operating activities in 2008 and believe that cash flow from operating activities and availability under our Credit Agreement will be adequate to fund our short term liquidity needs. Our liquidity needs are primarily to fund working capital requirements and to expand our facilities and network. The procurement of inventory is the largest operating use of our funds. We normally pay for salvage vehicles acquired at salvage auctions and under some direct procurement arrangements at the time that we take possession of the vehicles. We normally pay for aftermarket parts purchases at the time of shipment or on standard payment terms, depending on the manufacturer and payment options offered. Wheel cores acquired from third parties are normally paid on standard payment terms. We acquired approximately 39,200 and 31,800 wholesale salvage vehicles in the three month periods ended March 31, 2008 and 2007, respectively. In addition, we acquired approximately 56,100 and 44,500 salvage vehicles for our self-service retail operations in the three month periods ended March 31, 2008 and 2007, respectively. Our purchases of aftermarket parts and wheels totaled approximately $132.1 million and $27.7 million in the three month periods ended March 31, 2008 and 2007, respectively, with the increase principally due to our acquisition of Keystone.

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

Net cash provided by operating activities totaled $32.4 million for the three month period ended March 31, 2008, compared to $10.4 million for the same period of 2007. Cash was provided by net income adjusted for non-cash items. Working capital uses of cash, net of effects of purchase acquisitions, included increases in receivables, inventory and other current assets and liabilities, partially offset by an increase in income taxes payable. Receivables increased primarily due to increased revenue and $1.7 million for an insurance claim receivable for property destroyed in a fire loss. Inventory increased primarily due to increases in salvage inventory as we took advantage of favorable supplies at the salvage auctions. Other current liabilities decreased primarily due to accelerating some of Keystone s vendor payments in order to take advantage of discounts offered for earlier payment.

Net cash used in investing activities totaled $17.4 million for the three month period ended March 31, 2008, compared to $23.7 million for the same period of 2007. We invested $4.2 million of cash in two acquisitions in 2008 compared to $14.6 million for four acquisitions in the comparable period of 2007. Net property and equipment and other long term asset purchases increased $4.1 million in 2008.

Net cash used in financing activities totaled $3.7 million for the three month period ended March 31, 2008, compared to $15.1 million provided by financing activities for the same period of 2007. Exercises of stock options and warrants provided $0.9 million and $0.2 million, in the three month periods ended March 31, 2008 and 2007, respectively. The excess tax benefit from share-based payment arrangements provided $1.1 million and $0.2 million of cash in the three month periods ended March 31, 2008 and 2007, respectively. We repaid $2.5 million of term loans under our Credit Agreement in the three month period ended March 31, 2008, while we repaid $3.1 million of long-term debt obligations. We borrowed $17.0 million under our bank credit facility in the three month period ended March 31, 2007, primarily to fund acquisitions, while we repaid $1.2 million of long-term debt obligations.

We may in the future borrow additional amounts under our credit facility or enter into new or additional borrowing arrangements. We anticipate that any proceeds from such new or additional borrowing arrangements will be used for general corporate purposes, including to develop and acquire businesses and operating facilities; to further the integration of our aftermarket, refurbishing and recycled OEM product facilities; to expand and improve existing facilities; to purchase property, equipment, and inventory; and for working capital.

We estimate that our capital expenditures for full year 2008, excluding business acquisitions, will be approximately $65.0 million to $75.0 million. We expect to use these funds for several major facility expansions, improvement of current facilities, real estate acquisitions and systems development projects. We anticipate that net cash provided by operating activities for 2008 will be in excess of $85.0 million.

We believe that our current cash and equivalents, cash provided by operating activities, and funds available under our credit facility will be sufficient to meet our current operating and capital requirements. However, we may, from time to time, raise additional funds through public or private financing, strategic relationships, or other arrangements. There can be no assurance that additional funding, or refinancing of our credit facility, if needed, will be available on terms attractive to us, or at all. Furthermore, any additional equity financing may be dilutive to existing stockholders, and debt financing, if available, may involve restrictive covenants in addition to those to which we are subject under our current credit facility. Our failure to raise capital if and when needed could have a material adverse impact on our business, operating results, and financial condition.

