CDW Corp
Form 10-Q
August 12, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
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 001-35985
CDW CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	26-0273989 (I.R.S. Employer Identification No.)
200 N. Milwaukee Avenue Vernon Hills, Illinois (Address of principal executive offices)	60061 (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 ý No The registrant has been subject to the filing requirements of Sections 13 and 15(d) for less than 90 days since the registrant's Registration Statement on Form S-1 was declared effective by the Commission on June 26, 2013. The registrant has filed (a) all reports required to be filed by it since that date and (b) all reports which it would have been required to file during the preceding 12 months had it been subject to such provisions.

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). ý 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 ý No
As of August 8, 2013, there were 171,957,228 common shares, $0.01 par value, outstanding.

1

Table of Contents

CDW CORPORATION AND SUBSIDIARIES
FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
CDW CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except per-share amounts)

Assets	June 30, 2013 (unaudited)	December 31, 2012
Current assets:		
Cash and cash equivalents	$179.3	$37.9
Accounts receivable, net of allowance for doubtful accounts of $5.4 and $5.4, respectively	1,390.5	1,285.0
Merchandise inventory	378.5	314.6
Miscellaneous receivables	165.1	148.5
Deferred income taxes	12.1	14.1
Prepaid expenses and other	108.2	34.6
Total current assets	2,233.7	1,834.7
Property and equipment, net	132.7	142.7
Goodwill	2,207.4	2,209.3
Other intangible assets, net	1,403.7	1,478.5
Deferred financing costs, net	41.4	53.2
Other assets	1.6	1.6
Total assets	$6,020.5	$5,720.0
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable—trade	$771.0	$518.6
Accounts payable—inventory financing	282.5	249.2
Current maturities of long-term debt	13.5	40.0
Deferred revenue	96.9	57.8
Accrued expenses:		
Compensation	93.7	99.4
Interest	47.0	50.7
Sales taxes	20.2	22.6
Advertising	23.7	33.9
Income taxes	5.6	0.2
Other	91.1	95.8
Total current liabilities	1,445.2	1,168.2
Long-term liabilities:		
Debt	3,710.9	3,731.0
Deferred income taxes	598.3	624.3
Accrued interest	6.4	8.0
Other liabilities	50.7	52.0
Total long-term liabilities	4,366.3	4,415.3
Commitments and contingencies		
Shareholders' equity:		
Preferred shares, $0.01 par value, 100.0 and no shares authorized, respectively; no shares issued or outstanding for both periods	—	—
	1.4	1.4

Common shares, $0.01 par value, 1,000.0 and 286.1 shares authorized, respectively; 145.2 shares issued for both periods; 145.2 and 145.1 shares outstanding, respectively		
Paid-in capital	2,211.0	2,207.7
Accumulated deficit	(1,998.1)	(2,073.0)
Accumulated other comprehensive (loss) income	(5.3)	0.4
Total shareholders' equity	209.0	136.5
Total liabilities and shareholders' equity	$6,020.5	$5,720.0

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

3

Table of Contents

CDW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per-share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales	$2,779.3	$2,584.7	$5,191.0	$4,903.9
Cost of sales	2,327.7	2,157.8	4,337.4	4,092.4
Gross profit	451.6	426.9	853.6	811.5
Selling and administrative expenses	266.4	259.5	517.9	511.1
Advertising expense	31.6	31.0	62.0	60.4
Income from operations	153.6	136.4	273.7	240.0
Interest expense, net	(70.3)	(76.9)	(142.4)	(155.8)
Net loss on extinguishments of long-term debt	(10.3)	—	(14.2)	(9.4)
Other income, net	0.2	0.2	0.6	—
Income before income taxes	73.2	59.7	117.7	74.8
Income tax expense	(26.5)	(22.9)	(42.7)	(27.1)
Net income	$46.7	$36.8	$75.0	$47.7
Net income per common share:				
Basic	$0.32	$0.25	$0.52	$0.33
Diluted	$0.32	$0.25	$0.51	$0.33
Weighted-average number of common shares outstanding:				
Basic	145.3	145.1	145.2	145.0
Diluted	146.7	145.8	146.5	145.8

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

Table of Contents

CDW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$46.7	$36.8	$75.0	$47.7
Foreign currency translation adjustment	(3.3)	(1.6)	(5.7)	0.3
Other comprehensive (loss) income	$(3.3)	$(1.6)	$(5.7)	$0.3
Comprehensive income	$43.4	$35.2	$69.3	$48.0

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

Table of Contents

CDW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in millions)
(unaudited)

	Total Shareholders' Equity	Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2012	$136.5	$—	$1.4	$2,207.7	$(2,073.0)	$0.4
Equity-based compensation expense	4.0	—	—	4.0	—	—
Repurchase of common shares	(0.1)	—	—	—	(0.1)	—
Accrued charitable contribution related to the MPK Coworker Incentive Plan II, net of tax	(0.6)	—	—	(0.6)	—	—
Incentive compensation plan units withheld for taxes	(0.1)	—	—	(0.1)	—	—
Net income	75.0	—	—	—	75.0	—
Foreign currency translation adjustment	(5.7)	—	—	—	—	(5.7)
Balance at June 30, 2013	$209.0	$—	$1.4	$2,211.0	$(1,998.1)	$(5.3)

