CDW Corp
Form 10-Q
May 13, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from to

Commission File Number 333-169258

CDW CORPORATION

(Exact name of registrant as specified in its charter)

Delaware		**26-0273989**
(State or other jurisdiction of		**(I.R.S. Employer**
incorporation or organization)		**Identification No.)**
200 N. Milwaukee Avenue		
Vernon Hills, Illinois		**60061**
(Address of principal executive offices)		**(Zip Code)**

(847) 465-6000

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ¨ Yes x No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

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

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

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

As of May 6, 2011, there were 100,000 Class A common shares, $0.01 par value, outstanding, and 911,536 Class B common shares, $0.01 par value, outstanding, all of which were owned by CDW Holdings LLC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

CDW CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in millions, except per share amounts)

(unaudited)

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 73.7	$ 36.6
Accounts receivable, net of allowance for doubtful accounts of $5.0 and $5.0, respectively	1,078.7	1,091.5
Merchandise inventory	308.7	292.8
Miscellaneous receivables	173.9	192.8
Deferred income taxes	50.6	52.8
Prepaid expenses and other	44.5	35.8
Total current assets	1,730.1	1,702.3
Property and equipment, net	154.9	158.1
Goodwill	2,210.0	2,209.1
Other intangible assets, net	1,751.2	1,791.2
Deferred financing costs, net	72.6	79.7
Fair value of interest rate cap agreements	2.2	1.2
Other assets	3.6	2.2
Total assets	$ 5,924.6	$ 5,943.8
Liabilities and Shareholders Deficit		
Current liabilities:		
Accounts payable	$ 638.6	$ 565.3
Current maturities of long-term debt and capital leases	21.0	132.6
Fair value of interest rate swap agreements		2.8
Deferred revenue	36.9	28.6
Accrued expenses:		
Compensation	76.9	91.3
Interest	125.9	64.3
Sales taxes	22.4	23.2
Advertising	29.9	27.0
Income taxes	4.9	4.2
Other	87.1	87.6
Total current liabilities	1,043.6	1,026.9
Long-term liabilities:		
Debt and capital leases	4,124.7	4,157.4
Deferred income taxes	720.8	730.3
Accrued interest	30.5	32.3
Other liabilities	44.6	40.4

Total long-term liabilities	4,920.6	4,960.4
Commitments and contingencies		
Shareholders deficit:		
Class A common shares, $0.01 par value, 100,000 shares authorized, issued, and outstanding		
Class B common shares, $0.01 par value, 1,900,000 shares authorized; 911,176 and 910,735 shares issued and outstanding, respectively		
Paid-in capital	2,170.4	2,166.7
Accumulated deficit	(2,212.2)	(2,208.0)
Accumulated other comprehensive income (loss)	2.2	(2.2)
Total shareholders deficit	(39.6)	(43.5)
Total liabilities and shareholders deficit	$ 5,924.6	$ 5,943.8

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

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CDW CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions)

(unaudited)

	Three Months Ended March 31, 2011	2010
Net sales	$ 2,129.6	$ 1,934.1
Cost of sales	1,778.1	1,628.2
Gross profit	351.5	305.9
Selling and administrative expenses	230.4	214.4
Advertising expense	29.4	20.2
Income from operations	91.7	71.3
Interest expense, net	(92.1)	(77.1)
Net (loss) gain on extinguishments of long-term debt	(3.2)	9.2
Other income, net	0.5	0.1
(Loss) income before income taxes	(3.1)	3.5
Income tax expense	(1.1)	(1.3)
Net (loss) income	$ (4.2)	$ 2.2

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

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CDW CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS DEFICIT

(in millions)

(unaudited)

	Total Shareholders Deficit	Class A Common Shares	Class B Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
Balance at December 31, 2010	$ (43.5)	$	$	$ 2,166.7	$ (2,208.0)	$ (2.2)	
Equity-based compensation expense	4.0			4.0			
Accrued charitable contribution related to the MPK Coworker Incentive Plan II, net of tax	(0.3)			(0.3)			
Net loss	(4.2)				(4.2)		$ (4.2)
Reclassification of realized loss on interest rate swap agreements from accumulated other comprehensive income (loss) to net loss, net of tax	1.9					1.9	1.9
Foreign currency translation adjustment	2.5					2.5	2.5
Comprehensive income							$ 0.2
Balance at March 31, 2011	$ (39.6)	$	$	$ 2,170.4	$ (2,212.2)	$ 2.2	