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements. Words such as may, will, plan, should, expect, anticipate, be estimate, intend, project and similar words or expressions are used to identify these forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. However, these forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause our actual results, performance or achievements to be materially different. These factors include, among other things:

- the risk that Keystone s business will not be integrated successfully or that LKQ will incur unanticipated costs of integration;
- the ability to maintain Keystone s vendor relationships and retain key employees;
- uncertainty as to changes in U.S. general economic activity and the impact of these changes on the demand for our products;
- fluctuations in the pricing of new OEM replacement parts;
- the availability and cost of inventory;
- variations in vehicle accident rates;
- changes in state or federal laws or regulations affecting our business;
- changes in the types of replacements parts that insurance carriers will accept in the repair process;

- changes in the demand for our products and the supply of our inventory due to severity of weather and seasonality of weather patterns;
- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our business, operations and infrastructure;
- increasing competition in the automotive parts industry;
- our ability to increase or maintain revenue and profitability at our facilities;
- uncertainty as to our future profitability on a consolidated basis;
- uncertainty as to the impact on our industry of any terrorist attacks or responses to terrorist attacks;
- our ability to operate within the limitations imposed by financing arrangements;
- our ability to obtain financing on acceptable terms to finance our growth;
- our ability to integrate and successfully operate recently acquired companies and any companies acquired in the future and the risks associated with these companies;
- declines in the values of our assets;
- fluctuations in fuel prices; and
- our ability to develop and implement the operational and financial systems needed to manage our growing operations.

Other matters set forth in this Quarterly Report may also cause our actual future results to differ materially from these forward-looking statements. We cannot assure you that our expectations will prove to be correct. In addition, all subsequent written

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and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements mentioned above. You should not place undue reliance on these forward-looking statements. All of these forward-looking statements are based on our expectations as of the date of this Quarterly Report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our results of operations are exposed to changes in interest rates primarily with respect to borrowings under our credit facility, where interest rates are tied to either the prime rate or LIBOR. In the three month period ended March 31, 2008, we implemented a policy to manage our exposure to variable interest rates on a portion of our outstanding variable rate debt instruments through the use of interest rate swap contracts. These contracts convert a certain portion of our variable rate debt to fixed rate, matching effective and maturity dates to specific debt instruments. All of our interest rate swap contracts have been executed with a bank that we believe is creditworthy and are denominated in currency that matches the underlying debt instrument. Net interest payments or receipts from interest rate swap contracts will be included as adjustments to interest expense in our consolidated income statement. As of March 31, 2008, two interest rate swap contracts representing a total of $250 million of notional amount were outstanding with effective dates of April 14, 2008 and with maturity dates through April 2011. Both of these contracts are designated as cash flow hedges and modify the variable rate nature of that portion of our variable rate debt. The fair market value of our outstanding interest rate swap contracts at March 31, 2008 was approximately negative $164,000, and the value of such contracts is subject to changes in interest rates.

We are also exposed to currency fluctuations with respect to the purchase of aftermarket parts in Taiwan. While all transactions with manufacturers based in Taiwan are conducted in U.S. dollars, changes in the relationship between the U.S. dollar and the New Taiwan dollar might impact the purchase price of aftermarket parts. We might not be able to pass on any price increases to customers. Under our present policies, we do not attempt to hedge this currency exchange rate exposure.

Our investment in our operations in Central America and Canada are not material, and we do not attempt to hedge our foreign currency risk related to such operations.

Item 4. Controls and Procedures

As of March 31, 2008, the end of the period covered by this report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of LKQ Corporation s management, including our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective to ensure that we are able to collect, process and disclose the information we are required to disclose in the reports we file with the Securities and Exchange Commission within the required time periods. There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

On May 2, 2008, Ford Global Technologies, LLC (FGT) filed with the United States International Trade Commission (ITC) another complaint under section 337 of the Tariff Act of 1930. The complaint alleges that LKQ Corporation, Keystone Automotive Industries, Inc., and six other entities import and sell certain automotive parts relating to the 2005 Ford Mustang that infringe eight FGT design patents. The ITC has 30 days from the date of filing to determine whether it is going to institute an investigation.

On April 28, 2008, the Superior Court of the State of California approved the settlement of the two class action lawsuits captioned *Lynch v. Keystone Automotive Industries, Inc.*, Case No. BC374399, and *Shoys v. Keystone Automotive Industries, Inc.*, Case No. BC374480.

Item 6. Exhibits

Exhibits

Exhibit Number	Description of Exhibit
10.1	ISDA 2002 Master Agreement between JP Morgan Chase Bank, National Association and LKQ Corporation, and related Schedule.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 8, 2008.

LKQ CORPORATION

/s/ Mark T. Spears
Mark T. Spears
Executive Vice President and Chief Financial Officer
(As duly authorized officer and Principal Financial Officer)

/s/ Frank P. Erlain
Frank P. Erlain
Vice President Finance and Controller
(As duly authorized officer and Principal Accounting Officer)