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

Table of Contents

CDW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$75.0	$47.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	104.3	105.7
Equity-based compensation expense	4.0	11.5
Deferred income taxes	(23.5)	(32.0)
Amortization of deferred financing costs, debt premium, and debt discount, net	5.3	8.0
Net loss on extinguishments of long-term debt	14.2	9.4
Other	—	0.9
Changes in assets and liabilities:		
Accounts receivable	(108.9)	19.8
Merchandise inventory	(64.0)	0.1
Other assets	(67.2)	(45.3)
Accounts payable-trade	253.8	170.5
Other current liabilities	17.8	9.2
Long-term liabilities	(3.7)	(0.8)
Net cash provided by operating activities	207.1	304.7
Cash flows from investing activities:		
Capital expenditures	(20.0)	(15.7)
Net cash used in investing activities	(20.0)	(15.7)
Cash flows from financing activities:		
Proceeds from borrowings under revolving credit facility	63.0	256.0
Repayments of borrowings under revolving credit facility	(63.0)	(256.0)
Repayments of long-term debt	(43.4)	(201.0)
Proceeds from issuance of long-term debt	1,346.6	135.7
Payments to extinguish long-term debt	(1,352.6)	(136.9)
Payments of debt financing costs	(4.8)	(2.1)
Net change in accounts payable-inventory financing	33.3	(25.5)
Payment of incentive compensation plan withholding taxes	(23.3)	—
Repurchase of common shares	(0.1)	(0.3)
Net cash used in financing activities	(44.3)	(230.1)
Effect of exchange rate changes on cash and cash equivalents	(1.4)	(0.1)
Net increase in cash and cash equivalents	141.4	58.8
Cash and cash equivalents—beginning of period	37.9	99.9
Cash and cash equivalents—end of period	$179.3	$158.7
Supplementary disclosure of cash flow information:		
Interest paid	$(142.7)	$(151.4)
Taxes paid, net	$(50.9)	$(38.4)

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

Table of Contents

CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

CDW is a Fortune 500 company and a leading provider of integrated information technology (“IT”) solutions to small, medium and large business, government, education and healthcare customers in the U.S. and Canada. The Company's offerings range from discrete hardware and software products to integrated IT solutions such as mobility, security, data center optimization, cloud computing, virtualization and collaboration.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements as of June 30, 2013 and for the three and six months ended June 30, 2013 and 2012 ("consolidated financial statements") have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial statements. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The 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, 2012 ("December 31, 2012 financial statements"). The significant accounting policies used in preparing these consolidated financial statements were applied on a basis consistent with those reflected in the December 31, 2012 financial statements, except as disclosed in Note 2. In the opinion of management, the consolidated financial statements contain all adjustments (consisting of a normal, recurring nature) necessary to present fairly the Company's financial position, results of operations, comprehensive income, cash flows and changes in shareholders' equity 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") was previously owned directly by CDW Holdings LLC ("CDW Holdings"), a company controlled by investment funds affiliated with Madison Dearborn Partners, LLC ("Madison Dearborn") and Providence Equity Partners, L.L.C. ("Providence Equity," and together with Madison Dearborn, the "Sponsors"), certain other co-investors and certain members of CDW management. On July 2, 2013, Parent completed an initial public offering ("IPO") of its common stock. During June 2013, in connection with the IPO, CDW Holdings distributed all of its shares of Parent's common stock to its members in accordance with their respective membership interests. See Note 13 for additional discussion of Parent's IPO.

Parent has two 100% owned subsidiaries, CDW LLC and CDW Finance Corporation. CDW LLC is an Illinois limited liability company that, together with its 100% owned subsidiaries, holds all material assets and conducts all business activities and operations of the Company. CDW Finance Corporation is a Delaware corporation formed for the sole purpose of acting as co-issuer of certain debt obligations as described in Note 12 and does not hold any material assets or engage in any business activities or operations.

Throughout these notes, the terms the “Company” and “CDW” refer to Parent and its 100% owned subsidiaries.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Parent and its 100% 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 the consolidated financial statements contained in the December 31, 2012 financial statements include an additional discussion of the significant accounting policies and estimates used in the preparation of the Company's

Table of Contents

consolidated financial statements. There have been no material changes to the Company's significant accounting policies and estimates during the six months ended June 30, 2013.

Reclassifications

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current period presentation.

See Note 6 for a description of the reclassification and split of the Company's common shares that were completed during the second quarter of 2013.