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

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CDW CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Three Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Net (loss) income	$ (4.2)	$ 2.2
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	51.6	52.4
Equity-based compensation expense	4.0	4.3
Deferred income taxes	(8.1)	(14.6)
Allowance for doubtful accounts		(1.3)
Amortization of deferred financing costs	4.0	4.5
Realized loss (gain) on interest rate swap agreements	2.8	(6.3)
Mark to market loss on interest rate derivatives	0.2	
Net loss (gain) on extinguishments of long-term debt	3.2	(9.2)
Other	(0.6)	
Changes in assets and liabilities:		
Accounts receivable	14.2	36.7
Merchandise inventory	(15.8)	(8.7)
Other assets	9.0	(5.1)
Accounts payable	72.7	173.9
Other current liabilities	61.4	75.4
Long-term liabilities	1.9	9.1
Net cash provided by operating activities	196.3	313.3
Cash flows from investing activities:		
Capital expenditures	(8.4)	(4.2)
Cash settlements on interest rate swap agreements	(6.6)	(20.2)
Premium payments on interest rate cap agreements	(1.2)	
Net cash used in investing activities	(16.2)	(24.4)
Cash flows from financing activities:		
Repayments under senior secured term loan facility	(132.0)	(5.5)
Proceeds from borrowings under revolving credit facility	307.0	
Repayments of borrowings under revolving credit facility	(318.4)	(285.3)
Payments to extinguish long-term debt		(18.6)
Payments of deferred financing costs	(0.1)	
Principal payments under capital lease obligations		(0.1)
Net cash used in financing activities	(143.5)	(309.5)
Effect of exchange rate changes on cash and cash equivalents	0.5	0.3

Net increase (decrease) in cash and cash equivalents		37.1		(20.3)
Cash and cash equivalents beginning of period		36.6		88.0
Cash and cash equivalents end of period	$	73.7	$	67.7
Supplementary disclosure of cash flow information:				
Interest paid, including cash settlements on interest rate swap agreements	$	(27.7)	$	(44.9)
Taxes refunded, net	$	36.4	$	0.1

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

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CDW CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

The Company is a leading provider of multi-branded information technology products and services in the U.S. and Canada. The Company provides comprehensive and integrated solutions for its customers technology needs through an extensive range of hardware, software and service offerings. The Company s breadth of offerings allows its customers to streamline their procurement processes by using a complete solution provider for their technology needs.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements as of March 31, 2011 and for the three months ended March 31, 2011 and 2010 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and the rules and regulations of the U.S. Securities and Exchange Commission (SEC) for interim financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 (December 31, 2010 financial statements). The significant accounting policies used in preparing these unaudited interim consolidated financial statements were applied on a basis consistent with those reflected in the December 31, 2010 financial statements, except as disclosed in Note 2, Recent Accounting Pronouncements. In the opinion of management, the unaudited interim consolidated financial statements contain all adjustments necessary to present fairly the Company s financial position, results of operations, cash flows, and changes in shareholders deficit as of the dates and for the periods indicated. The unaudited consolidated statements of operations for such interim periods reported are not necessarily indicative of results for the full year.

CDW Corporation (Parent) is owned directly by CDW Holdings LLC, a company controlled by investment funds affiliated with Madison Dearborn Partners, LLC and Providence Equity Partners, Inc., certain other co-investors and certain members of CDW management.

Throughout this report, the terms the Company and CDW refer to Parent and its wholly owned subsidiaries.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Parent and its wholly owned subsidiaries. All intercompany transactions and accounts are eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make use of certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported periods. The Company bases its estimates on historical experience and on various other assumptions that management believes are reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The notes to consolidated financial statements contained in the December 31, 2010 financial statements include an additional discussion of the most significant accounting policies and estimates used in the preparation of the Company s consolidated financial statements.

