CDW Corp
Form 10-K
March 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
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 (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)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes ý No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ý Yes ¨ No
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 is a voluntary filer of reports required of companies with public securities under Section 13 or 15(d) of the Securities Exchange Act of 1934 and has filed all reports which would have been required of the registrant 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
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
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2012, the last business day of the registrant’s most recently completed second fiscal quarter, was zero.
As of March 6, 2013, there were 100,000 Class A common shares, $0.01 par value, outstanding, and 914,537 Class B common shares, $0.01 par value, outstanding, all of which were owned by CDW Holdings LLC.

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DOCUMENTS INCORPORATED BY REFERENCE
None

CDW CORPORATION AND SUBSIDIARIES
ANNUAL REPORT ON FORM 10-K
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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact included in this report are forward-looking statements. These statements relate to analyses and other information, which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. We claim the protection of The Private Securities Litigation Reform Act of 1995 for all forward-looking statements in this report.

These forward-looking statements are identified by the use of terms and phrases such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “will” and similar terms and phrases, including references t assumptions. However, these words are not the exclusive means of identifying such statements. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that we will achieve those plans, intentions or expectations. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected.

Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed under the section entitled “Risk Factors” included elsewhere in this report. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements contained in the section entitled “Risk Factors” included elsewhere in this report as well as other cautionary statements that are made from time to time in our other SEC filings and public communications. You should evaluate all forward-looking statements made in this report in the context of these risks and uncertainties.

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect.

The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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PART I

Item 1. Business

Our Company

CDW is a Fortune 500 company and a leading provider of integrated information technology (“IT”) solutions in the U.S. and Canada. We help our customer base of more than 250,000 small, medium and large business, government, education and healthcare customers by delivering critical solutions to their increasingly complex IT needs. Our broad array of offerings range from discrete hardware and software products to integrated IT solutions such as mobility, security, data center optimization, cloud computing, virtualization and collaboration. Our product portfolio includes more than 100,000 products from more than 1,000 brands. We provide these solutions through a large and experienced sales force and service delivery team consisting of more than 4,300 coworkers, including nearly 1,400 highly skilled technology specialists and engineers.

We are a leading U.S. sales channel partner for many original equipment manufacturers (“OEMs”) and software publishers (collectively, our “vendor partners”), whose products we include in our offerings. We believe we are an important extension of our vendor partners' sales and marketing capabilities, providing them with a cost-effective way to reach customers and maintain a consistent brand experience through our established end-market coverage and extensive customer access. In 2012, we generated over $1 billion of revenue for three of our vendor partners and over $100 million of revenue for an additional 12 of our vendor partners.

We provide value to our customers by simplifying the complexities of technology across design, selection, procurement, integration and management. Our goal is to have our customers, regardless of their size, view us as an indispensable extension of their IT staffs. We seek to achieve this goal by providing our customers with superior service through our large and experienced sales force and service delivery teams. Our multi-brand offering approach, which is not limited to any particular brand or product technology, enables us to identify the products or combination of products that best address each customer's specific organizational IT requirements.

Our customers include private sector businesses that typically employ fewer than 5,000 employees, government agencies and educational and healthcare institutions. We serve our customers through service delivery teams and channel-specific sales teams with extensive technical skills and knowledge of the specific markets they serve. This market segmentation allows us to customize our offerings for our customers, which often do not have the expertise or resources to effectively evaluate and to optimally implement IT solutions. We currently have five dedicated customer channels: small business, medium/large business, government, education and healthcare, each of which generated over $1 billion in net sales in 2012. The scale and diversity of our customer channels provides us with multiple avenues for growth and a balanced customer base to weather economic and technology cycles.