2. Recent Accounting Pronouncements

Disclosure of the Effects of Reclassifications from Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update 2013-02, which required that the effects of significant reclassifications from accumulated other comprehensive income to net income be shown parenthetically on the face of the consolidated financial statements or disclosed in a note. The adoption of this new guidance on January 1, 2013 did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

3. Inventory Financing Agreements

The Company has entered into agreements with certain financial intermediaries to facilitate the purchase of inventory from various suppliers under certain terms and conditions, as described below. These amounts are classified separately as accounts payable-inventory financing on the accompanying consolidated balance sheets. The Company does not incur any interest expense associated with these agreements as balances are paid when they are due.

The following table presents the amounts included in accounts payable-inventory financing:

(in millions)	June 30, 2013	December 31, 2012
Revolving Loan inventory financing agreement	$ 280.5	$ 248.3
Other inventory financing agreements	2.0	0.9
Accounts payable-inventory financing	$ 282.5	$ 249.2

The Company maintains a senior secured asset-based revolving credit facility as described in Note 4, which incorporates a $400.0 million floorplan sub-facility to facilitate the purchase of inventory from a certain vendor. In connection with the floorplan sub-facility, the Company maintains an inventory financing agreement on an unsecured basis with a financial intermediary to facilitate the purchase of inventory from this vendor (the “Revolving Loan inventory financing agreement”). Amounts outstanding under the Revolving Loan inventory financing agreement are unsecured and non-interest bearing.

The Company also maintains other inventory financing agreements with financial intermediaries to facilitate the purchase of inventory from certain vendors. At June 30, 2013 and December 31, 2012, amounts owed under other inventory financing agreements of $2.0 million and $0.9 million, respectively, were collateralized by the inventory purchased under these financing agreements and a second lien on the related accounts receivable.

CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

4. Long-Term Debt
Long-term debt was as follows:

(dollars in millions)	Interest Rate (1)		June 30, 2013		December 31, 2012	
Senior secured asset-based revolving credit facility	—	%	$—		$—	
Senior secured term loan facility	3.5	%	1,346.6		1,339.5	
Unamortized discount on senior secured term loan facility			(3.3	)	—	
Senior secured notes due 2018	8.0	%	500.0		500.0	
Senior notes due 2019	8.5	%	1,305.0		1,305.0	
Unamortized premium on senior notes due 2019			4.6		5.0	
Senior subordinated notes due 2017	12.535	%	571.5		621.5	
Senior notes due 2015	—	%	—		—	
Total long-term debt			3,724.4		3,771.0	
Less current maturities of long-term debt			(13.5	)	(40.0	)
Long-term debt, excluding current maturities			$3,710.9		$3,731.0	

(1)Weighted-average interest rate at June 30, 2013.

At June 30, 2013, 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 June 30, 2013, the Company had no outstanding borrowings under the Revolving Loan, $1.2 million of undrawn letters of credit and $267.4 million reserved related to the floorplan sub-facility. The Revolving Loan matures on June 24, 2016.

In connection with the floorplan sub-facility, the Company maintains a Revolving Loan inventory financing agreement with a financial intermediary. At June 30, 2013, the financial intermediary reported an outstanding balance of $258.6 million under the Revolving Loan inventory financing agreement. The total amount reported on the Company's consolidated balance sheet as accounts payable-inventory financing related to the Revolving Loan inventory financing agreement is $21.9 million more than the $258.6 million owed to the financial intermediary due to differences in the timing of reporting activity under the Revolving Loan inventory financing agreement. The outstanding balance reported by the financial intermediary excludes $8.8 million in reserves for open orders that reduce the availability under the Revolving Loan.

Availability under the Revolving Loan is limited to (a) the lesser of the revolving commitment of $900.0 million and the amount of the borrowing base less (b) outstanding borrowings, letters of credit, and amounts outstanding under the Revolving Loan inventory financing agreement plus a reserve of 15% of open orders. At June 30, 2013, the borrowing base was $1,098.8 million based on the amount of eligible inventory and accounts receivable balances as of May 31, 2013. The Company could have borrowed up to an additional $631.4 million under the Revolving Loan at June 30, 2013.

Senior Secured Term Loan Facility

On April 29, 2013, the Company entered into a new seven-year, $1,350.0 million aggregate principal amount senior secured term loan facility (the "Term Loan"). Substantially all of the proceeds from the Term Loan were used to repay the $1,299.5 million outstanding aggregate principal amount of the prior senior secured term loan facility (the "Prior Term Loan Facility"). In connection with this refinancing, the Company recorded a loss on extinguishment of long-term debt of $10.3 million in the consolidated statement of operations for the three and six months ended June 30, 2013. This loss represented a write-off of the remaining unamortized deferred financing costs related to the Prior Term Loan Facility.

Table of Contents
CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The Term Loan was issued at a price of 99.75% of par, which resulted in a discount of $3.4 million. This discount is reported on the consolidated balance sheet as a reduction to the face amount of the Term Loan and is being amortized over the term of the related debt. Borrowings under the Term Loan bear interest at either (a) the alternate base rate ("ABR") plus a margin or (b) LIBOR plus a margin; provided that for the purposes of the Term Loan, LIBOR shall not be less than 1.00% per annum at any time. The margin is based upon a net leverage ratio as defined in the agreement governing the Term Loan, ranging from 1.25%-1.50% for ABR borrowings and 2.25%- 2.50% for LIBOR borrowings.