2. Recent Accounting Pronouncements

Fair Value Measurements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06 to amend and expand the disclosure requirements for fair value measurements. The guidance requires new disclosures about transfers in and transfers out of Levels 1 and 2 fair value measurements and presentation of the activities within Level 3 fair value measurements (presented gross in a roll forward of activity). The guidance also clarifies existing disclosures about the level of disaggregation of fair value for each class of assets and liabilities and about inputs and valuation techniques used to measure fair value. Except for the disclosures in the roll forward of activity in Level 3 fair value measurements, ASU 2010-06 was effective for the Company as of January 1, 2010. The disclosures in the roll forward of activity in Level 3 fair value measurements became effective for the Company as of January 1, 2011. As this guidance only required additional disclosure, the adoption of ASU 2010-06 did not have an impact on the Company s consolidated financial position, results of operations or cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Revenue Arrangements

In October 2009, the FASB issued two ASUs to authoritative guidance on revenue arrangements. ASU 2009-13 modifies the criteria for separating consideration in multiple-deliverable arrangements, establishes a selling price hierarchy for determining the selling price of a deliverable, eliminates the residual method of allocation and expands the disclosures related to multiple-deliverable revenue arrangements. From time to time, the Company sells some of its products and services as part of bundled contract arrangements containing multiple deliverables, which may include a combination of products and services. Each of the deliverables in an arrangement typically represents a separate unit of accounting and revenue is generally allocated to each deliverable based upon the estimated fair value of each element as determined by vendor specific objective evidence. The Company s principal point of reference in making this determination is the amount of revenue realized when products and services are sold separately in stand-alone transactions. The Company adopted the amended guidance in ASU 2009-13 on a prospective basis as of January 1, 2011. This guidance did not significantly change the Company s units of accounting or the method used by the Company to allocate revenue to various units of accounting. Therefore, the adoption of ASU 2009-13 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

ASU 2009-14 modifies the scope of authoritative guidance for revenue arrangements that include both tangible products and software elements to exclude from its requirements (1) non-software components of tangible products, and (2) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product s essential functionality. The Company adopted the amended guidance in ASU 2009-14 on a prospective basis as of January 1, 2011. The adoption of ASU 2009-14 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

3. Trade Financing Agreements

The Company has entered into security agreements with certain financial institutions in order to facilitate the purchase of inventory from various suppliers under certain terms and conditions. At March 31, 2011, the agreements allowed for a maximum credit line of $74.5 million collateralized by the inventory purchases financed by the financial institutions and certain other assets. The Company does not incur any interest expense associated with these agreements, as balances are paid when they are due. At March 31, 2011 and December 31, 2010, the Company owed the financial institutions $50.7 million and $9.6 million, respectively, which is included in trade accounts payable.

4. Long-Term Debt

Long-term debt, excluding capital leases, was as follows:

(in millions)	March 31, 2011	December 31, 2010
Senior secured asset-based revolving credit facility	$ 176.7	$ 188.1
Senior secured term loan facility	1,540.5	1,672.5
Senior secured notes	500.0	500.0
Senior notes	1,207.0	1,207.0
Senior subordinated notes	721.5	721.5
Total long-term debt	4,145.7	4,289.1

Less current maturities of long-term debt	(21.0)	(132.0)
Long-term debt, excluding current maturities	$ 4,124.7	$ 4,157.1

As of March 31, 2011, the Company was in compliance with the covenants under its various credit agreements as described below.

Senior Secured Asset-Based Revolving Credit Facility (Revolving Loan)

At March 31, 2011, the Company had an $800.0 million Revolving Loan available for borrowings and issuance of letters of credit of which the Company had outstanding borrowings of $176.7 million (at an effective weighted-average interest rate of approximately 1.27% per annum) and $21.8 million of undrawn letters of credit. Borrowings under the Revolving Loan bear interest at a variable interest rate plus an applicable margin. The variable interest rate is based on one of two indices, either (i) LIBOR, or (ii) the Alternate Base Rate (ABR) with the ABR being the greater of (a) the prime rate and (b) the federal funds effective rate plus 50 basis points. The applicable margin varies (1.00% to 1.75% for LIBOR borrowings and 0.00% to 0.75% for ABR borrowings) depending upon the Company s average daily excess cash availability under the agreement. The Revolving Loan matures on October 12, 2012.

