LKQ CORP
Form S-1
September 07, 2005

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As filed with the Securities and Exchange Commission on September 7, 2005

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

LKQ CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**5015**	**36-4215970**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

120 North LaSalle Street, Suite 3300
Chicago, Illinois 60602
(312) 621-1950

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Victor M. Casini
Vice President, General Counsel and Secretary
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(2)
Common Stock, par value $.01 per share	3,162,500 Shares	$28.51	$90,162,875	$10,612.17

(1) Includes 412,500 shares of common stock subject to an over-allotment option granted by the registrant to the underwriters.

(2) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(c) on the basis of the average of the high and low sale prices of the common stock on September 2, 2005, as reported on the Nasdaq National Market.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Subject to Completion

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and neither we nor the selling stockholders are soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

LKQ Corporation

2,750,000 Shares of Common Stock

We are selling 2,000,000 primary shares of our common stock. The selling stockholders named in this prospectus are selling 750,000 shares of our common stock. We will not receive any proceeds from the sale of shares by the selling stockholders.

Our common stock is listed on the Nasdaq National Market under the symbol "LKQX." The last reported sale price of our common stock on , 2005 was $ per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 9.

	Per Share	Total
Offering price	$	$
Discount and commissions to underwriters	$	$
Proceeds to us, before expenses	$	$
Proceeds to selling stockholders, before expenses	$	$

The underwriters may also purchase up to 412,500 shares of common stock from us at the public offering price, less underwriting discounts and commissions, to cover over-allotments, if any, within 30 days from the date of this prospectus.

The underwriters are offering the common stock as set forth under "Underwriting." Delivery of the shares of common stock will be made on or about , 2005.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Robert W. Baird & Co.

Raymond James

Morgan Keegan & Company, Inc.

Barrington Research

, 2005

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You should rely only on the information contained in this prospectus. Neither we, the underwriters nor the selling stockholders have authorized anyone to provide you with information different from that contained in this prospectus. We and the selling stockholders are offering to sell, and seeking offers to buy, the shares only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the shares.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. These statements may be found throughout this prospectus, particularly under the headings "Summary," "Risk Factors," "Dividend Policy," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business," among others. Forward-looking statements typically are identified by the use of terms such as "may," "will," "plan," "should," "expect," "anticipate," "believe," "if," "estimate," "intend," and similar words, although some forward-looking statements are expressed differently. You should consider statements that contain these and similar words carefully because they describe our expectations, plans, strategies, goals, and beliefs concerning future business conditions, our results of operations, our financial position, and our business outlook, or state other "forward-looking" information based on currently available information. The factors listed under the heading "Risk Factors" and in the other sections of this prospectus provide examples of risks, uncertainties, and events that could cause our actual results to differ materially from the expectations expressed in our forward-looking statements.

The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation, beyond that required by law, to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

SUMMARY

This summary highlights information contained elsewhere in this prospectus but might not contain all of the information that is important to you. Before investing in our common stock, you should read the entire prospectus carefully, including the "Risk Factors" section and the consolidated financial statements and the notes thereto included elsewhere in this prospectus. As used in this prospectus, the terms "company," "we," "our," and "us" refer to LKQ Corporation and its subsidiaries, except where the context otherwise requires. Unless otherwise indicated, the information in this prospectus assumes that the underwriters will not exercise their over-allotment option to purchase 412,500 additional shares.

Our Business

We provide replacement systems, components, and parts needed to repair light vehicles (cars and light trucks). Buyers of light 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 light vehicle repair market. We are not involved in the manufacture of automotive products and do not maintain any manufacturing or remanufacturing operations.

We believe 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. While we currently service the majority of the major metropolitan areas in the U.S. with both recycled OEM and aftermarket products, we estimate our current share of the light vehicle recycling market to be less than 10%, and our current share of the aftermarket products market to be less than 7%. We believe there are opportunities for growth in both product lines through acquisitions and internal development.

We procure salvage vehicles, primarily at auctions, using our locally based professionals, proprietary processes, and a disciplined procurement system. In addition, as an alternative source of salvage vehicles, we obtain some inventory directly from insurance companies, vehicle manufacturers, and other suppliers. Once we have received proper title, which assures us that the vehicles have not been stolen, we dismantle such vehicles for recycled OEM products. We purchase aftermarket products from manufacturers, primarily in Taiwan, using a proprietary order management system.

Our customers include collision and mechanical repair shops and, indirectly, insurance companies, including extended warranty companies. The majority of our products and services are sold to collision repair shops, also known as body shops, and mechanical repair shops. We indirectly rely on insurance companies, which ultimately pay the collision repair shops for the repair of insured vehicles, as a source of business. These insurance companies exert significant influence in the vehicle repair decision, and increasingly look to a nationwide source for consistency, quality, and availability of replacement products. Because of their importance to the process, we have formed business relationships with certain insurance companies, and with certain extended warranty providers, in order to be their preferred light vehicle parts supplier. For example, with some insurance companies we have vehicle repair order estimate review programs in place and provide their claims adjusters a part quote and locator service. In addition, we provide them an outlet to dispose of certain total loss vehicles directly to us. We provide extended warranty companies a single national call desk to service their nationwide needs for mechanical products.

We believe we provide customers a value proposition that includes high quality products, extensive product availability due to our regional inventory trading zones, product costs lower than new OEM products, and quick

delivery. We provide benefits to repair shops and insurance companies because the lower costs for our products enable many vehicles to be repaired rather than declared a total loss. By expanding our product offerings to include both recycled OEM products and aftermarket products we now offer customers a more extensive range of light vehicle replacement products. We believe this unique combination of recycled and aftermarket product offerings allows us to serve as a "one-stop" solution for our customers looking for the most cost advantageous way to repair vehicles.

Our History

We believe we were the first recycler of light vehicle products to achieve a national network and presence. Since our formation in 1998, we have grown through both internal development and acquisitions. Our acquisition strategy has been to target companies with strategic locations and significant market presence, strong management teams, a record of environmental compliance, solid growth prospects, and a reputation for quality and customer service. Since our initial public offering in 2003, we have completed eleven acquisitions that met our criteria and enhanced our business. Today we have over 95 facilities focused on serving our customers with a broad range of products. In February 2004 we expanded our product offerings by also becoming a supplier of aftermarket products and a provider of self-service retail recycled vehicle products. We currently have approximately 36 locations supplying aftermarket products, serving 21 states primarily east of the Mississippi River, and nine locations providing self-service retail recycled vehicle products in Florida, Oregon, and Tennessee.

Our revenue has increased from $226.3 million in 2000 to $424.8 million in 2004, a 17.0% compound annual growth rate. During the same period, our operating income increased from $4.6 million to $34.9 million, a 65.8% compound annual growth rate. For the year ended December 31, 2004, revenue derived from recycled OEM products and related services represented approximately 81% of our revenue, sales of aftermarket products and services represented approximately 10% of our revenue, and sales of other products, such as scrap and other bulk products, represented approximately 9% of our revenue. Our revenue for the six months ended June 30, 2005 was $269.8 million, an increase of 31.7% over the same period in 2004, and our operating income was $28.2 million, a 48.4% increase over the same period in 2004.

Recent Developments

In August 2005, we completed two acquisitions for an aggregate consideration of approximately $13.7 million. These two companies, one headquartered in Arkansas and one headquartered in Pennsylvania, are in the aftermarket products business. These acquisitions enable us to serve new markets and provide a broader product offering to our customers. These businesses had approximately $16.6 million of revenue in 2004.

Our Strengths

We Provide a National Solution to Insurance Companies and Extended Warranty Providers.

We believe that our nationwide presence gives us a unique ability to service the major automobile insurance companies and extended warranty providers. Insurance companies and extended warranty providers operate generally at a national or regional level and play a critical role in the repair process. We believe we provide a direct benefit to these companies by lowering the cost of repairs, decreasing the time required to return the repaired vehicle to the customer, and providing a replacement part that is of comparable quality to the part replaced. Specifically, we assist insurance companies by purchasing insured total loss vehicles and by providing cost effective products through sales to collision repair shops, especially to repair shops that are part of an insurance company network. We also provide a review of vehicle repair order estimates to insurance companies so they may assess the opportunity to increase usage of recycled OEM and aftermarket products.

For extended warranty providers, we provide a single national call desk to service their nationwide need for mechanical products.

We Believe We Have the Only National Network for Recycled OEM Products and it Would be Difficult to Replicate.

We have invested significant capital developing a national network of recycled OEM product facilities that serves most major metropolitan areas in the U.S. We have differentiated ourselves from our local competitors and have made replication of our network difficult by developing our network with anchor companies that were among the largest in the industry. The difficulty and time required to obtain proper zoning, as well as dismantling and other environmental permits necessary to operate newly-sited facilities, would make establishing new facilities challenging. In addition, there are difficulties associated with recruiting and hiring an experienced management team that has strong industry knowledge and local relationships with customers. Finally, our national network allows us to enter new adjacent markets quickly by establishing redistribution facilities, which avoids the need for local dismantling capabilities and inventory.

We Benefit From a Local Presence.

Our network of facilities allows us to develop and maintain our relationships with local repair shops, while providing a level of service to insurance companies and national customers that is made possible by our nationwide presence. Our local presence allows us to provide daily deliveries that our customers require, using drivers who routinely deliver to the same customers. Our sales force and local delivery drivers develop and maintain critical personal relationships with the local repair shops that benefit from access to our wide selection of products which we are able to offer as a result of our regional inventory network.

We Have a Proven and Effective Procurement Process.

We have designed information systems and methodologies to procure salvage vehicles and aftermarket parts cost-effectively. As our largest single expenditure, efficient procurement of salvage vehicles is critical to the growth, operating results, and cash flow of our business. Our processes and know-how allow us to identify and value the parts that can be recycled on a damaged vehicle at auction and to determine rapidly the maximum price we will pay for the vehicle in order to achieve our target margins on resale of the recycled OEM products. We carefully analyze the market and obtain aftermarket parts and salvage vehicles of the type whose parts are in demand at prices that we believe will allow us to sell products profitably. We have also taken advantage of our relationships with insurance companies and vehicle manufacturers to obtain salvage vehicles outside the auction process.

We Have a Broad and Deep Inventory of Products.

We believe that our customers place a high value on availability of a broad range of light vehicle replacement products. We also believe that our inventory of both recycled OEM and aftermarket products allows us to fill a higher percentage of our customers' orders than our competitors. In addition, our ability to share inventory on a regional basis increases the availability of replacement products and also helps us to fill a higher percentage of our customers' orders. We have developed regional trading zones within which we make our regional inventory available to our local facilities, mostly via overnight product transfers. We manage our inventory and purchasing on a regional basis to enhance the availability of the products that we believe will be in the highest demand within each region. Our broad and deep inventory furthers our ability to serve as a "one-stop" solution for our customers' recycled OEM and aftermarket product needs.

We Have Implemented Management Disciplines.

Our management and operations team is highly experienced, with many managers having spent their entire careers in the light vehicle recycling industry. We have developed and built procurement, operating, and financial systems that have allowed us to develop and grow our national network and implement professional management techniques and disciplines. As our business has grown, we have acquired additional management talent, which has furthered the sharing of best practices throughout the company. In addition, our senior management team has extensive acquisition experience and will continue to use our disciplined approach in targeting growth opportunities.

Our Strategies

Strengthen our National Network Through Internal Growth and Acquisitions.

We intend to continue to expand our market coverage through a combination of internal development and acquisitions and to look for opportunities to expand into new regions and into adjacent markets. We plan to establish a presence in additional major metropolitan markets and a number of smaller markets in the U.S. We have applied an analytical and disciplined approach to our acquisition process and have targeted companies with strategic locations and significant market presence, strong management teams, a record of environmental compliance, solid growth prospects, and a reputation for quality and customer service.

Further Develop Business Relationships.

We intend to continue to develop business relationships with automobile insurance companies, extended warranty providers, and other industry participants. We believe that insurance companies and extended warranty providers, as payors for many repairs, will take a more active role in the selection of replacement products in the repair process in order to use lower cost alternatives to new OEM products. On behalf of certain insurance company customers, we provide a review of vehicle repair order estimates so they may assess the opportunity to increase usage of recycled OEM and aftermarket products in the repair process, thereby reducing their costs. Our employees also provide quotes for our products to assist several insurance companies with their estimate and settlement processes. We also work with insurance companies and vehicle manufacturers to procure salvage vehicles directly from them on a selected basis, which provides us an additional source of supply and provides them improved economics on salvage vehicle sales. We believe we are positioned to take advantage of the increasing importance of these industry participants and will continue to look for ways to enhance these relationships.