Unlike the Prior Term Loan Facility, the Term Loan does not include a senior secured leverage ratio requirement or a hedging requirement. Additionally, the definition of debt under the Term Loan was revised to exclude amounts outstanding under the Company's inventory financing agreements. The Term Loan is subject to certain requirements as was the Prior Term Loan Facility to make mandatory annual excess cash flow prepayments under designated circumstances, including (i) a prepayment in an amount equal to 50% of the Company's excess cash flow for a fiscal year (the percentage rate of which decreases to 25% when the total net leverage ratio, as defined in the governing agreement, is less than or equal to 5.5 but greater than 4.5; and decreases to 0% when the total net leverage ratio is less than or equal to 4.5), and (ii) the net cash proceeds from the incurrence of certain additional indebtedness by the Company or its subsidiaries. The total net leverage ratio was 4.5 and 4.9 at June 30, 2013 and December 31, 2012, respectively. The total net leverage ratio at December 31, 2012 has been revised to conform to the definition in the agreement governing the Term Loan.

The Company is required to pay quarterly principal installments equal to $3.375 million, with the remaining principal amount payable on the maturity date of April 29, 2020. The quarterly principal installment payments commenced during the quarter ended June 30, 2013. At June 30, 2013, the outstanding principal amount of the Term Loan was $1,346.6 million, excluding $3.3 million in unamortized discount.

The Company has ten interest rate cap agreements in effect through January 14, 2015 with a combined notional amount of $1,150.0 million. These cap agreements have not been designated as cash flow hedges of interest rate risk for GAAP accounting purposes. Of the total $1,150.0 million notional amount, $500.0 million entitle the Company to payments from the counterparty of the amount, if any, by which three-month LIBOR exceeds 3.5% during the agreement period. The remaining cap agreements with a notional amount of $650.0 million entitle the Company to payments from the counterparty of the amount, if any, by which the three-month LIBOR exceeds 1.5% during the agreement period. The fair value of the Company's interest rate cap agreements was $0.2 million at June 30, 2013 and $0.1 million at December 31, 2012.

On January 30, 2013, the Company made an optional prepayment of $40.0 million aggregate principal amount outstanding under the Prior Term Loan Facility. The optional prepayment satisfied the excess cash flow payment provision of the Prior Term Loan Facility with respect to the year ended December 31, 2012.

See Note 13 for a description of the incremental borrowings under the Term Loan completed during the third quarter of 2013.

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

The Senior Secured Notes were issued on December 17, 2010 and mature on December 15, 2018. At June 30, 2013, the outstanding principal amount of the Senior Secured Notes was $500.0 million.

See Note 13 for a description of the partial redemption of Senior Secured Notes completed during the third quarter of 2013.

11.0% Senior Exchange Notes due 2015 (“Senior Exchange Notes”); 11.5% / 12.25% Senior PIK Election Exchange Notes due 2015 (“PIK Election Notes” together with the Senior Exchange Notes, the “Senior Notes due 2015”)

At June 30, 2013 and December 31, 2012, there were no outstanding Senior Notes due 2015.

In February and March 2012, the Company purchased or redeemed the remaining $129.0 million aggregate principal amount of Senior Notes due 2015, funded with the issuance of $130.0 million aggregate principal amount of additional Senior Notes (as defined below). In connection with these transactions, the Company recorded a loss on extinguishment of long-term debt of $9.4 million in the Company's consolidated statement of operations for the six months ended June 30, 2012. This loss represented $7.9 million in tender and redemption premiums and $1.5 million for the write-off of the remaining unamortized deferred financing costs related to the Senior Notes due 2015.

Table of Contents
CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

8.5% Senior Notes due 2019 (“Senior Notes”)

On February 17, 2012, the Company issued $130.0 million aggregate principal amount of additional Senior Notes at an issue price of 104.375% of par. The $5.7 million premium received is reported on the consolidated balance sheets as an addition to the face amount of the Senior Notes and is being amortized as a reduction to interest expense over the term of the related debt. At June 30, 2013, the outstanding principal amount of Senior Notes was $1,305.0 million, excluding $4.6 million in unamortized premium. The Senior Notes mature on April 1, 2019.

12.535% Senior Subordinated Exchange Notes due 2017 (“Senior Subordinated Notes”)

At June 30, 2013, the outstanding principal amount of the Company's Senior Subordinated Notes was $571.5 million. The Senior Subordinated Notes mature on October 12, 2017.