CDW CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Availability under the Revolving Loan is limited to the lesser of the revolving commitment of $800.0 million or the amount of the borrowing base. The borrowing base is based upon a formula involving certain percentages of eligible inventory and eligible accounts receivable owned by the Company. At March 31, 2011, the borrowing base was $865.0 million as supported by eligible inventory and accounts receivable balances as of February 28, 2011. One of the lenders (the Defaulting Lender) under the Revolving Loan has failed to fund its pro rata share of several outstanding loan advances under the Revolving Loan since 2008. As a result, actual availability under the Revolving Loan is $47.5 million less than it would otherwise be if the Defaulting Lender was honoring its commitments under the Revolving Loan agreement. Assuming non-funding by the Defaulting Lender, the Company could borrow up to an additional $554.0 million under the Revolving Loan at March 31, 2011.

CDW LLC is the borrower under the Revolving Loan. All obligations under the Revolving Loan are guaranteed by Parent and each of CDW LLC s direct and indirect, wholly owned, domestic subsidiaries. Borrowings under the Revolving Loan are collateralized by a first priority interest in inventory (excluding inventory collateralized under the trade financing agreements as described in Note 3), deposits, and accounts receivable, and a second priority interest in substantially all other assets. The Revolving Loan contains negative covenants that, among other things, place restrictions and limitations on the ability of Parent and its subsidiaries to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness, make distributions or other restricted payments, create liens, make equity or debt investments, make acquisitions, engage in mergers or consolidations, or engage in certain transactions with affiliates. The Revolving Loan also includes maintenance of a minimum average daily excess cash availability requirement. Should the Company fall below the minimum average daily excess cash availability requirement for ten consecutive business days, the Company becomes subject to a fixed charge coverage ratio until such time as the daily excess cash availability requirement is met for 30 consecutive business days.

Senior Secured Term Loan Facility (Term Loan)

At March 31, 2011, the outstanding principal balance of the Company s Term Loan was $1,540.5 million, with $484.5 million of non-extended loans and $1,056.0 million of extended loans. The effective weighted-average interest rate on Term Loan principal amounts outstanding at March 31, 2011 was 4.40% per annum. For the three months ended March 31, 2011, the effective weighted-average interest rate without giving effect to the interest rate swap agreements (see Note 5) was 4.81% per annum. For the three months ended March 31, 2011, the effective weighted-average interest rate including the effect of the interest rate swap agreements was 5.48% per annum. The interest rate swap agreements terminated on January 14, 2011.

Borrowings under the Term Loan bear interest at either (a) the ABR plus a rate spread; or (b) LIBOR plus a rate spread. The rate spread is based on the Company s senior secured leverage ratio as defined in the amended agreement evidencing the Term Loan. Effective with the March 2011 amendment discussed below, the rate spreads were reduced on extended loans. For ABR borrowings, the applicable rate spread varies within a range of 2.50% to 3.00% for non-extended loans and 1.75% to 2.25% for extended loans. For LIBOR borrowings, the applicable rate spread varies within a range of 3.50% to 4.00% for non-extended loans and 2.75% to 3.25% for extended loans. The non-extended loans under the Term Loan mature on October 10, 2014. The maturity on the extended loans is July 15, 2017 subject to acceleration to July 15, 2015 if, as of July 14, 2015, (i) the senior secured leverage ratio is greater than or equal to 3.00 to 1.00 and (ii) the outstanding principal amount of Senior Notes with a maturity date of October 12, 2015 is greater than or equal to $500.0 million.

On March 11, 2011, the Company entered into an amendment to the Term Loan, which became effective on March 14, 2011. This amendment, among other things: (i) reduced the spreads with respect to the interest rates on the extended loans under the Term Loan, (ii) established a LIBOR floor of 1.25% and a base rate floor of 2.25% with respect to the extended loans under the Term Loan facility, (iii) reset the general restricted payments basket to its original amount of $25.0 million and (iv) provided a 1% prepayment premium for certain repayments or repricings of any extended loans under the Term Loan for the six month period following the effective date of the amendment. In connection with this amendment, the Company recorded a loss on extinguishment of long-term debt of $3.2 million in our consolidated statement of operations for the three months ended March 31, 2011. This loss represents a write-off of a portion of the unamortized deferred financing costs related to the Term Loan.