Continue to Improve our Operating Results.

We are working to improve our operating results by applying our business disciplines to our most recently acquired facilities, continuing to build our network, further centralizing certain functions, improving our use of technology, and increasing revenue at our lower volume facilities. Our higher volume facilities generally operate at a higher profitability level as a percentage of revenue. We believe we can improve the profitability level at our lower volume facilities by achieving the higher volumes and improved economies of scale that we realize at our higher volume facilities. We intend to continue to refine our procurement system, which uses methodologies that analyze demand levels for our products, existing inventory levels, and projected margins on an individual vehicle basis.

Further Develop our Technology and Business Processes.

We continue to emphasize the use of technology in our processes to improve efficiency and to increase the standardization of our business. Our technology and proprietary processes enhance procurement, pricing, and inventory management. We continue to develop our technology to allow us to better manage and analyze our inventory, to assist our sales people with up-to-date pricing and availability of our products, and to further enhance our procurement process. For example, many of our representatives responsible for procuring vehicles, whom we refer to as "scouts," are equipped with handheld computing devices to assist them in appraising the vehicles prior to submitting a bid to purchase the vehicle. Additionally, we have begun developing a bar code system that we believe will facilitate improved inventory tracking and management of our recycled products.

Raise Industry Standards by Being the Industry Leader.

Since our inception, we have employed a professional approach to the light vehicle recycling business. We continue to seek new ways to improve our methodologies and to communicate our standards to our customers. We further believe that, by elevating industry standards in areas such as customer service, integrity, product quality and availability, delivery time, warranty support, environmental compliance, and appearance of facilities, we can help promote the acceptability of the use of recycled OEM and aftermarket products.

Our Corporate Information

We were incorporated in Delaware in February 1998. Our principal executive headquarters are located at 120 North LaSalle Street, Suite 3300, Chicago, Illinois 60602. Our telephone number is 312-621-1950. Our website address is www.lkqcorp.com. The information found on our website is not a part of this prospectus.

Risk Factors

An investment in the common stock offered hereby involves a high degree of risk. See "Risk Factors."

The Offering

Common stock offered by us	2,000,000 shares (excluding up to 412,500 shares that may be issued by us upon exercise of the underwriters' over-allotment option).
Common stock offered by selling stockholders	750,000 shares
Total shares	2,750,000 shares
Common stock outstanding after the offering [(1)]	23,300,767 shares. If the underwriters exercise their over allotment option in full, we will issue an additional 412,500 shares, which will result in 23,713,267 shares outstanding.
Use of Proceeds	We intend to use the net proceeds from the sale of 2,000,000 shares of common stock by us to repay approximately $ million of borrowings under our credit facility and for other general corporate purposes. See "Use of Proceeds." We will not receive any of the proceeds from the sale of our common stock by the selling stockholders. We intend to use the proceeds from the exercise of options to purchase our common stock by certain members of management to repay approximately $ million of borrowings under our credit facility.
Dividend policy	We have not paid or declared any dividends on our common stock and currently intend to retain earnings to fund our working capital needs and growth opportunities. Our credit facility includes provisions that generally limit our payment of dividends on our common stock.
NASDAQ symbol	LKQX

(1) The number of shares of our common stock outstanding after the offering set forth above is based on 21,300,767 shares of common stock outstanding as of August 31, 2005 and includes the shares to be sold by us in this offering. The number of shares outstanding after the offering does not include an aggregate of 6,592,525 shares of common stock reserved for issuance under our equity compensation plans, of which options to purchase 4,295,495 shares were outstanding as of June 30, 2005 at a weighted average exercise price of $12.69 per share, and 1,268,111 shares issuable as of June 30, 2005 upon the exercise of outstanding warrants at an exercise price of $2.00 per share.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table summarizes financial data regarding our business and should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this prospectus.

(In thousands, except per share data)

	Year Ended December 31,					Six Months Ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
Statements of Operations Data:							
Revenue	$ 226,304	$ 250,462	$ 287,125	$ 327,974	$ 424,756	$ 204,951	$ 269,830
Gross Margin	106,991	117,942	132,551	153,736	197,616	96,437	127,128
Operating income	4,615	13,112	20,844	26,059	34,907	19,012	28,206
Income (loss) before provision for income taxes and cumulative effect of change in accounting principle	(241)	8,169	18,268	24,153	33,857	18,368	27,197
Income (loss) before cumulative effect of change in accounting principle	(878)	4,230	11,005	14,576	20,573	10,978	16,028
Cumulative effect of change in accounting principle, net of tax[1]			(49,899)				
Net income (loss)	$ (878)	$ 4,230	$ (38,894)	$ 14,576	$ 20,573	$ 10,978	$ 16,028
Basic earnings (loss) per share:							
Income (loss) before cumulative effect of change in accounting principle	$ (0.05)	$ 0.24	$ 0.62	$ 0.90	$ 1.03	$ 0.55	$ 0.77
Net income (loss)	$ (0.05)	$ 0.24	$ (2.20)	$ 0.90	$ 1.03	$ 0.55	$ 0.77
Diluted earnings (loss) per share:							
Income (loss) before cumulative effect of change in accounting principle	$ (0.05)	$ 0.23	$ 0.57	$ 0.80	$ 0.92	$ 0.49	$ 0.69
Net income (loss)	$ (0.05)	$ 0.23	$ (2.00)	$ 0.80	$ 0.92	$ 0.49	$ 0.69
Shares used in per share calculation basic[2]	17,601	17,656	17,654	16,268	20,052	19,847	20,744
Shares used in per share calculation diluted[2]	17,601	18,742	19,399	18,258	22,414	22,322	23,161
Other Financial Data:							
Net cash provided by (used in) operating activities	$ (3,384)	$ 12,059	$ 17,740	$ 20,949	$ 25,901	$ 8,629	$ 20,450
Net cash used in investing activities	(8,308)	(3,516)	(6,746)	(12,222)	(87,823)	(60,222)	(29,641)
Net cash provided by (used in) financing activities	14,928	(11,060)	(11,997)	6,770	47,452	37,474	9,894
Capital expenditures[3]	9,648	3,809	8,402	13,200	93,025	65,357	30,808
Depreciation and amortization	7,541	7,897	5,014	5,446	6,872	3,222	4,029
EBITDA[4]	12,305	21,148	26,190	31,622	42,234	22,380	32,475

	As of December 31,					As of June 30,	
	2000	2001	2002	2003	2004	2004	2005
Balance Sheet Data:							
Total assets	$ 233,203	$ 227,217	$ 176,747	$ 203,154	$ 288,275	$ 264,061	$ 321,766
Working capital	54,541	16,861	50,670	74,184	77,878	75,148	85,009
Long-term obligations, including current portion	54,611	43,962	34,205	3,997	50,262	42,363	56,545
Stockholders' equity	155,230	160,105	121,129	174,011	204,071	192,088	226,560

(1) We recorded a non-cash Goodwill impairment charge of $49,898,800 in 2002.

(2) We repurchased 2,000,000 shares of our common stock in February 2003 and repurchased an additional 1,557,498 shares of our common stock in May 2003. In addition, we sold 5,000,000 shares of our common stock on October 2, 2003 in connection with our initial public offering. Accordingly, the shares used in the per share calculation for basic and diluted earnings per share in 2003 do not fully reflect the impact of these transactions.

(3) Includes acquisitions and non-cash property additions.

(4) EBITDA consists of income (loss) before provision for income taxes and cumulative effect of change in accounting principle plus depreciation and amortization, interest expense, and stockholder loan guarantee fee, less interest income. We have presented EBITDA information solely as a supplemental disclosure because we believe it provides a helpful analysis of our operating results. EBITDA is the basis for various covenant and availability calculations pertaining to our credit facility. EBITDA should not be construed as an alternative to operating income, net income (loss) or net cash provided by (used in) operating activities, as determined in accordance with accounting principles generally accepted in the U.S. In addition, not all companies that report EBITDA information calculate EBITDA in the same manner as we do and, accordingly, our calculation is not necessarily comparable to similarly entitled measures of other companies and may not be an appropriate measure for performance relative to other companies.

The following table reconciles EBITDA to net income (loss):

(In thousands)

	Year Ended December 31,					Six Months Ended June 30,	
	2000	**2001**	**2002**	**2003**	**2004**	**2004**	**2005**
Net income (loss)	$ (878)	$ 4,230	$ (38,894)	$ 14,576	$ 20,573	$ 10,978	$ 16,028
Cumulative effect of change in accounting principle, net of tax			49,899				
Depreciation and amortization	7,541	7,897	5,014	5,446	6,872	3,222	4,029
Interest, net	5,005	5,082	2,908	2,023	1,505	790	1,249
Provision for income taxes	637	3,939	7,263	9,577	13,284	7,390	11,169
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	$ 12,305	$ 21,148	$ 26,190	$ 31,622	$ 42,234	$ 22,380	$ 32,475

RISK FACTORS

You should carefully consider each of the risks described below and all of the other information in this prospectus before deciding to invest in our common stock. If any of events described below occur, our business, financial condition, or results of operations could be harmed. In such an event, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Relating to Our Business

We face intense competition from local, national, and internet-based light vehicle products providers, and this competition could negatively affect our business.

The light vehicle replacement products industry is highly competitive and is served by numerous suppliers of OEM products, recycled OEM products, and aftermarket products. Within each of these categories of suppliers, there are local owner-operated companies, larger regional suppliers, national providers, and internet-based suppliers. Providers of light vehicle replacement products that have traditionally sold only certain categories of such products may decide to expand their product offerings into other categories of light vehicle replacement products, which may further increase competition. Some of our current and potential competitors may have more operational expertise; greater financial, technical, manufacturing, distribution, and other resources; longer operating histories; lower cost structures; and better relationships in the insurance and vehicle repair industries. In certain regions of the U.S., local light vehicle recycling companies have formed cooperative efforts to compete in the recycled OEM products industry. As a result of these factors, our competitors may be able to provide products that we are unable to supply, provide their products at lower costs, or supply products to customers that we are unable to serve.

An adverse change in our relationships with auction companies or our suppliers could increase our expenses and hurt our relationships with our customers.

Most of our salvage inventory consists of vehicles offered at salvage auctions by several companies that own auction facilities in numerous locations across the U.S. We do not have contracts with any auction company. According to industry analysts, three companies control over 50% of the salvage auction market in the U.S. In some localities, the automotive auction business may be even more highly concentrated. If an auction company prohibited us from participating in its auctions, or significantly raised its fees, our business could be adversely affected through higher costs or the resulting potential inability to service our customers. Moreover, auction companies have begun to allow bids to be submitted on salvage vehicles through the internet, which increases the number of potential bidders and may increase our cost of goods sold for recycled OEM products.

We also acquire some of our inventory directly from insurance companies, original equipment manufacturers, aftermarket parts manufacturers, and others. To the extent that these suppliers decide to discontinue these arrangements, our business could be adversely affected through higher costs or the resulting potential inability to service our customers.

In addition, we purchase aftermarket parts primarily from foreign manufacturers in Taiwan. In the event that our business relationships with these suppliers deteriorated or terminated, or in the event that the importing of products into the U.S. from Taiwan or the exporting of products by Taiwan to the U.S. was disrupted, our business could be adversely affected through higher costs or the resulting inability to service our customers.

We may not be able to sell our products due to existing or new laws and regulations prohibiting or restricting the sale of recycled OEM or aftermarket products.

Some jurisdictions have enacted laws prohibiting or severely restricting the sale of certain recycled OEM products that we provide, such as airbags. These and other jurisdictions could enact similar laws or could prohibit or severely restrict the sale of additional recycled OEM products. Restrictions on the products we are able to sell could decrease our revenue and have an adverse effect on our business and operations.

We became involved in the aftermarket products business upon the closing of an acquisition in February 2004. Since 1998, legislatures in a majority of states have introduced or considered bills that would prohibit or limit the use of aftermarket products in collision repair work and/or require enhanced disclosure or vehicle owner consent before using aftermarket products in such repair work. Additional bills of this kind may be introduced in the future. If a number of states adopt legislation prohibiting or restricting the use of aftermarket products, it could have an adverse impact on our aftermarket products business.