On March 8, 2013, the Company redeemed $50.0 million aggregate principal amount of Senior Subordinated Notes at a redemption price that was 106.268% of the principal amount redeemed. Cash on hand was used to fund the redemption of $50.0 million aggregate principal amount, $3.1 million of redemption premium and $2.5 million in accrued and unpaid interest. In connection with this redemption, the Company recorded a loss on extinguishment of long-term debt of $3.9 million in the Company's consolidated statement of operations for the six months ended June 30, 2013. This loss represented $3.1 million in redemption premium and $0.8 million for the write-off of a portion of the unamortized deferred financing costs related to the Senior Subordinated Notes.

See Note 13 for a description of the partial redemption of Senior Subordinated Notes completed during the third quarter of 2013.

Fair Value

The fair value of the Company's long-term debt instruments at June 30, 2013 was $3,899.9 million. The fair value of the Senior Secured Notes, Senior Notes and Senior Subordinated Notes is estimated using quoted market prices for identical assets or liabilities that are traded in over-the-counter secondary markets that are not considered active. The fair value of the Term Loan is estimated using dealer quotes for identical assets or liabilities in markets that are not considered active. Consequently, the Company's long-term debt is classified as Level 2 within the fair value hierarchy. At June 30, 2013, the carrying value of the Company's long-term debt was $3,723.1 million, excluding $4.6 million in unamortized premium and $3.3 million in unamortized discount.

5. Income Taxes

The Company's effective income tax rate was 36.2% and 38.4% for the three months ended June 30, 2013 and 2012, respectively, and 36.3% and 36.2% for the six months ended June 30, 2013 and 2012, respectively.

For the three months ended June 30, 2013, the Company's effective tax rate differed from the U.S. federal statutory rate primarily due to state income taxes. The effective tax rate for the three months ended June 30, 2012 differed from the U.S. federal statutory rate primarily due to state income taxes and non-deductible expenses, primarily equity-based compensation and meals and entertainment. The non-deductible expenses had a greater impact on the effective tax rate for the three months ended June 30, 2012 than for the three months ended June 30, 2013.

For the six months ended June 30, 2013, the Company's effective tax rate differed from the U.S. federal statutory rate primarily due to state income taxes. The effective tax rate for the six months ended June 30, 2012 also differed from the U.S. federal statutory rate primarily due to state income taxes. While the non-deductible expenses had a greater impact on the effective tax rate for the six months ended June 30, 2012 than for the six months ended June 30, 2013, the effect was offset by additional state tax credits that were recorded in the first three months of 2012.

In the ordinary course of business, the Company is subject to review by domestic and foreign taxing authorities, including the Internal Revenue Service (“IRS”). In general, the Company is no longer subject to audit by the IRS for tax years through 2010 and state, local or foreign taxing authorities for tax years through 2007. 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.

12

6. Shareholders' Equity

In June 2013, the Company’s Board of Directors and the Company's sole shareholder at that time, CDW Holdings, approved the reclassification of the Company’s Class A common shares and Class B common shares into a single class of common shares and a 143.0299613-for-1 stock split, effective immediately. The par value of the common shares was maintained at $0.01 per share. All references to common shares and per share amounts in the accompanying consolidated financial statements have been adjusted to reflect the reclassification and stock split on a retroactive basis.

In June 2013, the Company amended and restated its certificate of incorporation to authorize the issuance of 100,000,000 shares of preferred stock with a par value of $0.01. No shares of preferred stock have been issued or are outstanding as of June 30, 2013. Additionally, the amended and restated certificate of incorporation increased the number of authorized common shares to 1,000,000,000.

On July 2, 2013, the Company completed an IPO of its common shares. See Note 13 for additional discussion of the Company's IPO.

7. Equity-Based Compensation

The Company recognized $2.1 million and $5.8 million in equity-based compensation expense for the three months ended June 30, 2013 and 2012, respectively, and $4.0 million and $11.5 million in equity-based compensation expense for the six months ended June 30, 2013 and 2012, respectively. Equity-based compensation expense for the three and six months ended June 30, 2012 included incremental expense of $1.7 million and $3.3 million, respectively, related to a modified Class B Common Unit grant agreement with the Company's former chief executive officer.

In June 2013, the Company adopted the 2013 Long-Term Incentive Plan (the "2013 LTIP"). The 2013 LTIP provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, bonus stock and performance awards. The maximum aggregate number of shares that may be issued under the 2013 LTIP is 11,700,000 shares of the Company's common stock, in addition to the 3,798,508 shares of restricted stock granted to replace unvested B Units in connection with the Company's IPO, as discussed below.

On July 2, 2013, the Company completed an IPO of its common shares. In connection with the IPO, CDW Holdings distributed all of its shares of the Company's common stock to its existing members in accordance with their respective membership interests. Common stock received by holders of B Units in connection with the distribution is subject to any vesting provisions previously applicable to the holder's B Units. B Unit holders received 3,798,508 shares of restricted stock with respect to B Units that had not yet vested at the time of the distribution. In addition, the Company issued approximately 1.3 million stock options to the B Unit holders to preserve their fully-diluted equity ownership percentage. These options were issued with an exercise price equal to the IPO price per share and are also subject to the same vesting provisions as the B Units to which they relate. The unvested stock options and shares of restricted stock generally vest between December 31, 2014 and January 20, 2018.