Beginning September 2009, the Term Loan requires the Company to pay quarterly installments of principal equal to $5.5 million, with the remaining unpaid principal amount due upon maturity, provided that such quarterly installments are reduced to the extent of any optional or

mandatory repayments. The Term Loan also requires the Company to make certain mandatory prepayments of principal amounts under certain circumstances, including (i) a prepayment in an amount equal to 50% of the Company s excess cash flow (as defined in the governing agreement) for the year then ended; and (ii) the net cash proceeds from the incurrence of certain additional indebtedness by the Company or its subsidiaries, including the issuance of the Senior Secured Notes. Excess cash flow is defined as Adjusted EBITDA, plus items such as reductions in working capital, less items such as increases in working capital, certain taxes paid in cash, interest that will be paid in cash, capital expenditures and repayment of long-term indebtedness. The Company made required principal prepayments of $516.5 million in 2010, including the payment in connection with the issuance of the Senior Secured Notes, and $11.0 million in 2009. On March 16, 2011, the Company made a mandatory prepayment of $132.0 million with respect to the year ended December 31, 2010 under the excess cash flow provision. Because of the prepayments the Company has made on the Term Loan, the Company is no longer required to pay quarterly installments of principal of $5.5 million.

CDW CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

CDW LLC is the borrower under the Term Loan. All obligations under the Term Loan are guaranteed by Parent and each of CDW LLC s direct and indirect, wholly owned, domestic subsidiaries. The Term Loan is collateralized by a second priority interest in substantially all inventory (excluding inventory collateralized under the trade financing agreements as described in Note 3), deposits, and accounts receivable, and by a first priority interest in substantially all other assets. The Term Loan contains negative covenants that, among other things, place restrictions and limitations on the ability of Parent and its subsidiaries to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness, make distributions or other restricted payments, create liens, make equity or debt investments, make acquisitions, engage in mergers or consolidations, or engage in certain transactions with affiliates. The Term Loan also includes a senior secured leverage ratio requirement. The senior secured leverage ratio is required to be maintained on a quarterly basis and is defined as the ratio of senior secured debt (including amounts owed under trade financing agreements and capital leases) less cash and cash equivalents, to trailing twelve months Adjusted EBITDA. Compliance may be determined after giving effect to a designated equity contribution to the Company to be included in the calculation of Adjusted EBITDA. The senior secured leverage ratio for the four quarters ended March 31, 2011 was required to be at or below 7.50. For the four quarters ended March 31, 2011, the senior secured leverage ratio was 3.5. The Company is required to maintain an interest rate hedge to fix or cap the interest rate on at least 50% of the outstanding principal amount of the Term Loan through maturity, subject to certain limitations currently in effect. With the interest rate cap agreements as described in Note 5, the Company expects to be in compliance with this requirement through January 14, 2013.

8.0% Senior Secured Notes (Senior Secured Notes) due 2018

The Senior Secured Notes were issued on December 17, 2010 and will mature on December 15, 2018. At March 31, 2011, the outstanding principal balance of the Senior Secured Notes was $500.0 million.

CDW LLC and CDW Finance Corporation are the co-issuers of the Senior Secured Notes and the obligations under the notes are guaranteed by Parent and each of CDW LLC s direct and indirect, wholly owned, domestic subsidiaries. The Senior Notes are secured on a pari passu basis with the Term Loan by a second priority interest in substantially all inventory (excluding inventory collateralized under the trade financing agreements as described in Note 3), deposits, and accounts receivable, and by a first priority interest in substantially all other assets. The Senior Secured Note Indenture contains negative covenants that, among other things, place restrictions and limitations on the ability of Parent and its subsidiaries to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness, make distributions or other restricted payments, create liens, make equity or debt investments, make acquisitions, engage in mergers or consolidations, or engage in certain transactions with affiliates. The Senior Secured Note Indenture does not contain any financial covenants.

11.0% Senior Exchange Notes (Senior Exchange Notes) due 2015; 11.50% / 12.25% Senior PIK Election Exchange Notes (PIK Election Notes together with the Senior Exchange Notes the Senior Notes) and 12.535% Senior Subordinated Exchange Notes (Senior Subordinated Notes) due 2017

At March 31, 2011, the outstanding principal balance of the Company s Senior Notes was $1,207.0 million. The Senior Notes have a maturity date of October 12, 2015. The Senior Notes are comprised of $890.0 million of Senior Exchange Notes and $317.0 million of PIK Election Notes. The Company is required to pay cash interest on the outstanding principal of the Senior Exchange Notes. For PIK Election Notes, the Company could elect to pay interest in cash or through an increase in the outstanding principal balance for interest periods through the six-month interest period beginning April 15, 2011, after which interest is payable only in cash. For the interest period from April 15, 2011 through October 14, 2011, the Company elected to pay interest in cash.