In 2000, a U.S. Congressman requested that the General Accounting Office ("GAO") review the role of the National Highway Traffic Safety Administration in regulating the safety and quality of aftermarket products. The GAO released its report in January 2001. This report may lead to Congressional hearings and possible future federal legislation, which could adversely impact our aftermarket products business.

Certain organizations test the quality and safety of light vehicle replacement products. In the event that such organizations decide that a particular vehicle product does not meet applicable quality or safety standards, we may decide to discontinue sales of such product or insurance companies may decide to discontinue authorization of repairs using such product. Such events could adversely affect our business.

If our business relationships with insurance companies end, we may lose important sales opportunities.

We rely on business relationships with certain insurance companies. These insurance companies encourage vehicle repair facilities to use products we provide. Our arrangements with these companies may be terminated at any time. We rely on these relationships for sales to some collision repair shops, and a termination of these relationships may result in a loss of sales, which could adversely affect our results of operations.

We are subject to environmental regulations and incur costs relating to environmental matters.

We are subject to various federal, state, and local environmental protection and health and safety laws and regulations governing, among other things:

- the emission and discharge of hazardous materials into the ground, air, or water;
- the exposure to hazardous materials; and
- the generation, handling, storage, use, treatment, identification, transportation, and disposal of industrial by-products, waste water, storm water, and mercury and other hazardous materials.

We are also required to obtain environmental permits from governmental authorities for certain of our operations. If we violate or fail to obtain or comply with these laws, regulations, or permits, we could be fined or otherwise sanctioned by regulators. We could also become liable if employees or other third parties are improperly exposed to hazardous materials.

Under certain environmental laws, we could be held responsible for all of the costs relating to any contamination at, or migration to or from, our or our predecessors' past or present facilities and at third party waste disposal sites. These laws often impose liability even if the owner or operator did not know of, or was not responsible for, the release of such hazardous substances.

Environmental laws are complex, change frequently, and have tended to become more stringent over time. Our costs of complying with current and future environmental and health and safety laws, and our liabilities arising from past or future releases of, or exposure to, hazardous substances may adversely affect our business, results of operations, or financial condition.

Governmental agencies may refuse to grant or renew our operating licenses and permits.

Our operating subsidiaries must receive certain licenses and permits from state and local governments to conduct their operations. When we develop or acquire a new facility, we must seek the approval of state and local units of government. Governmental agencies often resist the establishment of a vehicle recycling facility in their communities. There can be no assurance that future approvals or transfers will be granted. In addition, there can be no assurance that we will be able to maintain and renew the licenses and permits our operating subsidiaries currently hold.

Proposed regulations under the National Stolen Passenger Motor Vehicle Information System could harm our business.

In 1992, Congress enacted the Anti Car Theft Act to deter trafficking in stolen vehicles. This law included the establishment of the National Stolen Passenger Motor Vehicle Information System to track and monitor stolen automotive parts. In April 2002, the Department of Justice published for comment proposed regulations to implement this system. The proposed regulations require, among other things, that insurance companies, salvagers, dismantlers, recyclers, and repairers inspect salvage vehicles for the purpose of collecting the vehicle identification number and the part number for any covered major part that possesses the vehicle identification number. The requirement to collect this information would place burdens and costs on us that otherwise would not normally exist, and could discourage our customers from purchasing our products if the proposed regulations are adopted.

We could be subject to product liability claims.

If customers of repair shops that purchase our products are injured or suffer property damage, we could be subject to product liability claims. The successful assertion of this type of claim could have an adverse effect on our business or financial condition.

We may lose business if recent litigation involving the use of aftermarket parts results in insurance companies modifying arrangements affecting the use of recycled OEM or aftermarket products in the repair process.

In an Illinois lawsuit involving State Farm Mutual Automobile Insurance Company (*"Avery v. State Farm"*), a jury decided in October 1999 that State Farm breached certain insurance contracts with its policyholders by using non-OEM parts to repair damaged vehicles when use of such parts did not restore the vehicle to its "pre-loss condition." The jury found that State Farm misled its customers by not disclosing the use of non-OEM parts and the alleged inferiority of those parts. The jury assessed damages against State Farm of $456 million, and the judge assessed an additional $730 million of disgorgement and punitive damages for violations of the Illinois Consumer Fraud Act. In April 2001, the Illinois Appellate Court upheld the verdict but reduced the damage award by $130 million because of duplicative damage awards. On August 18, 2005, the Illinois Supreme Court reversed the awards made by the circuit court and found, among other things, that the plaintiffs had failed to establish any breach of contract on the part of State Farm. Prior to the recent decision by the Illinois Supreme Court, some insurance companies had reduced or eliminated their use of aftermarket products as a result of this case. Although our products are primarily recycled OEM parts, we entered the aftermarket products business through an acquisition in February 2004. Because the decision by the Illinois Supreme Court was rendered so recently, we are uncertain how the decision will affect the practices of insurance companies in the future, but our financial results could be affected, perhaps adversely, if insurance

companies modified or terminated the arrangements pursuant to which repair shops buy aftermarket or recycled OEM products from us due to a fear of similar claims with respect to such products.

If the number of vehicles involved in accidents declines, our business could suffer.

Because our business depends on vehicle accidents for both the supply of recycled OEM products and the demand for repairs using our products, factors which influence the number and/or severity of accidents, including, but not limited to, the number of vehicles on the road, the number of miles driven, the ages of drivers, the use of cellular telephones and other electronic equipment by drivers, the congestion of traffic, the occurrence and severity of certain weather conditions, the use of alcohol and drugs by drivers, and the condition of roadways, impact our business. In this regard, a number of states and municipalities have adopted, or are considering adopting, legislation banning the use of handheld cellular telephones while driving and such restrictions could lead to a decline in accidents. Moreover, rising fuel prices may cause the number of vehicles on the road to decline as motorists seek alternative transportation options and this also could lead to a decline in accidents.

We may not be able to successfully acquire new operations or integrate future acquisitions, which could cause our business to suffer.

We may not be able to successfully complete potential strategic acquisitions if we cannot reach agreement on acceptable terms or for other reasons. If we buy a company or a division of a company, we may experience difficulty integrating that company's or division's personnel and operations, which could negatively affect our operating results. In addition:

- the key personnel of the acquired company may decide not to work for us;
- we may experience business disruptions as a result of information technology systems conversions;
- we may experience additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, and financial reporting;
- we may be held liable for environmental risks and liabilities as a result of our acquisitions, some of which we may not have discovered during our due diligence;
- our ongoing business may be disrupted or receive insufficient management attention; and
- we may not be able to realize the cost savings or other financial benefits we anticipated.

In connection with future acquisitions, we may assume the liabilities of the companies we acquire. These liabilities, including liabilities for environmental-related costs, could materially and adversely affect our business. We may have to incur debt or issue equity securities to pay for any future acquisition, the issuance of which could involve the imposition of restrictive covenants or be dilutive to our existing stockholders.

Our credit facility imposes certain operating and financial restrictions on us and our subsidiaries and requires us to meet certain financial tests.

Our credit facility contains certain operating and financial restrictions that limit or prohibit us from engaging in certain transactions, including the following:

- incurring or guarantying additional debt;
- paying dividends or other distributions to our stockholders or redeeming, repurchasing, or retiring our capital stock or subordinated obligations;
- making investments and capital expenditures;

creating liens on our assets;

- selling, transferring, leasing, licensing, or otherwise disposing of assets other than in the ordinary course of business;
- engaging in transactions with stockholders and affiliates;
- engaging in mergers, consolidations, or acquisitions;
- engaging in any material line of business substantially different from, and unrelated to, those lines of business currently carried on by us; and
- making changes to our equity capital structure or amending our certificate of incorporation, bylaws, or any stockholder rights agreement.

The credit facility also requires that we satisfy certain financial tests. The failure to comply with any of these covenants would cause a default under the credit facility. A default, if not waived, could result in acceleration of our debt, in which case the debt would become immediately due and payable. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance it. Even if new financing were available, it may be on terms that are less attractive to us than our existing credit facility or it may not be on terms that are acceptable to us.

Our future capital needs may require that we seek debt financing or additional equity funding that, if not available, could cause our business to suffer.

We may need to raise additional funds in the future to, among other things, fund our existing operations, improve or expand our operations, respond to competitive pressures, or make acquisitions. From time to time, we may raise additional funds through public or private financing, strategic alliances, or other arrangements. If adequate funds are not available on acceptable terms, we may be unable to meet our business or strategic objectives or compete effectively. If we raise additional funds by issuing equity securities, stockholders may experience dilution of their ownership interests, and the newly issued securities may have rights superior to those of the common stock. If we raise additional funds by issuing debt, we may be subject to further limitations on our operations. If we fail to raise capital when needed, our business will be negatively affected.

Our annual and quarterly performance may fluctuate.

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. Future factors that may affect our operating results include, but are not limited to, the following:

- 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 our acquisitions successfully;

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 values of our assets.

Due to the foregoing factors, our operating results in future periods can be expected to fluctuate. Accordingly, our results of operations may not be indicative of future performance. These fluctuations in our operating results may cause our results to fall below the expectations of public market analysts and investors, which could cause our stock price to decline.

If we lose our key management personnel, we may not be able to successfully manage our business or achieve our objectives.

Our future success depends in large part upon the leadership and performance of our executive management team and key employees at the operating level. If we lose the services of one or more of our executive officers or key employees, or if one or more of them decides to join a competitor or otherwise compete directly or indirectly with us, we may not be able to successfully manage our business or achieve our business objectives. If we lose the services of any of our key employees at the operating or regional level, we may not be able to replace them with similarly qualified personnel, which could harm our business.

We rely on information technology in critical areas of our operations and a disruption relating to such technology could harm our business.

We use information technology systems owned by other companies for management of our facilities and our financial functions. In the event that the providers of these systems terminate their relationships with us, we could suffer disruptions to our operations.

In addition, we continually monitor these systems to find areas for improvement. In the event that we decided to switch providers or to implement our own systems, we may also suffer disruptions to our business. We may be unsuccessful if we try to develop our own systems, and we may underestimate the costs and expenses of developing and implementing our own systems. Also, our revenue may be hampered during the period of implementing an alternative system, which period could extend longer than we anticipated.

If we experience problems with our fleet of trucks, our business could be harmed.

We use a fleet of trucks to deliver the majority of the vehicle products we sell. We are subject to the risks associated with providing trucking services, including inclement weather, disruptions in the transportation infrastructure, availability and price of fuel, liabilities arising from accidents to the extent we are not covered by insurance, and insurance premium increases. In addition, our failure to deliver products in a timely and accurate manner could harm our reputation and brand, which could have a material adverse effect on our business.

If we determine that our goodwill has become impaired, we may incur significant charges to our pre-tax income.

Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. In the future, goodwill and intangible assets may increase as a result of future acquisitions. Goodwill and intangible assets are reviewed at least annually for impairment. Impairment may result from, among other things, deterioration in the performance of acquired businesses, adverse market conditions, and adverse changes in applicable laws or regulations, including changes that restrict the activities of the acquired business. As of June 30, 2005, our total goodwill, subject to future impairment testing, was approximately $118.2 million.

Risks Relating to Our Common Stock

Our executive officers, directors, and their affiliates hold a large percentage of our stock and their interests may differ from other stockholders.

As of August 31, 2005, our executive officers, directors, and their affiliates, in the aggregate, beneficially owned approximately 27% of our common stock. If they were to act together, these stockholders would have significant influence over most matters requiring approval by stockholders, including the election of directors, any amendments to our certificate of incorporation, and certain significant corporate transactions. These stockholders may take these actions even if they are opposed by our other stockholders. In addition, without the consent of these stockholders, we could be delayed or prevented from entering into transactions that may be viewed as beneficial to us or our other stockholders.

Future sales of our common stock may depress our stock price.

We and our stockholders may sell shares of common stock in the future. We may also issue shares of common stock in connection with the exercise of outstanding warrants and options or in connection with future acquisitions. Certain of our existing stockholders are parties to a registration rights agreement that provides such holders with the right to require us to effect the registration of their shares of common stock in specific circumstances. In addition, if we propose to register any of our common stock under the Securities Act of 1933, whether for our own account or otherwise, some existing stockholders may be entitled to include their shares of common stock in that registration. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of shares of our common stock will have on the price of our common stock. Sales of substantial amounts of common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may cause the price of our common stock to fall.