Under the terms of the MPK Incentive Plan II (the "MPK Plan"), vesting accelerated for all unvested units upon completion of the IPO. The Company anticipates recording a pre-tax charge of $36.7 million related to the acceleration of the expense recognition for MPK units in the third quarter of 2013. In connection with the completion of the IPO, the Company distributed common stock to each participant and withheld the number of shares of common stock equal to the required tax withholding for each participant. In June 2013, the Company paid required withholding taxes of $23.3 million to federal and state taxing authorities. This amount is included within prepaid expenses and other on the consolidated balance sheet at June 30, 2013 and is reported as a financing activity in the consolidated statement of cash flows for the six months ended June 30, 2013. In addition, the Company paid $4.0 million of employer payroll taxes that are included as an operating activity in the consolidated statement of cash flows for the six months ended June 30, 2013.

In connection with the IPO, the Company granted approximately 1.4 million restricted stock units under the 2013 LTIP. The restricted stock units granted vest at the end of four years.
See Note 13 for additional discussion of the Company's IPO.

Table of Contents
CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

8. Earnings per Share

The numerator for both basic and diluted earnings per share is net income. The denominator for basic earnings per share is the weighted average number of common shares outstanding during the period. The dilutive effect of outstanding MPK Plan Units and Deferred Units is reflected in the denominator for diluted earnings per share using the treasury stock method. Class B Common Units are not dilutive as no incremental common shares are issued upon vesting or repurchase by the Company.
The following is a reconciliation of basic shares to diluted shares:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2013	2012	2013	2012
Weighted-average shares - basic	145.3	145.1	145.2	145.0
Effect of dilutive securities	1.4	0.7	1.3	0.8
Weighted-average shares - diluted	146.7	145.8	146.5	145.8

There were no potential common shares excluded from diluted earnings per share for the three and six month periods ended June 30, 2013 and 2012.
On July 2, 2013, the Company completed an IPO of its common shares which will impact both basic and diluted earnings per share in future periods. See Note 13 for additional discussion of the Company's IPO.
9. Deferred Compensation Plan
On March 10, 2010, in connection with the Company's purchase of $28.5 million principal amount of its outstanding senior subordinated debt, the Company established the Restricted Debt Unit Plan (the “RDU Plan”), an unfunded nonqualified deferred compensation plan. The total number of RDUs that can be granted under the RDU Plan is 28,500. As of June 30, 2013, 26,549 RDUs were outstanding. RDUs that are outstanding vest daily on a pro rata basis over the three-year period from January 1, 2012 (or, if later, the date of hire or the date of a subsequent RDU grant) through December 31, 2014.
The total amount of compensation available to be paid under the RDU Plan is based on two components, a principal component and an interest component. Participants have no rights to the underlying debt. The principal component credits the RDU Plan with an amount equal to the $28.5 million face value of the Company's Senior Subordinated Notes (the “Debt Pool”). Payment of the principal component of the RDU Plan is expected to be made on October 12, 2017, unless accelerated due to a sale of the Company. By December 31, 2014, amounts accrued under the RDU Plan are expected to equal the present value of the principal component, plus any accrued unpaid interest thereon. The interest component credits the RDU Plan with amounts equal to the interest that would have been earned on the Debt Pool from March 10, 2010 through maturity on October 12, 2017 as discussed below. Interest amounts for 2010 and 2011 were deferred until 2012, and thereafter, interest amounts were paid to participants semi-annually on the interest payment due dates. Payments totaling $1.7 million were made to participants under the RDU Plan in April 2013 in connection with the semi-annual interest payment due.
As described in Note 13, the Company used a portion of the IPO proceeds together with incremental borrowings to redeem $324.0 million of the total Senior Subordinated Notes outstanding on August 1, 2013. In accordance with the terms of the RDU Plan, upon redemption of Senior Subordinated Notes, the RDUs cease to accrue the related interest component credits. The Company expects to give participants the opportunity to share on a pro rata basis in cash retention pools that will be payable to participants who satisfy certain retention requirements. The aggregate amount of the retention pools will be determined based on the amount of interest component credits that would have been allocated to the RDU Plan if the Senior Subordinated Notes remained outstanding through maturity. The Company

expects to record a pre-tax charge of $7.5 million in the third quarter of 2013 for payment of the first cash retention pool. Including this charge, unrecognized compensation expense as of June 30, 2013 of approximately $21 million is expected to be recognized through 2014 and approximately $7 million in 2015 through 2017. Payments under the

RDU Plan may be impacted if certain significant events occur or circumstances change that would impact the financial condition or structure of the Company.

Compensation expense of $2.2 million and $2.1 million related to the RDU Plan was recognized for the three months ended June 30, 2013 and 2012, respectively, and $4.3 million and $4.2 million for the six months ended June 30, 2013 and 2012, respectively. At June 30, 2013 and December 31, 2012, the Company had $18.1 million and $15.5 million of liabilities related to the RDU Plan recorded on the consolidated balance sheets, respectively.