The following table provides information regarding our reportable segments and our customer channels:

	Corporate Segment		Public Segment			
Customer Channels	Medium/Large Business	Small Business	Government	Education	Healthcare	Other
Typical Target Customers	100 - 5,000 employees	10 - 100 employees	Various agencies within federal, state and local governments	Higher education and K-12	Private and public hospitals, ambulatory service providers and long-term care facilities	Advanced services customers across our channels plus Canadian businesses and agencies
2012 Net Sales (in billions)	$4.4	$1.1	$1.4	$1.2	$1.4	$0.6

For further information on our segments, including financial results, see Note 16 to our consolidated financial statements included elsewhere in this report.

We offer over 1,000 brands, from well-established companies such as APC, Apple, Cisco, EMC, Hewlett-Packard, IBM, Lenovo, Microsoft, NetApp, Symantec and VMware to emerging vendor partners such as Drobo, Fusion-io, Meraki, Nimble Storage, Salesforce.com, Sophos and Splunk. Our coworkers have enabled us to achieve the highest level of certification from major vendor partners such as Cisco, EMC and Microsoft. These certifications reflect the extensive product and solution knowledge and capabilities that we bring to our customers' IT challenges and provide us with access to favorable pricing, tools and resources, including vendor incentive programs, which we use to provide additional value to our customers. Our vendor partners also regularly recognize us with top awards and select us to develop and grow new customer solutions.

History

CDW was founded in 1984. In 2003, we purchased selected U.S. assets and the Canadian operations of Micro Warehouse, which extended our growth platform into Canada. In 2006, we acquired Berbee Information Networks Corporation, a regional provider of technology products, solutions and customized engineering services in advanced technologies primarily across Cisco, IBM and Microsoft portfolios. This acquisition increased our capabilities in customized engineering services and managed services.

On October 12, 2007, CDW Corporation, an Illinois corporation, was acquired through a merger transaction by an entity controlled by investment funds affiliated with Madison Dearborn Partners, LLC and Providence Equity Partners L.L.C. (the “Acquisition”). CDW Corporation continued as the surviving corporation and same legal entity after the Acquisition, but became a wholly owned subsidiary of VH Holdings, Inc., a Delaware corporation.

On December 31, 2009, CDW Corporation merged into CDWC LLC, an Illinois limited liability company owned by VH Holdings, Inc., with CDWC LLC as the surviving entity. This change had no impact on our operations or management. On December 31, 2009, CDWC LLC was renamed CDW LLC (“CDW LLC”). On August 17, 2010, VH Holdings, Inc. was renamed CDW Corporation (“Parent”), a Delaware corporation.

Throughout this report, the terms “the Company” and “CDW” refer to Parent and its 100% owned subsidiaries subsequent to the Acquisition.

Parent is owned directly by CDW Holdings LLC, a company controlled by investment funds affiliated with Madison Dearborn Partners, LLC and Providence Equity Partners L.L.C. (the “Equity Sponsors”), certain other co-investors and certain members of CDW management. See “Equity Sponsors” below.

Our Market

We believe our addressable market in the U.S. represents more than $200 billion in annual sales and for the year ended December 31, 2012, our net sales of $10.1 billion represented approximately 5% of that market. New technologies, including cloud, virtualization and mobility, coupled with the resulting increase in demand for data as well as aging infrastructure, are increasingly requiring businesses and institutions to seek integrated solutions to their IT needs. We expect this trend to continue for the foreseeable future, with end-user demand for business efficiency and productivity driving future IT spending growth.

Our Offerings

Our offerings range from discrete hardware and software products and services to complex integrated solutions that include one or more of these elements. We believe our customers increasingly view technology purchases as integrated solutions rather than discrete product and service categories. Our hardware products include notebooks/mobile devices (including tablets), network communications, enterprise and data storage, video monitors, printers, desktop computers and servers. Our software products include application suites, security, virtualization, operating systems, network management and Software as a Service (“SaaS”) offerings. We also provide a full suite of value-added-services, which range from basic installation, warranty and repair services to custom configuration, data center and network implementation services, as well as managed services that include Infrastructure as a Service (“IaaS”) offerings.