Delaware law and our charter documents may impede or discourage a takeover, which could affect the price of our stock.

The anti-takeover provisions of our certificate of incorporation and bylaws and Delaware law could, together or separately, impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our existing stockholders. Our certificate of incorporation and bylaws have provisions that could discourage potential takeover attempts and make attempts by stockholders to change management more difficult. Our incorporation under Delaware law and these provisions could also impede a merger, takeover, or other business combination involving us or discourage a potential acquiror from making a tender offer for our common stock, which, under certain circumstances, could reduce the price of our common stock.

USE OF PROCEEDS

We estimate that we will receive net proceeds of $ million from our sale of 2,000,000 shares of common stock, after deducting the underwriting discount and estimated expenses of this offering. See "Underwriting Commissions and Discounts." If the underwriters' over-allotment option to purchase an additional 412,500 shares from us is exercised in full, we estimate that our net proceeds will be $ million. The estimated net proceeds described above are based on the last reported sale price of our common stock on , 2005. We will not receive any of the proceeds from the sale of our common stock by the selling stockholders.

We intend to use the net proceeds from the sale of the common stock by us to repay approximately $ million of borrowings under our credit facility. We intend to use the proceeds from the exercise of options to purchase our common stock by certain members of management to repay approximately $ million of borrowings under our credit facility. Our credit facility had $53.0 million outstanding and an average effective interest rate of 4.26% as of June 30, 2005, and matures on June 1, 2010.

We used approximately $37.6 million of borrowings under our credit facility to fund substantially all of the aggregate consideration we paid for the acquisitions we have completed since December 31, 2004.

Any net proceeds in excess of the amounts required to repay outstanding indebtedness as described above will be used for general corporate purposes, which may include future acquisitions. Our management will have broad discretion to allocate our net proceeds from this offering. Pending such uses, the net proceeds to be received by us from this offering will be invested in investment-grade, short-term, interest-bearing securities.

PRICE RANGE OF COMMON STOCK

As of August 31, 2005, 21,300,767 shares of our common stock were outstanding, held by approximately 77 shareholders of record. The number of record holders does not necessarily bear any relationship to the number of beneficial owners of our common stock.

Our common stock trades on the Nasdaq National Market under the symbol "LKQX." The following table sets forth, for each of the periods indicated, the high and low sales prices per share of our common stock on the Nasdaq National Market.

	Price	
	High	Low
2003		
Fourth Quarter	$ 18.50	$ 14.00
2004		
First Quarter	$ 20.43	$ 16.20
Second Quarter	20.20	16.92
Third Quarter	19.13	16.50
Fourth Quarter	20.92	13.28
2005		
First Quarter	$ 20.18	$ 16.50
Second Quarter	28.06	18.50
Third Quarter (through , 2005)		

The last reported sale price for our common stock on the Nasdaq National Market on , 2005 was $ per share.

DIVIDEND POLICY

We have not paid or declared any dividends on our common stock since our inception and currently intend to retain earnings to fund our working capital needs and growth opportunities. Any future dividends will be at the discretion of our board of directors after taking into account various factors it deems relevant, including our financial condition and performance, cash needs, income tax consequences, and the restrictions our debt arrangements then impose. Our credit facility currently includes provisions that generally limit our payment of dividends on our common stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

CAPITALIZATION

The following table sets forth our cash and cash equivalents, debt, and total capitalization as of June 30, 2005 on (1) an actual basis, and (2) as adjusted for our sale of 2,000,000 shares of common stock in this offering, assuming that the underwriters' over-allotment option is not exercised (based on the last reported sale of our common stock on , 2005), the exercise of options to purchase our common stock by certain members of management and the application of the estimated net proceeds therefrom as described in "Use of Proceeds." You should read this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 21 of this prospectus and the historical consolidated financial statements and related notes included in this prospectus.

(In thousands, except share data)	As of June 30, 2005	
	Actual	As adjusted
Cash and equivalents	$ 2,315	$
Long-term obligations, including current portion	$ 56,545	$
Redeemable common stock, $0.01 par value; 50,000 shares issued and outstanding	617	
Stockholders' equity:		
Common stock, $0.01 par value; 500,000,000 shares authorized; 21,026,802 shares issued and outstanding; 23,026,802 shares issued and outstanding, as adjusted	210	
Additional paid-in capital	207,863	
Warrants	259	
Retained earnings	17,168	
Accumulated other comprehensive income	1,060	
Total stockholders' equity	226,560	
Total capitalization	$ 283,722	$

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth our selected financial data as of and for each of the fiscal years and interim periods indicated and is derived from our historical audited consolidated financial statements for the fiscal years indicated and from our historical unaudited consolidated financial statements for the interim periods indicated. You should review this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 21 of this prospectus and our historical financial statements and related notes included in this prospectus.

(In thousands, except per share data)

	Year Ended December 31,					Six Months Ended June 30,	
	2000	**2001**	**2002**	**2003**	**2004**	**2004**	**2005**
Statements of Operations Data:							
Revenue	$ 226,304	$ 250,462	$ 287,125	$ 327,974	$ 424,756	$ 204,951	$ 269,830
Cost of goods sold	119,313	132,520	154,574	174,238	227,140	108,514	142,702
Gross Margin	106,991	117,942	132,551	153,736	197,616	96,437	127,128
Facility and warehouse expenses	32,295	32,674	35,778	38,679	47,815	22,529	28,956
Distribution expenses	21,889	24,621	28,530	35,263	47,927	22,427	29,493
Selling, general, and administrative expenses	40,095	39,638	42,385	48,289	60,095	29,247	36,444
Depreciation and amortization	7,541	7,897	5,014	5,446	6,872	3,222	4,029
Asset impairment loss	556						
Total operating expenses	102,376	104,830	111,707	127,677	162,709	77,425	98,922
Operating income	4,615	13,112	20,844	26,059	34,907	19,012	28,206
Other (income) expense							
Interest, net	5,005	5,082	2,908	2,023	1,505	790	1,249
Other, net	(149)	(139)	(332)	(117)	(455)	(146)	(240)
Income (loss) before provision for income taxes and cumulative effect of change in accounting principle	(241)	8,169	18,268	24,153	33,857	18,368	27,197
Provision for income taxes	637	3,939	7,263	9,577	13,284	7,390	11,169
Income (loss) before cumulative effect of change in accounting principle	(878)	4,230	11,005	14,576	20,573	10,978	16,028
Cumulative effect of change in accounting principle, net of tax[(1)]			(49,899)				
Net income (loss)	$ (878)	$ 4,230	$ (38,894)	$ 14,576	$ 20,573	$ 10,978	$ 16,028
Basic earnings (loss) per share:							
Income (loss) before cumulative effect of change in accounting principle	$ (0.05)	$ 0.24	$ 0.62	$ 0.90	$ 1.03	$ 0.55	$ 0.77
Net income (loss)	$ (0.05)	$ 0.24	$ (2.20)	$ 0.90	$ 1.03	$ 0.55	$ 0.77
Diluted earnings (loss) per share:							
Income (loss) before cumulative effect of change in accounting principle	$ (0.05)	$ 0.23	$ 0.57	$ 0.80	$ 0.92	$ 0.49	$ 0.69
Net income (loss)	$ (0.05)	$ 0.23	$ (2.00)	$ 0.80	$ 0.92	$ 0.49	$ 0.69
Shares used in per share calculation basic[(2)]	17,601	17,656	17,654	16,268	20,052	19,847	20,744
Shares used in per share calculation diluted[(2)]	17,601	18,742	19,399	18,258	22,414	22,322	23,161
Other Financial Data:							
Net cash provided by (used in) operating activities	$ (3,384)	$ 12,059	$ 17,740	$ 20,949	$ 25,901	$ 8,629	$ 20,450
Net cash used in investing activities	(8,308)	(3,516)	(6,746)	(12,222)	(87,823)	(60,222)	(29,641)
Net cash provided by (used in) financing activities	14,928	(11,060)	(11,997)	6,770	47,452	37,474	9,894
Capital expenditures[(3)]	9,648	3,809	8,402	13,200	93,025	65,357	30,808

(In thousands, except per share data)						**Six Months Ended June 30,**	
Depreciation and amortization	7,541	7,897	5,014	5,446	6,872	3,222	4,029
EBITDA[4]	12,305	21,148	26,190	31,622	42,234	22,380	32,475

(In thousands)

	As of December 31,					As of June 30,	
	2000	2001	2002	2003	2004	2004	2005
Balance Sheet Data:							
Total assets	$ 233,203	$ 227,217	$ 176,747	$ 203,154	$ 288,275	$ 264,061	$ 321,766
Working capital	54,541	16,861	50,670	74,184	77,878	75,148	85,009
Long-term obligations, including current portion	54,611	43,962	34,205	3,997	50,262	42,363	56,545
Stockholders' equity	155,230	160,105	121,129	174,011	204,071	192,088	226,560

(1) We recorded a non-cash Goodwill impairment charge of $49,898,800 in 2002.

(2) We repurchased 2,000,000 shares of our common stock in February 2003 and repurchased an additional 1,557,498 shares of our common stock in May 2003. In addition, we sold 5,000,000 shares of our common stock on October 2, 2003 in connection with our initial public offering. Accordingly, the shares used in the per share calculation for basic and diluted earnings per share in 2003 do not fully reflect the impact of these transactions.

(3) Includes acquisitions and non-cash property additions.

(4) EBITDA consists of income (loss) before provision for income taxes and cumulative effect of change in accounting principle plus depreciation and amortization, interest expense, and stockholder loan guarantee fee, less interest income. We have presented EBITDA information solely as a supplemental disclosure because we believe it provides a helpful analysis of our operating results. EBITDA is the basis for various covenant and availability calculations pertaining to our credit facility. EBITDA should not be construed as an alternative to operating income, net income (loss), or net cash provided by (used in) operating activities, as determined in accordance with accounting principles generally accepted in the U.S. In addition, not all companies that report EBITDA information calculate EBITDA in the same manner as we do and, accordingly, our calculation is not necessarily comparable to similarly entitled measures of other companies and may not be an appropriate measure for performance relative to other companies.

The following table reconciles EBITDA to net income (loss):

(In thousands)

	Year Ended December 31,					Six Months Ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
Net income (loss)	$ (878)	$ 4,230	$ (38,894)	$ 14,576	$ 20,573	$ 10,978	$ 16,028
Cumulative effect of change in accounting principle, net of tax			49,899				
Depreciation and amortization	7,541	7,897	5,014	5,446	6,872	3,222	4,029
Interest, net	5,005	5,082	2,908	2,023	1,505	790	1,249
Provision for income taxes	637	3,939	7,263	9,577	13,284	7,390	11,169
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	$ 12,305	$ 21,148	$ 26,190	$ 31,622	$ 42,234	$ 22,380	$ 32,475

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes which appear elsewhere in this prospectus. It contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this prospectus, particularly under the heading "Risk Factors." See also "Special Note Regarding Forward-Looking Statements."

Overview

We provide replacement systems, components, and parts needed to repair light vehicles (cars and light trucks). Buyers of light 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 light vehicle repair market. We are not involved in the manufacture of automotive products and do not maintain any manufacturing or remanufacturing operations.

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 our acquisitions successfully;
- 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.

Sources of Revenue

Since 2002, our revenue from the sale of light vehicle replacement products and related services has ranged between 90% and 93% of our total revenue. We sell the majority of our light vehicle replacement products to collision repair shops and mechanical repair shops. Our light vehicle replacement products include, for example, engines, transmissions, front-ends, doors, trunk lids, bumpers, hoods, fenders, grilles, valances, headlights, and taillights. 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. We provide insurance companies services that 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 products is determined based on a number of factors, including availability, quality, demand, new OEM replacement product prices, and competitor pricing.

Since 2002, approximately 7% to 10% of our revenue has been obtained from other sources. These include bulk sales to mechanical remanufacturers, scrap sales, and sales of damaged vehicles that we sell to vehicle repairers.

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. Our cost of goods sold also includes labor and other costs we incur to acquire and dismantle such vehicles. Since 2002, our labor and labor-related costs related to acquisition and dismantling have accounted for approximately 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 labor and other costs to acquire, including import fees and duties, where applicable. Our aftermarket products are acquired from a number of vendors located primarily overseas, with the majority of our overseas vendors located in Taiwan.