10. Commitments and Contingencies

The Company is party to various legal proceedings that arise in the ordinary course of its business, which include commercial, intellectual property, employment, tort and other litigation matters. The Company is also subject to audit by federal, state and local authorities, by various partners and large customers, including government agencies, relating to purchases and sales under various contracts. In addition, the Company is subject to indemnification claims under various contracts. From time to time, certain customers of the Company file voluntary petitions for reorganization or liquidation under the U.S. bankruptcy laws. In such cases, certain pre-petition payments received by the Company could be considered preference items and subject to return to the bankruptcy administrator.

As of June 30, 2013, the Company does not believe that there is a reasonable possibility that any material loss exceeding the amounts already recognized for these proceedings and matters, if any, has been incurred. However, the ultimate resolutions of these proceedings and matters are inherently unpredictable. As such, the Company's financial condition and results of operations could be adversely affected in any particular period by the unfavorable resolution of one or more of these proceedings or matters.

11. Segment Information

Segment information is presented in accordance with a “management approach,” which designates the internal reporting used by the chief operating decision-maker for making decisions and assessing performance as the source of the Company's reportable segments. The Company's segments are organized in a manner consistent with which separate financial information is available and evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance.

The Company has two reportable segments: Corporate, which is comprised primarily of private sector business customers, and Public, which is comprised of government agencies and education and healthcare institutions. The Company also has two other operating segments, CDW Advanced Services and Canada, which do not meet the reportable segment quantitative thresholds and, accordingly, are combined together as “Other.”

The Company has centralized logistics and headquarters functions that provide services to the segments. The logistics function includes purchasing, distribution and fulfillment services to support both the Corporate and Public segments. As a result, costs and intercompany charges associated with the logistics function are fully allocated to both of these segments based on a percent of sales. The centralized headquarters function provides services in areas such as accounting, information technology, marketing, legal and coworker services. Headquarters' function costs that are not allocated to the segments are included under the heading of “Headquarters” in the tables below. Depreciation expense is included in Headquarters as it is not allocated among segments or used in measuring segment performance.

The Company allocates resources to and evaluates performance of its segments based on net sales, income (loss) from operations and Adjusted EBITDA, a non-GAAP measure as defined in the Company's credit agreements. However, the Company has concluded that income (loss) from operations is the more useful measure in terms of discussion of operating results, as it is a GAAP measure.

Segment information for total assets and capital expenditures is not presented as such information is not used in measuring segment performance or allocating resources between segments.

Table of Contents
CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Selected Segment Financial Information
The following table presents information about the Company’s segments for the three and six months ended June 30, 2013 and 2012:

(in millions)	Corporate	Public	Other	Headquarters	Total
Three Months Ended June 30, 2013:					
Net sales	$1,537.4	$1,082.6	$159.3	$—	$2,779.3
Income (loss) from operations	103.2	69.1	8.9	(27.6)	153.6
Depreciation and amortization expense	(24.4)	(11.0)	(2.2)	(14.7)	(52.3)
Three Months Ended June 30, 2012:					
Net sales	$1,394.4	$1,040.4	$149.9	$—	$2,584.7
Income (loss) from operations	92.3	66.1	5.0	(27.0)	136.4
Depreciation and amortization expense	(24.4)	(11.0)	(2.4)	(15.4)	(53.2)
Six Months Ended June 30, 2013:					
Net sales	$2,941.3	$1,929.4	$320.3	$—	$5,191.0
Income (loss) from operations	197.3	114.7	14.9	(53.2)	273.7
Depreciation and amortization expense	(48.8)	(22.1)	(4.5)	(28.9)	(104.3)
Six Months Ended June 30, 2012:					
Net sales	$2,757.2	$1,858.0	$288.7	$—	$4,903.9
Income (loss) from operations	177.1	108.2	7.5	(52.8)	240.0
Depreciation and amortization expense	(48.7)	(22.0)	(4.7)	(30.3)	(105.7)

12. Supplemental Guarantor Information

The Senior Secured Notes, Senior Notes and Senior Subordinated Notes are guaranteed by Parent and each of CDW LLC’s direct and indirect, 100% owned, domestic subsidiaries (the “Guarantor Subsidiaries”). All guarantees by Parent and Guarantor Subsidiaries are joint and several, and full and unconditional; provided that each guarantee by the Guarantor Subsidiaries is subject to certain customary release provisions contained in the indentures governing the Senior Secured Notes, Senior Notes and Senior Subordinated Notes. CDW LLC's Canada subsidiary (the “Non-Guarantor Subsidiary”) does not guarantee the debt obligations. CDW LLC and CDW Finance Corporation, as co-issuers, are 100% owned by Parent, and each of the Guarantor Subsidiaries and the Non-Guarantor Subsidiary is 100% owned by CDW LLC.