We also offer a variety of integrated solutions, such as:

•Mobility: We assist our customers with the selection, procurement and integration of mobile security software, hardware devices such as smartphones, tablets and notebooks, and cellular wireless activation systems. We also provide mobile device management applications with policy and security management capabilities across a variety of mobile operating systems and platforms.

•Security: We assess our customers' security needs and provide them with threat prevention tools in order to protect their networks, servers and applications, such as anti-virus, anti-spam, content filtering, intrusion prevention, firewall and virtual private network services, and network access control. We also design and implement data loss prevention solutions, using data monitoring and encryption across a wide array of devices to ensure the security of customer information, personal employee information and research and development data.

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•Data Center Optimization: We help our customers evaluate their data centers for convergence and optimization opportunities. Our data center optimization solutions consist of server virtualization, physical server consolidation, data storage management and energy-efficient power and cooling systems.
•Cloud Computing: Cloud computing is a combination of software and computing delivered on demand as a service. We provide SaaS and IaaS solutions that reside in the public cloud, meaning any person or organization interested in porting applications and resources to an external "public" cloud system can do so. Likewise, we provide similar private cloud-based solutions to our customers that prefer to avoid running their infrastructure on a shared public platform but want to obtain the flexibility, scalability and access offered by cloud computing and collaboration.
•Virtualization: We design and implement server, storage and desktop virtualization solutions. Virtualization enables our customers to efficiently utilize hardware resources by running multiple, independent, virtual operating systems on a single computer and multiple virtual servers simultaneously on a single server. Virtualization also can separate a desktop environment and associated application software from the hardware device that is used to access it, and provides employees with remote desktop access. Our specialists assist customers with the steps of implementing virtualization solutions, including evaluating network environments, deploying shared storage options and licensing platform software.
•Collaboration: We provide our customers with communication tools that allow employees to share knowledge, ideas and information among each other and with clients and partners effectively and quickly. Our collaboration solutions unite communications and applications via the integration of products that facilitate the use of multiple enterprise communication methods including email, instant messaging, presence, social media, voice, video, hardware, software and services. We also host cloud-based collaboration solutions.
While we believe customers increasingly view technology purchases as solutions rather than discrete product and service categories, the following table shows our net sales by major category, based upon our internal category classifications. Prior period amounts have been reclassified for changes in individual product classifications to conform to the presentation for the year ended December 31, 2012.

	Year Ended December 31, 2012			Year Ended December 31, 2011			Year Ended December 31, 2010		
	Dollars in Millions	Percentage of Total Net Sales		Dollars in Millions	Percentage of Total Net Sales		Dollars in Millions	Percentage of Total Net Sales	
Notebooks/Mobile Devices	$ 1,470.8	14.5	%	$ 1,333.8	13.9	%	$ 1,142.6	13.0	%
NetComm Products	1,350.6	13.3		1,241.4	12.9		1,142.0	13.0	
Enterprise and Data Storage (Including Drives)	975.1	9.6		916.9	9.5		844.1	9.6	
Other Hardware	4,111.1	40.6		4,039.2	42.1		3,783.5	43.0	
Software	1,886.6	18.6		1,781.6	18.6		1,621.8	18.4	
Services	285.2	2.8		254.6	2.7		214.9	2.4	
Other [(1)]	48.8	0.6		34.9	0.3		52.3	0.6	
Total net sales	$ 10,128.2	100.0	%	$ 9,602.4	100.0	%	$ 8,801.2	100.0	%

(1) Includes items such as delivery charges to customers and certain commission revenue.

Our Customers

We provide integrated IT solutions to more than 250,000 small, medium and large business, government, education and healthcare customers throughout the U.S. and Canada. Sales to the U.S. federal government, which are diversified across multiple agencies and departments, collectively accounted for approximately 10% of our 2012 net sales. Excluding these sales to the federal government, we are not reliant on any one customer, as our next five largest customers cumulatively comprised approximately 2% of our net sales in 2012.