In the event we do not have a recycled OEM product or suitable aftermarket product in our inventory, we attempt to purchase the part from a competitor. We refer to these parts as brokered products. Since 2002, the revenue from brokered products that we sell to our customers has ranged from 7% to 10% 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 expense is approximately 1% of our total cost of goods sold. Our warranty activity during 2003, 2004, and the first six months of 2005 was as follows:

Balance as of January 1, 2003	$	156,000
Warranty expense		1,682,000
Warranty claims		(1,603,000)
Balance as of December 31, 2003		235,000
Warrant expense		2,011,000
Warranty claims		(1,966,000)
Balance as of December 31, 2004		280,000
Warranty expense		1,313,090
Warranty claims		(1,264,090)
Balance as of June 30, 2005	$	329,000

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 processing, redistribution, self-service, and warehouse facilities. These costs include labor for both plant management and facility and warehouse personnel, 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 2002, personnel costs have accounted for approximately 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. We are continually evaluating our sales force, developing and implementing training programs, and utilizing 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.

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. 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, warranty costs, inventory valuation, allowance for doubtful accounts, goodwill impairments, self-insurance programs, contingencies, asset impairments, and 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 light 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 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.

Warranty Reserves

We issue a standard six-month warranty against defects on some of our mechanical products. We record an accrual for standard warranty claims at the time of sale using historical warranty claim information to project future warranty claims activity and related expenses. We analyze historical warranty claim activity by referencing the claims made and aging them from the original product sale date. We use this information to project future warranty claims on actual products sold that are still under warranty at the end of an accounting period. A 10% increase in our historical 2004 annual warranty claims would result in an additional annual expense of approximately $0.2 million.

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 Inventory. Aftermarket 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.

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 June 30, 2005 was approximately $1.7 million, which represents 5.1% 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 2004 annual write-off rate would result in a change in the estimated allowance for doubtful accounts of approximately $0.1 million. Our exposure to uncollectible accounts receivable is limited because we have a large number of small customers that are generally geographically dispersed. We control credit risk through credit approvals, credit limits, and monitoring policies. We also have certain customers that pay for products at the time of delivery.

Goodwill Impairment

We record goodwill as a result of our acquisitions. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which we refer to as 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 on an annual basis 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.

We utilize outside professionals in the valuation industry to validate our assumptions and overall methodology used to determine the fair value estimates used in our goodwill impairment testing. As of June 30, 2005, we had $118.2 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 2004. A 10% decrease in the fair value estimates used in the fourth quarter of 2004 impairment test would not have changed this determination.

Impairment of Long-Lived Assets

We review long-lived assets for possible impairment whenever events or circumstances indicate that the carrying value of such assets may not be recoverable. If our review indicates that the carrying value of long-lived assets is not recoverable, we reduce the carrying amount of the assets to fair value. We have had no adjustments to the carrying value of long-lived assets in 2003, 2004, or the six month period ended June 30, 2005.

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 stop-loss insurance coverage that limits our exposure to both individual claims as well as our overall claims. 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. If we were to incur claims up to our aggregate stop-loss insurance coverage during the open policy years, we would have an additional expense of approximately $6.8 million.

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. 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. Although we have recorded all probable income tax contingencies in accordance with SFAS No. 5, "Accounting for Contingencies" and SFAS No. 109, "Accounting for Income Taxes," these accruals represent estimates that are subject to the inherent uncertainties associated with the tax audit process, and therefore include contingencies.

We record a provision for taxes based upon our expected annual 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 $0.2 million, $0.5 million, and $0.7 million at December 31, 2003 and 2004 and as of June 30, 2005, 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.

Recently Issued Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends ARB 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) must be recognized as current period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal

years beginning after June 15, 2005. We do not expect SFAS 151 to have a material impact on our consolidated financial position, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), a revision of SFAS 123. SFAS 123R requires the adoption of a fair-value method of accounting for stock-based employee compensation. SFAS 123R was to be effective as of the beginning of the first interim fiscal period that began after June 15, 2005. In applying the fair value concepts of SFAS 123R, we will be required to choose among alternative valuation models and other assumptions. Although we had not completed our assessment of the impact SFAS 123R, we had initially estimated that it would negatively impact our results for 2005 by approximately $0.5 million or $0.02 per diluted share.

On April 14, 2005, the Securities and Exchange Commission announced a deferral of the effective date of SFAS 123R for calendar year companies until the beginning of 2006. As a result, our 2005 results of operations will not be impacted by the implementation of SFAS 123R. We are currently assessing the impact that SFAS 123R may have on our future results of operations. We do not expect that the adoption of this standard will have a material impact on our consolidated financial position or cash flows.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"). SFAS 154 replaces Accounting Principles Board Opinion No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS 154 requires "retrospective application" of the direct effect of a voluntary change in accounting principle to prior periods' financial statements where it is practicable to do so. SFAS 154 also redefines the term "restatement" to mean the correction of an error by revising previously issued financial statements. SFAS 154 is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005 unless adopted early. We do not expect the adoption of SFAS 154 to have a material impact on our consolidated financial position, results of operations, or cash flows, except to the extent that the statement subsequently requires retrospective application of a future item.

Acquisitions

In January 2005, we completed an acquisition of an aftermarket products business with two locations, near Philadelphia and Washington, D.C., for approximately $16.0 million in cash. This acquisition enables us to expand our presence in these areas of the country.

In April 2005, we completed two acquisitions of recycled OEM products businesses for an aggregate of approximately $8.0 million in cash and $0.3 million in notes issued. These acquisitions enable us to serve new markets.

In August 2005, we completed two acquisitions for an aggregate consideration of approximately $13.7 million. These two companies, one headquartered in Arkansas and one headquartered in Pennsylvania, are in the aftermarket products business. These acquisitions enable us to serve new markets and provide a broader offering of products to our customers.

Segment Reporting

Over 99% 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. Revenue generated and properties located outside of the U.S. are not material. We manage our operations geographically. Our light vehicle replacement products operations are organized into seven operating segments, six for recycled OEM products and one for aftermarket 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 light vehicle replacement products operations account for over 90% 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:

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
Statement of Operations Data:					
Revenue	100.0 %	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	53.8 %	53.1%	53.5%	52.9%	52.9%
Gross margin	46.2 %	46.9%	46.5%	47.1%	47.1%
Facility and warehouse expenses	12.5 %	11.8%	11.3%	11.0%	10.7%
Distribution expenses	9.9 %	10.8%	11.3%	10.9%	10.9%
Selling, general, and administrative expenses	14.8 %	14.7%	14.1%	14.3%	13.5%
Depreciation and amortization	1.7 %	1.7%	1.6%	1.6%	1.5%
Operating income	7.3 %	7.9%	8.2%	9.3%	10.5%
Other expense, net	0.9 %	0.6%	0.2%	0.3%	0.4%
Income (loss) before provision for income taxes and cumulative effect of change in accounting principle	6.4 %	7.4%	8.0%	9.0%	10.1%
Cumulative effect of change in accounting principle	(17.4)%				
Net income	(13.5)%	4.4%	4.8%	5.4%	5.9%

Six months ended June 30, 2005 compared to six months ended June 30, 2004

Revenue. Our revenue increased 31.7% to $269.8 million for the six month period ended June 30, 2005 from $205.0 million for the comparable period of 2004. The increase in revenue is primarily due to the higher volume of products sold and business acquisitions. Organic revenue growth was approximately 13% in the six month period ended June 30, 2005 over the comparable period of 2004. We have continued to expand our services to the insured repair industry and added local delivery routes and transfer routes that helped us to increase our market penetration. Our ability to combine recycled OEM and aftermarket products offerings to our customers is further contributing to increased sales volume. We also completed three business acquisitions in the six month period ended June 30, 2005. Business acquisitions accounted for approximately $38.4 million of incremental revenue in the six month period ended June 30, 2005.

Cost of Goods Sold. Our cost of goods sold increased 31.5% to $142.7 million for the six month period ended June 30, 2005, from $108.5 million for the comparable period of 2004. 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 was 52.9% for 2005 and 2004.

Gross Margin. Our gross margin increased 31.8% to $127.1 million for the six month period ended June 30, 2005 from $96.4 million for the comparable period of 2004. Our gross margin increased primarily due to increased volume. As a percentage of revenue, gross margin was 47.1% for 2005 and 2004.

Facility and Warehouse Expenses. Facility and warehouse expenses increased 28.5% to $29.0 million for the six month period ended June 30, 2005 from $22.5 million for the comparable period of 2004. Our acquisitions in the six month period ended June 30, 2005 accounted for $4.6 million of the increase in facility and warehouse expenses. Our remaining facility and warehouse expenses increased primarily due to $1.4 million of higher wages and benefits resulting from increased headcount and incentive compensation for field personnel coupled with $0.4 million of higher repairs and maintenance, supplies expense, and real estate taxes. This was partially offset by $0.2 million lower rent expense due to our exercise of purchase options on certain production facilities in 2004 and a gain of $0.2 million on the sale of property and equipment. As a percentage of revenue, facility and warehouse expenses decreased from 11.0% to 10.7%.

Distribution Expenses. Distribution expenses increased 31.5% to $29.5 million for the six month period ended June 30, 2005 from $22.4 million for the comparable period of 2004. As a percentage of revenue, distribution expenses remained constant at 10.9%. Our acquisitions in the six month period ended June 30, 2005 accounted for $3.6 million of the increase in distribution expenses. Our remaining distribution expenses increased as we have increased the number of local delivery trucks by approximately 6.8%. We operated 8.5% more daily transfer routes between our facilities and increased contracted salvage transfer services by 28.0% due to the increase in parts volume. Our fuel costs increased by 35.4% due primarily to price increases. In addition, higher wages from an increase in the number of employees and increased truck rentals and repairs accounted for the remaining growth in distribution expenses, partially offset by an improvement in freight costs.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased 24.6% to $36.4 million for the six month period ended June 30, 2005 from $29.2 million for the comparable period of 2004. Our acquisitions in the six month period ended June 30, 2005 accounted for $4.2 million of the increase in selling, general, and administrative expenses. The majority of the remaining expense increase was due to labor and labor-related expenses, including $0.4 million of higher incentive compensation and $0.3 million related to insurance and legal claims experience. Our selling expenses tend to rise as revenue increases due to the sales commissions of our recycled OEM products inside sales force. As a percentage of revenue, our selling, general, and administrative expenses decreased from 14.3% to 13.5%.

Depreciation and Amortization. Depreciation and amortization increased 25.0% to $4.0 million for the six month period ended June 30, 2005 from $3.2 million for the comparable period of 2004. Our acquisitions in the six month period ended June 30, 2005 accounted for $0.5 million of the increase in depreciation and amortization expense. Increased levels of property and equipment accounted for the remaining increase in depreciation and amortization expense in 2005 compared to 2004. As a percentage of revenue, depreciation and amortization decreased from 1.6% to 1.5%.

Operating Income. Operating income increased 48.4%, to $28.2 million for the six month period ended June 30, 2005 from $19 million for the comparable period of 2004. As a percentage of revenue, operating income increased from 9.3% to 10.5%.

Other (Income) Expense. Net other expense increased 56.7% to $1.0 million for the six month period ended June 30, 2005 from $0.6 million for the comparable period of 2004. As a percentage of revenue, net other expense increased from 0.3% to 0.4%. Net interest expense increased 57.9% to $1.2 million for the six month period ended June 30, 2005 from $0.8 million for the comparable period of 2004. Our average bank borrowings increased approximately $35.1 million during the six month period ended June 30, 2005 as compared to the comparable period of 2004, due primarily to acquisitions. In addition, our average effective interest rate on our bank debt also increased in 2005.

Provision for Income Taxes. The provision for income taxes increased 51.1% to $11.2 million for the six month period ended June 30, 2005 from $7.4 million in the comparable period of 2004, due primarily to improved operating results. Our effective tax rate was 41.1% in 2005 and 40.2% in 2004. The increase in the effective tax rate was due primarily to two reasons. First, the provision included state tax adjustments recorded in the second quarter of 2005; and second, changes in the distribution of our taxable income among different

states from previous estimates for state income tax purposes. Our effective tax rate for the remaining half of 2005 is expected to be 40.6%.