The following tables set forth condensed consolidating balance sheets as of June 30, 2013 and December 31, 2012, consolidating statements of operations for the three and six months ended June 30, 2013 and 2012, condensed consolidating statements of comprehensive income for the three and six months ended June 30, 2013 and 2012, and condensed consolidating statements of cash flows for the six months ended June 30, 2013 and 2012, in accordance with Rule 3-10 of Regulation S-X. The consolidating financial information includes the accounts of CDW Corporation (the “Parent Guarantor”), which has no independent assets or operations, the accounts of CDW LLC (the “Subsidiary Issuer”), the combined accounts of the Guarantor Subsidiaries, the accounts of the Non-Guarantor Subsidiary, and the accounts of CDW Finance Corporation (the “Co-Issuer”) for the periods indicated. The information was prepared on the same basis as the Company’s consolidated financial statements.

Table of Contents
CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Condensed Consolidating Balance Sheet
June 30, 2013

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Co-Issuer	Consolidating Adjustments	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	$—	$142.0	$11.2	$ 26.2	$—	$(0.1)	$ 179.3
Accounts receivable, net	—	—	1,335.2	55.3	—	—	1,390.5
Merchandise inventory	—	—	376.2	2.3	—	—	378.5
Miscellaneous receivables	—	55.4	103.3	6.4	—	—	165.1
Deferred income taxes	—	8.5	3.7	(0.1)	—	—	12.1
Prepaid expenses and other	—	24.0	83.6	0.6	—	—	108.2
Total current assets	—	229.9	1,913.2	90.7	—	(0.1)	2,233.7
Property and equipment, net	—	69.4	61.1	2.2	—	—	132.7
Goodwill	—	749.4	1,428.5	29.5	—	—	2,207.4
Other intangible assets, net	—	343.9	1,052.5	7.3	—	—	1,403.7
Deferred financing costs, net	—	41.4	—	—	—	—	41.4
Other assets	5.2	1.5	0.1	0.6	—	(5.8)	1.6
Investment from and advances to subsidiaries	203.8	2,892.0	—	—	—	(3,095.8)	—
Total assets	$209.0	$4,327.5	$4,455.4	$ 130.3	$—	$(3,101.7)	$ 6,020.5
Liabilities and Shareholders' Equity							
Current liabilities:							
Accounts payable—trade	$—	$20.6	$725.2	$ 25.3	$—	$(0.1)	$ 771.0
Accounts payable—inventory financing	—	—	282.5	—	—	—	282.5
Current maturities of long-term debt	—	13.5	—	—	—	—	13.5
Deferred revenue	—	—	96.5	0.4	—	—	96.9
Accrued expenses	—	136.4	138.9	6.0	—	—	281.3
Total current liabilities	—	170.5	1,243.1	31.7	—	(0.1)	1,445.2
Long-term liabilities:							
Debt	—	3,710.9	—	—	—	—	3,710.9
Deferred income taxes	—	189.8	412.1	1.6	—	(5.2)	598.3
Accrued interest	—	6.4	—	—	—	—	6.4
Other liabilities	—	46.1	3.6	1.6	—	(0.6)	50.7
Total long-term liabilities	—	3,953.2	415.7	3.2	—	(5.8)	4,366.3

Total shareholders' equity	209.0	203.8	2,796.6	95.4	—	(3,095.8)	209.0
Total liabilities and shareholders' equity	$ 209.0	$ 4,327.5	$ 4,455.4	$ 130.3	$—	$ (3,101.7)	$ 6,020.5

Table of Contents
CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Condensed Consolidating Balance Sheet
December 31, 2012

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Co-Issuer	Consolidating Adjustments	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	$—	$48.0	$—	$ 9.8	$—	$ (19.9)	$ 37.9
Accounts receivable, net	—	—	1,217.7	67.3	—	—	1,285.0
Merchandise inventory	—	—	313.2	1.4	—	—	314.6
Miscellaneous receivables	—	61.7	82.0	4.8	—	—	148.5
Deferred income taxes	—	8.7	5.5	(0.1)	—	—	14.1
Prepaid expenses and other	—	10.1	24.4	0.1	—	—	34.6
Total current assets	—	128.5	1,642.8	83.3	—	(19.9)	1,834.7
Property and equipment, net	—	73.9	66.2	2.6	—	—	142.7
Goodwill	—	749.4	1,428.5	31.4	—	—	2,209.3
Other intangible assets, net	—	348.6	1,121.7	8.2	—	—	1,478.5
Deferred financing costs, net	—	53.2	—	—	—	—	53.2
Other assets	5.4	1.1	0.4	0.6	—	(5.9)	1.6
Investment in and advances to subsidiaries	131.1	2,946.0	—	—	—	(3,077.1)	—
Total assets	$ 136.5	$4,300.7	$4,259.6	$ 126.1	$—	$ (3,102.9)	$ 5,720.0
Liabilities and Shareholders' Equity							