On February 22, 2011, the Company announced that it had commenced a cash tender offer (the Senior Notes Tender Offer) to purchase any and all of the outstanding $1,207.0 million aggregate principal amount of Senior Notes. On March 29, 2011, the Company amended the Senior Notes Tender Offer to convert the tender offer to a fixed dollar tender offer for up to $665.1 million of Senior Notes. On April 13, 2011, the Company announced that the terms and conditions of the Senior Notes Tender Offer had been met and that $519.2 million of the Senior Exchange Notes and $145.9 million of the PIK Election Notes had been accepted for purchase. The Company concurrently announced the closing of an offering of $725.0 million in aggregate principal amount of 8.5% senior notes due 2019. The proceeds from this offering, together with borrowings under the Revolving Loan, were used to fund the purchase of the aggregate $665.1 million of Senior Notes, $59.9 million in tender offer premium and

$36.5 million of accrued and unpaid interest, along with transaction fees and expenses.

On April 20, 2011, the Company announced that it had commenced a follow-on cash tender offer (the Follow-on Senior Notes Tender Offer) to purchase up to an additional $412.8 million aggregate principal amount of Senior Notes. Concurrently, the Company announced that it had priced an offering of $450.0 million in aggregate principal amount of additional 8.5% senior notes due 2019 (the Follow-on Senior Notes Offer). The proceeds of the Follow-on Senior Notes Offer, together with borrowings under the Revolving Loan, will be used to fund the Follow-on Senior Notes Tender Offer, including the payment of tender offer premium, accrued and unpaid interest and transaction fees and expenses subject to various closing conditions. The Follow-on Senior Notes Tender Offer is scheduled to expire on May 19, 2011, unless extended or earlier terminated. The Follow-on Senior Notes Offer is expected to close on May 20, 2011. If the Follow-on Senior Notes Tender Offer is successful in full, the balance of the Senior Notes will be reduced to $129.1 million. As a result, the maturity of extended loans under the Term Loan would not be accelerated as described above.

CDW CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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At March 31, 2011, the outstanding principal balance of the Company s Senior Subordinated Notes was $721.5 million. The Senior Subordinated Notes have a maturity date of October 12, 2017. On March 10, 2010, one of the Company s wholly owned subsidiaries purchased $28.5 million of principal amount of loans of the outstanding Senior Subordinated Notes for a purchase price of $18.6 million. The Company recorded a gain on the extinguishment of long-term debt of $9.2 million on the consolidated statement of operations for the three months ended March 31, 2010 related to this repurchase. In May 2010, the $28.5 million in principal amount of loans that were repurchased were exchanged for increasing rate notes and subsequently surrendered to the indenture trustee for cancellation.

CDW LLC and CDW Finance Corporation are the co-issuers of the Senior Notes and Senior Subordinated Notes. Obligations under the Senior Notes and Senior Subordinated Notes are guaranteed on an unsecured senior basis by Parent and each of CDW LLC s direct and indirect, wholly owned, domestic subsidiaries that is a guarantor under the senior credit facilities. The Senior Notes and Senior Subordinated Notes contain negative covenants that, among other things, place restrictions and limitations on the ability of Parent and its subsidiaries to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness, make distributions or other restricted payments, create liens, make equity or debt investments, make acquisitions, engage in mergers or consolidations, or engage in certain transactions with affiliates. The Senior Notes and Senior Subordinated Notes do not contain any financial covenants.

Based on the quoted market price, trades and/or composite bid prices from dealers, all of which were obtained from independent sources, the estimated fair value of the Company s long-term debt at March 31, 2011 approximated $4,317.8 million.

5. Derivative Instruments and Hedging Activities

The Company is exposed to interest rate risk associated with fluctuations in the interest rates on its floating-rate debt. In order to manage the risk associated with changes in interest rates on borrowings under the Term Loan, the Company has entered into interest rate derivative agreements to hedge a portion of the cash flows associated with the Term Loan.