Year ended December 31, 2004 compared to year ended December 31, 2003

Revenue. Our revenue increased 29.5%, from $328.0 million in 2003 to $424.8 million in 2004. The increase in revenue was primarily due to the higher volume of products we sold and business acquisitions. Organic revenue growth was approximately 11.0% in 2004. We continued to expand our services to the insured repair industry and added local delivery routes and transfer routes that helped us to increase our market penetration. Business acquisitions completed in 2004 accounted for approximately $60.3 million of incremental revenue for the year.

Cost of Goods Sold. Our cost of goods sold increased 30.4%, from $174.2 million in 2003 to $227.1 million in 2004. As a percentage of revenue, cost of goods sold increased from 53.1% to 53.5%. The increase in cost of goods sold was primarily due to increased volume of products sold. The increase in cost of goods sold percentage was due primarily to a change in inventory mix to higher end salvage during the third quarter and lower recovery on our shipping and handling costs.

Gross Margin. Our gross margin increased 28.5%, from $153.7 million in 2003 to $197.6 million in 2004. Our gross margin increased primarily due to increased volume. As a percentage of revenue, gross margin decreased from 46.9% to 46.5%. Our gross margin as a percentage of revenue decreased due primarily to the factors noted above in Cost of Goods Sold. We shifted our buying in the fourth quarter to a lower average cost vehicle than we were purchasing earlier in the year and refocused our sales force to recoup more of our shipping and handling costs through higher billings for these items. As a result, we saw our gross margin improve in the fourth quarter compared to our third quarter.

Facility and Warehouse Expenses. Facility and warehouse expenses increased 23.6%, from $38.7 million in 2003 to $47.8 million in 2004. Our 2004 acquisitions accounted for $8.4 million of the increase in facility and warehouse expenses. Our remaining facility and warehouse expenses increased primarily from higher wages due to increased headcount and higher repairs and maintenance expenses. This increase was partially offset by lower incentive compensation expense for field personnel and lower rent expense due to our exercise of purchase options on certain production facilities that we previously leased. As a percentage of revenue, facility and warehouse expenses decreased from 11.8% to 11.3%.

Distribution Expenses. Distribution expenses increased 35.9%, from $35.3 million in 2003 to $47.9 million in 2004. As a percentage of revenue our distribution expenses increased from 10.8% to 11.3%. Our 2004 acquisitions accounted for $7.5 million of the increase in distribution expenses. Our remaining distribution expenses increased as we increased the number of local delivery trucks by approximately 5.4%. We also operated 11.6% more daily transfer routes between our facilities due to the increase in parts volume. For the year ended December 31, 2004 we increased the amount of product we moved between our facilities by approximately 30%, the majority of which was on our own transfer trucks. In addition, higher wages primarily from an increase in the number of employees, increased fuel costs, truck rentals and repairs, delivery supplies, contracted salvage transfer services, and freight costs accounted for the remaining growth in distribution expenses. We renegotiated our freight rates with substantially all of our common carriers in the fourth quarter of 2004, and we directed our sales force to recoup more of our shipping and handling costs.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased 24.4%, from $48.3 million in 2003 to $60.1 million in 2004. Our 2004 acquisitions accounted for $6.4 million of the increase in selling, general, and administrative expenses. The majority of the remaining expense increase was due to labor and labor-related expenses and costs associated with being a public company, partially offset by $0.3 million in lower incentive compensation, lower bad debt expenses of $0.4 million, and by improved insurance and legal claims experience of $0.9 million. Our selling expenses tend to rise as revenue increases due to our recycled OEM product commissioned inside sales force. We incurred approximately $2.8 million in

costs related to being a public company compared to $0.6 million in 2003. These costs primarily included higher premiums for directors' and officers' liability insurance, higher directors' compensation expense, and higher accounting and legal fees. As a percentage of revenue our selling, general, and administrative expenses decreased from 14.7% to 14.1%.

Depreciation and Amortization. Depreciation and amortization increased 26.2%, from $5.4 million in 2003 to $6.9 million in 2004. Our 2004 acquisitions accounted for $1.2 million of the increase in depreciation and amortization. As a percentage of revenue our depreciation and amortization decreased from 1.7% to 1.6%.

Operating Income. Operating income increased 34.0%, from $26.1 million in 2003 to $35.0 million in 2004. As a percentage of revenue, operating income increased from 7.9% to 8.2%.

Other (Income) Expense. Net other expense decreased 44.9%, from $1.9 million in 2003 to $1.1 million in 2004. As a percentage of revenue, net other expense decreased from 0.6% to 0.2%. Included in other income are approximately $0.4 million of proceeds from a corporate owned life insurance policy. We use corporate owned life insurance policies to fund our obligations under our nonqualified deferred compensation plan. Net interest expense decreased 25.6% to $1.5 million in 2004 from $2.0 million in 2003. In 2004, interest expense was related primarily to debt incurred to fund acquisitions. Included in interest expense in 2004 was $0.3 million in debt issuance costs that were written off. These costs were attributable to our previous secured bank credit facility that was terminated in February 2004. See "Liquidity and Capital Resources" below for further discussion of changes in our bank credit facilities. The decrease in net interest expense was due to both lower average debt levels and interest rates in 2004.

Provision for Income Taxes. The provision for income taxes increased 38.7%, from $9.6 million in 2003 to $13.3 million in 2004 due primarily to improved operating results. Our effective tax rate was 39.2% in 2004 and 39.7% in 2003. The decrease in our effective income tax rate in 2004 was due primarily to the receipt of nontaxable life insurance proceeds of $0.4 million in the fourth quarter.

Year ended December 31, 2003 compared to year ended December 31, 2002

Revenue. Our revenue increased 14.2%, from $287.1 million in 2002 to $328.0 million in 2003. The increase in revenue was primarily due to the higher volume of products sold. We continued to expand our services to the insured repair industry and added local delivery routes and transfer routes that helped us to increase our market penetration. We increased the number of customers we served by approximately 5.8%. We also completed three business acquisitions during the first quarter of 2003. Business acquisitions completed in 2003 accounted for approximately $5.3 million of incremental revenue for the year.

Cost of Goods Sold. Our cost of goods sold increased 12.7%, from $154.6 million in 2002 to $174.2 million in 2003. 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 decreased from 53.8% to 53.1%.

Gross Margin. Our gross margin increased 16.0%, from $132.6 million in 2002 to $153.7 million in 2003. As a percentage of revenue, gross margin increased from 46.2% to 46.9%. Our gross margin increased primarily due to increased volume. The increase in gross margin percentage was due primarily to higher revenue growth in certain markets that historically had higher gross margins as a percentage of revenue and our improving costs of salvage in certain regional operations.

Facility and Warehouse Expenses. Facility and warehouse expenses increased 8.1%, from $35.8 million in 2002 to $38.7 million in 2003. The increase in facility and warehouse expenses was due primarily to higher wages from an increase in the number of employees, and higher costs of employee insurance, repairs and maintenance, and property insurance. We had several large employee medical claims in 2003 that increased our self-insured costs. Repairs and maintenance increased as our volumes increased. Property insurance rates were considerably higher in 2003. As a percentage of revenue, facility and warehouse expenses decreased from 12.5% to 11.8%.

Distribution Expenses. Distribution expenses increased 23.6%, from $28.5 million in 2002 to $35.3 million in 2003. As a percentage of revenue, distribution expenses increased from 9.9% to 10.8%. We increased the number of transfer routes by approximately 18% and local delivery trucks by approximately 14.0% in 2003. In addition, higher wages from an increase in the number of employees, increased fuel, freight and vehicle insurance costs, and higher employee medical claims accounted for a portion of the growth in distribution expenses.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased 13.9%, from $42.4 million in 2002 to $48.3 million in 2003. The majority of the increase was due to labor and labor-related expenses. Our selling expenses tend to rise as revenue increases due to our recycled OEM product commissioned inside sales force. In addition, costs in 2003 that were higher than in 2002 were due primarily to higher levels of salaried outside sales staff, increased advertising and promotion activities, and additional other incentive compensation expense. Finally, we incurred approximately $0.6 million in higher premiums for directors' and officers' liability insurance and higher accounting fees and other costs in connection with becoming a public company in the fourth quarter of 2003. As a percentage of revenue, selling, general, and administrative expenses decreased from 14.8% to 14.7%.

Depreciation and Amortization. Depreciation and amortization increased 8.6%, from $5.0 million in 2002 to $5.4 million in 2003. As a percentage of revenue, depreciation and amortization remained constant at 1.7%. Increased levels of property and equipment accounted for the higher depreciation and amortization expense in 2003 compared to 2002.

Operating Income. Operating income increased 25.0%, from $20.8 million in 2002 to $26.0 million in 2003. As a percentage of revenue, operating income increased from 7.3% to 7.9%.

Other (Income) Expense. Net other expense decreased 26.0%, from $2.6 million in 2002 to $1.9 million in 2003. As a percentage of revenue, net other expense decreased from 0.9% to 0.6%. Net interest expense decreased 30.4%, from $2.9 million in 2002 to $2.0 million in 2003. The decrease was the result of both lower debts levels and interest rates in 2003, as well as higher debt issuance costs in 2002 from our previous credit facility that expired in June 2002. We paid down our bank debt with the proceeds from our initial public offering in the fourth quarter of 2003. Other income decreased $0.2 million due primarily to the favorable settlement of a claim in 2002 relating to an acquisition that was completed in 1998.

Provision for Income Taxes. The provision for income taxes increased 31.9%, from $7.3 million in 2002 to $9.6 million in 2003 due to improved operating results. Our effective income tax rate was 39.7% for 2003 and 39.8% for 2002.

Quarterly Results of Operations

The following table sets forth unaudited statement of operations data for our most recent 14 quarters. You should read the following table in conjunction with our consolidated financial statements and related notes appearing elsewhere in this prospectus. We have prepared this unaudited information on a basis consistent with the audited consolidated financial statements contained in this prospectus. The results of operations of any quarter are not necessarily indicative of the results that may be expected for any future period.

(In thousands)	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
Revenue				
2002	$ 71,314	$ 72,787	$ 71,860	$ 71,164
2003	79,256	81,017	83,472	84,228
2004	100,073	104,878	106,045	113,760
2005	133,807	136,023		
Gross Margin				
2002	32,958	33,700	33,145	32,748
2003	37,453	38,345	39,041	38,897
2004	46,996	49,441	48,683	52,496
2005	62,636	64,492		
Operating Income				
2002	6,230	5,945	4,682	3,987
2003	7,020	7,344	6,562	5,134
2004	9,862	9,150	7,975	7,920
2005	14,396	13,810		

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.

Liquidity and Capital Resources

Our primary sources of ongoing liquidity are cash flow from our operations and our credit facility. At June 30, 2005, we had cash and equivalents amounting to $2.3 million, and we had $53.0 million outstanding under our $135 million unsecured bank credit facility. Our credit facility was utilized to finance our January 2005 acquisition of an aftermarket products business for approximately $16.0 million. At the time of this acquisition we increased the total capacity of our credit facility to $100 million from $75 million. On June 1, 2005 we further amended our credit facility, increasing the total capacity to $135 million, extending the term to June 1, 2010 and modifying certain other provisions. Based on our current plans, we expect to generate positive cash flow from operating activities for 2005 and believe that cash flow from operating activities, availability under our credit facility, and the proceeds from this offering will be adequate to fund our short term liquidity needs. In August 2005 we used approximately $13.6 million of borrowings under our credit facility to fund the purchase price of two acquisitions.

Our liquidity needs are primarily to fund working capital requirements and 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 acquired approximately 74,000, 75,000, and 85,000 wholesale salvage vehicles in 2002, 2003, and 2004, respectively, and 43,400 and 48,900 in the six month periods ended June 30, 2004 and 2005, respectively. In addition, we acquired approximately 27,700 salvage vehicles for our self-service retail operations during 2004, and 10,400 and 25,100 in the six month periods ended June 30, 2004 and 2005, respectively. Furthermore, our purchases of aftermarket parts totaled approximately $23.4 million in 2004, and $9.1 million and $21.2 million in the six month periods ended June 30, 2004 and 2005, respectively.