The Company s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate fluctuations. To accomplish these objectives, the Company primarily uses interest rate caps and swaps as part of its interest rate risk management strategy. Interest rate caps involve the receipt of floating-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. Interest rate swaps involve the receipt of floating-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

Interest Rate Cap Agreements

In April 2010, the Company entered into four interest rate cap agreements with a combined $1,100.0 million notional amount. Under these agreements, the Company made premium payments totaling $5.9 million to the counterparties in exchange for the right to receive payments from them of the amount, if any, by which three-month LIBOR exceeds 3.5% during the agreement period. The cap agreements are effective from January 14, 2011 through January 14, 2013.

In March 2011, the Company entered into an interest rate cap agreement with a $125.0 million notional amount. Under the agreement, the Company made a premium payment of $1.2 million to the counterparty in exchange for the right to receive payments from the counterparty of the amount, if any, by which three-month LIBOR exceeds 3.5% during the agreement period. This cap agreement is effective from January 14, 2013 through January 14, 2015.

These cap agreements have not been designated as cash flow hedges of interest rate risk for accounting purposes. Instead, the interest rate cap agreements are recorded at fair value on the Company s consolidated balance sheet each period, with changes in fair value recorded directly to interest expense, net on the Company s consolidated statements of operations.

Interest Rate Swap Agreements

On January 14, 2011, the Company s two existing interest rate swap agreements terminated. The interest rate swaps hedged a portion of the cash flows associated with the Term Loan. On October 24, 2007, the Company entered into the first swap agreement with a notional amount of $1,500.0 million, and later amended this swap agreement effective July 14, 2009. On November 27, 2007, the Company entered into the second interest rate swap agreement with a notional amount of $700.0 million, which was reduced to $500.0 million as of January 14, 2010.

For the Company s interest rate swaps designated as cash flow hedges of interest rate risk for accounting purposes, the effective portion of the changes in fair value of the swaps was initially recorded as a component of accumulated other comprehensive income

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(loss) in the Company s consolidated balance sheets and subsequently reclassified into interest expense, net in the Company s consolidated statements of operations in the period that the hedged forecasted transaction affected earnings. The ineffective portion of the change in fair value of the swaps was recognized directly in earnings. For the Company s interest rate swap not designated as a cash flow hedge of interest rate risk, changes in fair value of the swap were recorded directly to interest expense, net in the Company s consolidated statements of operations.

Both of the Company s interest rate swaps were initially designated as cash flow hedges. However, as a result of the amendment to the $1,500.0 million interest rate swap agreement, the Company prospectively discontinued the hedge accounting on the original interest rate swap agreement. Simultaneously, the Company designated the amended interest rate swap agreement as a cash flow hedge. On December 17, 2010, the Company discontinued the hedge accounting on the amended $1,500.0 million interest rate swap agreement as a result of the Term Loan amendment as described in Note 4. The Company continued to report the net loss related to the discontinued cash flow hedges in accumulated other comprehensive income (loss), which was reclassified into earnings on a straight-line basis through January 14, 2011. The amount of the loss reclassified into earnings during the three months ended March 31, 2011 and 2010 was $2.1 million and $9.3 million, respectively.

The Company utilized the hypothetical derivative method to measure hedge ineffectiveness each period for interest rate swaps designated as cash flow hedges. For the three months ended March 31, 2010, the Company recognized $35.2 million of non-cash gains due to hedge ineffectiveness on the amended $1,500.0 million swap. The Company did not recognize any gains or losses due to hedge ineffectiveness during the three months ended March 31, 2011.

The fair values of the interest rate cap and swap agreements are estimated as described in Note 6 and reflected as assets or liabilities on the balance sheet. At March 31, 2011 and December 31, 2010, the fair values of the Company s interest rate derivatives were as follows:

(in millions)	Balance Sheet Location	Derivative Assets		Derivative Liabilities	
		March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
Derivatives not designated as hedging instruments					
Interest rate cap agreements	Fair value of interest rate cap agreements	$ 2.2	$ 1.2	$	$
Interest rate swap agreements	Fair value of interest rate swap agreements	$	$	$	$ 2.1
Derivatives designated as hedging instruments					
Interest rate swap agreements	Fair value of interest rate swap agreements	$	$	$	$ 0.7

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The effect of derivative instruments on the consolidated statements of operations for the three months ended March 31, 2011 and 2010 was as follows:

Derivatives not designated as hedging instruments

(in millions)	Amount of Loss Recognized in Interest Expense, net Three Months Ended March 31, 2011	2010
Interest rate cap agreements	$ (0.2)	$
Total	$ (0.2)	$