We intend to continue to evaluate markets for potential growth through the internal development of redistribution centers, processing facilities, and aftermarket warehouses, through further integration of aftermarket 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 $20.4 million for the six month period ended June 30, 2005, compared to $8.6 million for the comparable period of 2004. Cash was provided by net income adjusted for non-cash items. Working capital uses of cash included an increase in receivables, inventory, prepaid expenses, and other assets and a decrease in accounts payable, partially offset by increases in accrued liabilities and income taxes payable, before giving effect to tax benefits from employee stock option exercises. Income taxes payable were reduced by $1.9 million in tax benefits resulting from such employee stock option exercises. Receivables increased due primarily to our increased sales volume and inventory increased primarily to support that volume and to expand our aftermarket product offerings at many of our locations. Prepaid expenses and other assets increased primarily due to an increase in deferred compensation plan assets and debt issuance costs related to our credit facility amendment, partially offset by lower prepaid insurance due to amortization of directors' and officers' liability insurance. Accounts payable decreased due to the timing of vendor payments. Accrued liabilities increased primarily due to the timing of end of period wage payments, higher incentive compensation accruals, and higher self-insurance reserves for workers' compensation and auto liability claims.

Net cash used in investing activities totaled $29.6 million for the six month period ended June 30, 2005, compared to $60.2 million for the comparable period of 2004. We invested $24.0 million in acquisitions in the six month period ended June 30, 2005 compared to $43.4 million in the comparable period of 2004. Property and equipment purchases decreased $9.7 million in the six month period ended June 30, 2005, due primarily to timing of capital expenditures in 2005 and exercises of purchase options on leased facilities in 2004. We

expect to spend approximately $24.0 million on capital expenditures during calendar 2005. We also exercised a warrant to acquire an equity investment for $0.7 million in 2004.

Net cash provided by financing activities totaled $9.9 million for the six month period ended June 30, 2005, compared to $37.5 million for the comparable period of 2004. Exercises of stock options and warrants provided $4.4 million and $2.9 million, respectively, in the six month periods ended June 30, 2005 and 2004. We borrowed $6.0 million and $39.0 million, respectively, under our credit facility in the six month periods ended June 30, 2005 and 2004. Our borrowings were primarily to fund acquisitions, while we repaid $0.2 million and $4.1 million of long-term debt obligations in those same periods. We also expended $0.3 million and $0.2 million, respectively, in the six month periods ended June 30, 2005 and 2004, for debt issuance costs related to our credit facility.

Net cash provided by operating activities totaled $25.9 million in 2004, compared to $20.9 million in 2003. Cash was provided by net income adjusted for non-cash items. Working capital uses of cash included increases in receivables and inventory, plus decreases in accounts payable and other noncurrent liabilities, partially offset by decreases in prepaid expenses and other assets, plus increases in accrued expenses, income taxes payable, and deferred revenue. Receivables increased due to our increased sales volume and increases of $0.6 million for employee relocation loans. Inventory increased to support our increased volume. Accounts payable decreased as we accelerated payments to certain foreign vendors in order to realize improved pricing on certain aftermarket product purchases and also due to the timing of payments for certain facility construction projects and information systems licenses. Other noncurrent liabilities decreased primarily due to reductions in legal claim reserves partially offset by an increase in employee deferred compensation liabilities. Prepaid expenses and other assets decreased due primarily to amortization of directors' and officers' liability insurance partially offset by an increase in deferred compensation plan assets and cash paid in connection with the exercise of a warrant, net of decreases in that investment's value subsequent to acquisition. Accrued expenses increased primarily due to increases in our self-insurance reserves, property taxes, and timing of wage payments. Income taxes payable increased due primarily to our higher levels of taxable income. Deferred revenue increased primarily due to higher sales of extended warranty contracts.

Net cash used in investing activities totaled $87.8 million in 2004, compared to $12.2 million in 2003. We invested $61.6 million of cash in six acquisitions in 2004 compared to $3.3 million in three acquisitions in 2003, while net property and equipment purchases increased $16.6 million, due primarily to exercises of purchase options on previously leased facilities and investments in facility expansions and information systems. We also exercised a warrant and paid an exercise price of $0.7 million in 2004. See Note 1 of the "Notes to Consolidated Financial Statements" for further discussion of this investment.

Net cash provided by financing activities totaled $47.5 million in 2004, compared to $6.8 million in 2003. Included in these net cash amounts are $4.9 million in 2004 from the exercises of stock options and warrants and $60.0 million in 2003 from the sale of shares in our initial public offering and exercises of stock options and warrants. In addition, we borrowed $47.0 million under our credit facility in 2004 primarily to fund acquisitions, compared to net repayments of $29.8 million in 2003. Repayments of long-term debt obligations increased $3.8 million in 2004. We also incurred $0.2 million in 2004 for debt issuance costs related to our new unsecured credit facility compared to $0.1 million in 2003. In 2003, we repurchased 3,557,498 shares of our common stock for $22.9 million.

Net cash provided by operating activities totaled $20.9 million in 2003, compared to $17.7 million in 2002. Cash was provided by net income adjusted for non-cash items. Working capital uses of cash included an increase in receivables and prepaid expenses and other assets, partially offset by decreases in inventory and increases in payables, deferred revenue, and other operating liabilities. Prepaid expenses and other assets increased primarily due to increases in annual insurance premiums, increases in annual maintenance contracts for information systems hardware, deferred costs incurred with respect to business acquisitions completed in early 2004 and an increase in prepaid income taxes that was refunded or applied against our 2004 estimated tax payments. The increase in receivables and payables was consistent with our increased business activity. Our

inventory decreased primarily due to a greater number of inventory turns. Deferred revenue increased primarily due to higher sales of extended warranty contracts. Other noncurrent liabilities increased primarily due to increases in employee deferred compensation liabilities.

Net cash used in investing activities totaled $12.2 million in 2003, compared to $6.7 million in 2002. In 2003, we invested $3.3 million of cash in three acquisitions, while net property and equipment purchases increased $2.2 million, primarily due to investments in facility expansions and new information systems.

Net cash provided by financing activities totaled $6.8 million in 2003, compared to net cash used in financing activities of $12.0 million in 2002. Before our initial public offering, we repurchased 3,557,498 shares of our common stock in 2003 for $22.9 million, primarily funded by borrowings under our credit facility totaling $21.0 million. We completed our initial public offering in the fourth quarter of 2003 resulting in net proceeds of $58.3 million after expenses. We then paid down the entire outstanding amount of $45.0 million under our credit facility. We had net debt repayments of $11.3 million in 2002. We also received proceeds of $1.4 million from the exercise of stock options and $0.3 million from the exercise of warrants in 2003, while our debt issuance costs decreased $0.5 million compared to 2002.

On February 17, 2004, we entered into a new unsecured revolving credit facility that originally matured in February 2007, replacing a secured credit facility that would have expired on June 30, 2005. The new credit facility initially had a maximum availability of $75.0 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. In order to make any borrowing under the credit facility, after giving effect to any such borrowing, we must be in compliance with all of the covenants under the credit facility, including, without limitation, a senior debt to EBITDA ratio, which cannot exceed 3.00 to 1.00. The credit facility contains customary covenants, including, among other things, limitations on payment of cash dividends, restrictions on our payment of other dividends and on purchases, redemptions, and acquisitions of our stock, limitations on additional indebtedness, certain limitations on acquisitions, mergers, and consolidations, and the maintenance of certain financial ratios. We were in compliance with all covenants throughout the first six months of 2005 and all of 2004 and 2003. The interest rate on advances under the credit facility may be, at our option, either the bank prime lending rate, on the one hand, or the Interbank Offering Rate (IBOR) plus an additional percentage ranging from .875% to 1.625%, on the other hand. The percentage added to IBOR is dependent upon our total funded debt to EBITDA ratio for the trailing four quarters.

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 redistribution facilities; to further the integration of our aftermarket and recycled OEM product facilities; to expand and improve existing facilities; to purchase property, equipment, and inventory, and for working capital.

During August 2002, as required by our credit facility, we entered into a two-year interest rate swap agreement with a total notional amount of $10.0 million and a fixed rate of 2.65%. The counterparty to the agreement was a member of our bank group. This swap agreement expired on August 22, 2004. Under the terms of the agreement, we were required to make quarterly payments at the specified fixed rate and in return received payments at variable rates. The estimated fair value of the interest rate swap was a loss of $0.1 million at December 31, 2003 and a gain of $0.1 million at June 30, 2004, and is included in Other Noncurrent Liabilities and Accrued expenses. In accordance with the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, the changes in the fair value of the interest rate swap are included in current period earnings, as the agreement had not been designated as a hedging instrument.

In February 2003, we repurchased 2,000,000 shares of our common stock from existing stockholders, including 1,878,684 shares repurchased from AutoNation, Inc., our largest stockholder at the time, for a total of

$12.0 million in cash. We partially funded the stock repurchase by obtaining a $9.0 million term loan, which originally had a maturity date of February 20, 2004. On October 9, 2003, we fully paid the balance on the term loan.

On February 28, 2003, in connection with a business acquisition, we issued two promissory notes totaling $0.2 million. The annual interest rate on the notes is 3.5% and interest is payable upon maturity. The first $0.1 million note was paid on February 28, 2004 and the second $0.1 million note was paid on March 1, 2005.

In May 2003, we repurchased 1,557,498 shares of our common stock from existing stockholders, including 1,500,000 shares repurchased from AutoNation, Inc., for a total of $10.9 million in cash. We partially funded the stock repurchase by borrowing an additional $9.0 million against an existing revolving credit facility.

On January 28, 2004, as part of the consideration for a business acquisition, we issued a promissory note in the amount of $1.0 million. The note is secured by certain real property owned by us. The annual interest rate on the note is 3.5%. Monthly payments of interest and principal totaling $9,889 are required, with the remaining outstanding principal balance due in a lump sum payment on January 28, 2009.

On February 25, 2004, as part of the consideration for a business acquisition, we issued two promissory notes totaling $1.3 million. The annual interest rate on the notes is 3.5% and interest is payable annually. The notes mature on February 25, 2006. At our option, the maturity of the notes may be extended to February 25, 2008. The annual interest rate on the notes during the extension period would be 5.0%.

We assumed certain liabilities in connection with a business acquisition during the first quarter of 2004, including two bankers acceptances totaling $1.2 million. The annual interest rate on the bankers acceptances, which were paid during the second quarter of 2004, was 2.94%.

On June 10, 2004, as part of the consideration for a business acquisition, we issued a note totaling $0.1 million. The annual interest rate on the note is 3.0%, and the note, along with accrued interest, is payable at maturity on June 10, 2006.

On April 1, 2005, as part of the consideration for a business acquisition, we issued a promissory note in the amount of $0.1 million. The annual interest rate on the note is 3.5%, and the note, along with accrued interest, is payable at maturity on April 1, 2007.

On April 26, 2005, as part of the consideration for a business acquisition, we issued three promissory notes totaling $0.2 million. The annual interest rate on the notes is 3.0%, and the notes, along with accrued interest, are payable at maturity on April 26, 2007.

We assumed certain liabilities in connection with a business acquisition during the second quarter of 2005, including a promissory note with a remaining principal balance of approximately $0.2 million. The annual interest rate on the note is 5.0%. Monthly payments of interest and principal totaling $5,094 are required through October 2008.

As of August 1, 2005, we had approximately 1.3 million warrants outstanding at an exercise price of $2.00 per share that will expire if unexercised on February 14, 2006.

In August 2005, in connection with a business acquisition, we issued a promissory note in the amount of $0.1 million. The annual interest rate on the note is 3.0%, and the note, along with accrued interest, is payable at maturity on August 30, 2006.

We estimate that our capital expenditures for 2005 will be approximately $24.0 million, excluding business acquisitions. We expect to use these funds for asset replacements, expansion and improvement of current facilities, real estate acquisitions, systems development projects, and completion of a new facility. We anticipate that net cash provided by operating activities for 2005 will be in excess of $25.0 million.

We believe that our current cash and equivalents, cash provided by operating activities, funds available under our existing credit facility, and the proceeds from this offering 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 current credit facility, if needed, will be available on terms attractive to us, or at all. Furthermore, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. Our failure to raise capital if and when needed could have a material adverse impact on our business, operating results, and financial condition.

Off-Balance Sheet Arrangements and Future Commitments

We do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt that would be required to be disclosed pursuant to Item 303 of Regulation S-K under the Securities Exchange Act of 1934, as amended. Additionally, we have not entered into any derivative contracts other than our interest rate swap agreement discussed above (that expired in August 2004), nor do we have any synthetic leases.