Derivatives designated as hedging instruments

(in millions)	Amount of Loss Recognized in OCI (Effective Portion) Three Months Ended March 31, 2011	2010	Amount of Loss Reclassified from AOCI into Interest Expense, net (Effective Portion) Three Months Ended March 31, 2011	2010	Amount of Gain Recognized in Interest Expense, net (Ineffective Portion) Three Months Ended March 31, 2011	2010
Interest rate swap agreements	$	$ (32.3)	$ (2.8) [1]	$ (19.5)	$	$ 25.9
Total	$	$ (32.3)	$ (2.8)	$ (19.5)	$	$ 25.9

[1] The Company reclassified realized losses of $2.8 million from AOCI to net loss, or $1.9 million net of tax as reflected in the consolidated statement of shareholders deficit.

There was no balance remaining in AOCI related to the Company s interest rate swap agreements as of March 31, 2011. The Company had no derivative instruments with credit-risk-related contingent features that were in a liability position as of March 31, 2011.

6. Fair Value Measurements

Fair value is defined under GAAP as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy has been established for valuation inputs to prioritize the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 inputs are based on unadjusted quoted prices for identical instruments traded in active markets.

Level 2 inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs are generally unobservable and typically reflect management s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar techniques.

The fair value of financial assets measured on a recurring basis as of March 31, 2011 was as follows:

(in millions)	Level 1	Level 2	Level 3	Total
Interest rate cap agreements	$	$ 2.2	$	$ 2.2

The fair value of the Company s interest rate caps, as described in Note 5, is classified as Level 2 in the hierarchy. The valuation of the cap agreements is derived by using a discounted cash flow analysis on the expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. This analysis reflects the contractual terms of the cap agreements, including the period to maturity, and uses observable market-based inputs, including LIBOR curves and implied volatilities. The Company also incorporates credit valuation adjustments to appropriately reflect the respective counterparty s nonperformance risk in the fair value measurements. The counterparty credit spreads are based on publicly available credit information obtained from a third party credit data provider.

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7. Income Taxes

The Company s effective income tax rate was (35.6)% and 37.7% in the first three months of 2011 and 2010, respectively.

GAAP provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return. The Company had no unrecognized tax benefits at March 31, 2011 and December 31, 2010.

In the ordinary course, the Company is subject to review by domestic and foreign taxing authorities, including the Internal Revenue Service (IRS). The IRS has contacted the Company and will begin an audit of 2008 during the second quarter of 2011. In general, the Company is no longer subject to examination by the IRS for tax years prior to 2008. In addition, the Company is generally no longer subject to state and local or foreign income tax examinations by taxing authorities for tax years prior to 2005. Various taxing authorities are in the process of auditing income tax returns of the Company and its subsidiaries. The Company does not anticipate that any adjustments from the audits would have a material impact on its consolidated financial position, results of operations or cash flows.

For tax purposes, the Company was deemed to have paid a redemption premium in connection with the amendment to the Term Loan in December 2010 that, in addition to certain expenses, is deductible in determining taxable income. As a result, the Company incurred a net operating loss for tax purposes that is expected to result in $54.5 million of refunds in 2011 of previously paid income taxes. As of March 31, 2011, the Company had received refunds totaling $37.5 million of this amount.

8. Equity-Based Compensation

The Company recognized $4.0 million and $4.3 million in equity-based compensation expense for the three months ended March 31, 2011 and 2010, respectively.

The following table sets forth the summary of equity plan activity for the three months ended March 31, 2011:

Equity Awards	Class B Common Units [1]	MPK Plan Units [1] [2]
Outstanding at January 1, 2011	191,651	74,826
Granted	7,069	
Forfeited	(1,698)	(993) [3]
Repurchased/Settled	(53)	[4]
Outstanding at March 31, 2011	196,969	73,833
Vested at March 31, 2011	46,846	577 [5]

[1] The weighted-average grant date fair market value for Class B Common Units granted during the period is $145.47. The weighted-average grant date fair market value for outstanding Class B Common Units is $288.46. The weighted-average grant date fair market value for outstanding MPK Plan Units is $1,000.

[2] Represents units notionally credited to participants accounts.

(3) The Company contributes the units represented by the awards forfeited under the plan (or their equivalent value) to a charitable foundation. The contribution is generally made in the quarter following that in which the units are f