The following table represents our future commitments under contractual obligations as of June 30, 2005:

(In millions)

	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Contractual obligations					
Long-term debt	$ 69.3	$ 0.5	$ 2.7	$ 66.1	$ 0.0
Operating leases	40.8	10.7	18.0	8.7	3.4
Other long-term obligations					
Deferred compensation plans	2.6	0.0	0.0	0.0	2.6
Totals	$ 112.7	$ 11.2	$ 20.7	$ 74.8	$ 6.0

Our long-term debt under contractual obligations above includes interest on the balance outstanding under our variable rate credit facility as of June 30, 2005. The $53.0 million outstanding at June 30, 2005 was assumed to remain unpaid until the facility matures on June 1, 2010, and interest was computed at the average effective rate of 4.26% at June 30, 2005.

The interest rate on advances under the credit facility (our primary debt outstanding) may be, at our option, either the bank prime lending rate, on the one hand, or the Interbank Offering Rate (IBOR) plus an additional percentage ranging from .875% to 1.625%, on the other hand. The percentage added to IBOR is dependent upon our total funded debt to EBITDA ratio (as defined) for the trailing four quarters.

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 IBOR. As of June 30, 2005 we had $53.0 million outstanding under our credit facility. Our previous secured credit facility required that we enter into an interest rate swap agreement to mitigate our interest rate risk on a portion of the balance outstanding. We do not however, as a matter of policy, enter into derivative contracts for trading or speculative purposes. The swap agreement, which expired on August 22, 2004, had a notional amount of $10.0 million under which we paid a fixed rate of interest of 2.65% and received payments based upon variable rates. The swap agreement was not designated as a hedging instrument and, as a result, changes in the fair value of the swap agreement were included in current period earnings. We recorded non-cash credits of $69,000 and $90,000 during 2003 and 2004, respectively, and $70,000 during the six month period ended June 30, 2004, related to the change in fair value of the interest rate swap agreement.

Based upon our variable rate debt at December 31, 2004, a hypothetical 1% increase in interest rates would result in an annual increase in interest expense of approximately $0.5 million.

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 Central American operations is not material, and we do not attempt to hedge our foreign currency risk related to such operations.

INDUSTRY

Overview

Vehicle Recycling Industry

Vehicle recyclers, also known as salvage yards or vehicle dismantlers, are in the business of procuring severely damaged or total loss vehicles and disassembling them for their salvage parts, other mechanical parts, and scrap value. Vehicle recycling is a process that involves:

- the purchase and collection of damaged or obsolete motor vehicles, including domestic and foreign automobiles, light and heavy duty trucks, buses, and motorcycles;
- the dismantling or disassembly of collected vehicles and removal of reusable parts for resale or remanufacturing;
- the removal of non-reusable but recyclable materials and parts, such as fluids, batteries, tires, and catalytic converters; and
- the disposal of vehicle hulks for shredding and the distribution of remaining waste to scrap processors and landfills.

Wrecked vehicles are sold at salvage auctions held each weekday throughout the country. Salvage auctions provide an outlet for salvage vehicles to be sold primarily to vehicle recyclers and rebuilders.

A salvage vehicle product is a used part suitable for sale as a replacement part. Other used mechanical parts are parts not suitable for sale as replacement parts without further remanufacturing work. In most cases, much of a salvaged vehicle is utilized for salvage parts, including engines, transmissions, body panels and assemblies, electrical equipment, wheels, and, to a lesser extent, glass.

The vehicle recycling industry is highly fragmented, with very few multi-unit operators. We estimate that there are more than 6,000 vehicle recyclers in the U.S. We believe approximately 93% of vehicle recycling businesses have less than $3.0 million of annual revenue and approximately 50% have less than $0.5 million of annual revenue. Estimates of the aggregate size of the vehicle recycling industry in the U.S. published in 1997 ranged from $5.3 billion to $7.1 billion.

According to CCC Information Services, Inc., which we refer to as CCC, recycled OEM products account for approximately 12.4% of insured collision replacement parts sales and 4.8% of total insured collision repair costs. We believe that recycled OEM products can account for a larger percentage of the replacement parts market based on the advantages offered by recycled OEM products and industry dynamics, including high frequency of collisions, high cost of vehicle repair, and the desire of insurance companies to reduce their claims expenses.

Vehicle Aftermarket Industry

The U.S. market for vehicle aftermarket products (including accessories, service, repair, and maintenance items) totaled $190.5 billion in 2004 and is estimated at $199.0 billion in 2005, according to the Automotive Aftermarket Industry Association, which we refer to as the AAIA. The portions of the aftermarket products market that vehicle recyclers and aftermarket product distributors primarily serve are the collision repair market, with approximately $36.1 billion of annual sales in 2004, and the mechanical repair market, with approximately $101.2 billion of annual sales in 2004, according to the AAIA. According to CCC, aftermarket products account for approximately 10.7% of insured collision replacement parts sales and 4.1% of total insured collision repair costs.

Repair Shops

The collision repair and mechanical repair markets include sales of replacement products. Buyers of light vehicle replacement products have the option to purchase primarily from three sources: new products produced by 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.

Recycled OEM and aftermarket products are purchased by mechanical repair shops that service the mechanical aspects of vehicles, collision repair shops that work on the body parts of vehicles, remanufacturers of parts that require some restoration prior to use, and retail used parts customers. The vehicle recycling industry sells primarily to mechanical and collision repair shops and to retail customers. The use of recycled OEM and aftermarket products in the repair process usually results in a lower cost of replacement products to repair shops and retail customers than the use of new OEM products. The purchasers of recycled OEM and aftermarket products are collectively referred to in this prospectus as repair shops.

Repair shops are the direct buyers of replacement products. However, the vast majority of the $36.1 billion of collision repair costs are paid by automobile insurance companies. In such cases, insurance companies can exert significant influence over the decision of which replacement product is purchased.

Insurance Companies and Extended Warranty Providers

The automobile insurance industry as a whole places emphasis on containing the cost and managing the severity of claims. As part of this emphasis, insurance companies and extended warranty providers have entered into arrangements with repair shops to better manage the repair process. Insurance companies with these arrangements direct their repair work to the repair shops in their "network" in exchange for more control over the repair process. We believe that these arrangements can lead to a higher utilization of recycled OEM and aftermarket products.

Many insurance companies have signed work agreements with repair shops that govern the rules the repair shop must follow when doing work for a particular insurance company, including the percentages of recycled OEM products the shop must use. In return, the insurance company designates the repair shop as one of its direct repair facilities and sends its repair work to that shop. Accordingly, in many instances when a vehicle is in an accident, the insurance company will designate the repair shops to which the vehicle can be taken for repair.

We believe that recycled OEM and aftermarket products have advantages over new OEM products. Our recycled OEM and aftermarket products are, with rare exceptions, less expensive than, and of comparable quality to, new OEM products. Often recycled OEM products require less assembly or preparation work than new OEM products and aftermarket products. We believe that the automobile insurance industry and extended warranty providers will continue to direct the purchase of more recycled OEM and aftermarket products as a percentage of total replacement product purchases as insurance companies recognize the advantages of these alternatives to new OEM products.

Economics of the Industry

The current insurance industry practice of reimbursing repair shops for replacement product purchases differs depending on whether new OEM products, aftermarket products or recycled OEM products are purchased. In general, we believe repair shops receive a discount of approximately 30% (depending on such factors as volume, geographic location and other competitive market conditions) from the list price of new OEM products and approximately 25% on aftermarket products. Automobile insurance companies then reimburse repair shops the full list price, resulting in a mark-up of over 40% for new OEM products and 33% for aftermarket products. With respect to recycled OEM products, we believe insurance companies generally

reimburse repair shops the actual cost of the recycled OEM product plus a mark-up of 25%. While the repair shops have an economic incentive to purchase new OEM products or aftermarket products instead of recycled OEM products, the use of recycled OEM products provides a benefit to repair shops in that such products may allow them to repair the vehicle rather than have it declared a total loss.

New OEM products and aftermarket products often require various degrees of assembly and preparation. The insurance company has to pay for the labor required for such assembly and preparation, as well as increased expenses incurred due to the additional time required, such as rental vehicle expenses. Recycled OEM products, on the other hand, are delivered to the repair shop in an assembled condition, reducing repair time and, thus, providing cost savings to insurance companies.

Accident and Repair Trends

Vehicles involved in accidents contribute both to the supply of recycled OEM products available for resale and to the demand for repairs using recycled OEM and aftermarket products. The number of vehicles involved in collisions is influenced by a number of factors including the number of vehicles on the road, the number of miles driven, the ages of drivers, the use of cellular telephones and other electronic equipment by drivers, the congestion of traffic, the occurrence and severity of certain weather conditions, the use of alcohol and drugs by drivers, and the condition of the roadways.

The dollar volume of professional repairs, which excludes do-it-yourself repairs, is significant. The following table sets forth such dollar volumes in the U.S. for the years indicated, according to the AAIA.

(In billions)	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Professional collision repair	$ 25.6	$ 25.9	$ 27.4	$ 28.8	$ 30.6	$ 32.3	$ 34.1	$ 36.1
Professional mechanical and electrical repair	73.6	75.6	79.2	84.3	89.6	93.6	97.4	101.2

According to CCC the percentage of vehicles categorized as "total loss" vehicles by the automobile insurance industry is rising. The percentage of vehicles involved in collisions annually that are appraised and subsequently categorized as total loss is as follows for the years listed:

Year	**%**
1997	7.8
1998	8.0
1999	7.5
2000	7.9
2001	9.9
2002	11.3
2003	12.0
2004	13.3

Generally, a vehicle is categorized as a total loss when the cost to repair it exceeds its replacement cost. The number of vehicles being declared a total loss is increasing due to higher collision repair costs resulting from the use of more integrated and complex systems in vehicle body construction and the inclusion of more air bags and electronics in vehicles. The rise in the number of total loss vehicles is important because it increases the quantity of parts available and tends to reduce the procurement cost of salvage vehicles at auction. We expect that insurance companies will attempt to reduce the number of total loss vehicles by reducing the severity of claims generally. We believe that one of the key methods to reduce severity is to utilize less expensive recycled OEM or aftermarket products in the repair process.

BUSINESS

Overview

We provide replacement systems, components, and parts needed to repair light vehicles. Buyers of light vehicle (car and light trucks) 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 light vehicle repair market. We are not involved in the manufacture of automotive products and do not maintain any manufacturing or remanufacturing operations.

We believe 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. While we currently service the majority of the major metropolitan areas in the U.S. with both recycled OEM and aftermarket products, we estimate our current share of the light vehicle recycling market to be less than 10%, and our current share of the aftermarket products market to be less than 7%. We believe there are opportunities for growth in both product lines through acquisitions and internal development.

We procure salvage vehicles, primarily at auctions, using our locally based professionals, proprietary processes, and a disciplined procurement system. In addition, as an alternative source of salvage vehicles, we obtain some inventory directly from insurance companies, vehicle manufacturers, and other suppliers. Once we have received proper title, which assures us that the vehicles have not been stolen, we dismantle such vehicles for recycled OEM products. We purchase aftermarket products from manufacturers, primarily in Taiwan, using a proprietary order management system.

Our customers include collision and mechanical repair shops and, indirectly, insurance companies, including extended warranty companies. The majority of our products and services are sold to collision repair shops, also known as body shops, and mechanical repair shops. We indirectly rely on insurance companies, which ultimately pay the collision repair shops for the repair of insured vehicles, as a source of business. These insurance companies exert significant influence in the vehicle repair decision, and increasingly look to a nationwide source for consistency, quality, and availability of replacement products. Because of their importance to the process, we have formed business relationships with certain insurance companies, and with certain extended warranty providers, in order to be their preferred light vehicle parts supplier. For example, with some insurance companies we have vehicle repair order estimate review programs in place and provide their claims adjusters a part quote and locator service. In addition, we provide them an outlet to dispose of certain total loss vehicles directly to us. We provide extended warranty companies a single national call desk to service their nationwide needs for mechanical products.

We believe we provide customers a value proposition that includes high quality products, extensive product availability due to our regional inventory trading zones, product costs lower than new OEM products, and quick delivery. We provide benefits to repair shops and insurance companies because the lower costs for our products enable many vehicles to be repaired rather than declared a total loss. By expanding our product offerings to include both recycled OEM products and aftermarket products we now offer customers a more extensive range of light vehicle replacement products. We believe this unique combination of recycled and aftermarket product offerings allows us to serve as a "one-stop" solution for our customers looking for the most cost advantageous way to repair vehicles.

Our History

We believe we were the first recycler of light vehicle products to achieve a national network