Inventory Management

We utilize our IT systems to manage our inventory in a cost-efficient manner, resulting in a rapid-turn inventory model. We generally only stock items that have attained a minimum sales volume.

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Our distribution process is highly automated. Once a customer order is received and credit approved, orders are automatically routed to one of our distribution centers for picking and shipping as well as configuration and imaging services. We operate two distribution centers: an approximately 450,000 square foot facility in Vernon Hills, Illinois, and an approximately 513,000 square foot facility in North Las Vegas, Nevada. We ship almost 35 million units annually on an aggregate basis from our two distribution centers. We believe that the location of our distribution centers allows us to efficiently ship products throughout the U.S. and provide timely access to our principal distributors. In addition, in the event of weather-related or other disruptions at one of our distribution centers, we are able to shift order processing and fulfillment from one center to the other quickly and efficiently, enabling us to continue to ship products in a timely manner. We believe that competitive sources of supply are available in substantially all of the product categories we offer. We continue to improve the productivity of our distribution centers as measured by key performance indicators such as units shipped per hour worked and bin accuracy.

We also have drop-shipment arrangements with many of our OEMs and wholesale distributors, which permit us to offer products to our customers without having to take physical delivery at either of our distribution centers.

Information Technology Systems

We maintain customized IT and unified communication systems that enhance our ability to provide prompt, efficient and expert service to our customers. In addition, these systems enable centralized management of key functions, including purchasing, inventory management, billing and collection of accounts receivable, sales and distribution. Our systems provide us with thorough, detailed and real-time information regarding key aspects of our business. This capability helps us to continuously enhance productivity, ship customer orders quickly and efficiently, respond appropriately to industry changes and provide high levels of customer service. We believe that our websites, which provide electronic order processing and advanced tools, such as order tracking, reporting and asset management, make it easy for customers to transact business with us and ultimately strengthen our customer relationships.

Product Procurement

We may sell all or only select products that our vendor partners offer. Each vendor partner agreement provides for specific terms and conditions, which may include one or more of the following: product return privileges, price protection policies, purchase discounts and vendor incentive programs, such as purchase or sales rebates and cooperative advertising reimbursements. We also resell software for major software publishers. Our agreements with software publishers allow the end-user customer to acquire software or licensed products and services. In addition to helping our customers determine the best software solutions for their needs, we help them manage their software agreements, including warranties and renewals.

In addition to purchasing products directly from our vendor partners, we purchase products from wholesale distributors for resale to our customers. Wholesale distributors, such as Arrow, Avnet, Ingram Micro, SYNNEX and Tech Data, provide logistics management and supply-chain services for us and our vendor partners but, unlike CDW, typically do not have relationships with end-users in the U.S. For the year ended December 31, 2012, we purchased 52% of the products we sold directly from our vendor partners and the remaining 48% from wholesale distributors. Purchases from wholesale distributors Ingram Micro, Tech Data and SYNNEX represented 12%, 10% and 9%, respectively, of our total purchases. Sales of products manufactured by Apple, Cisco, EMC, Hewlett-Packard, Lenovo and Microsoft, whether purchased directly from these vendor partners or from a wholesale distributor, represented in the aggregate 56% of our net sales in 2012. Sales of products manufactured by Hewlett-Packard and Cisco represented 21% and 13%, respectively, of our 2012 net sales.

Competition

The market for technology products and services is highly competitive. Competition is based on the ability to tailor specific solutions to customer needs, quality and breadth of product and service offerings, knowledge and expertise of sales force, customer service, price, product availability, speed of delivery and credit availability. Our competition includes:

- National resellers such as Dimension Data, ePlus, Insight Enterprises, PC Connection, PCM, Presidio, Softchoice, World Wide Technology and many regional and local resellers;
- Manufacturers who sell directly to customers, such as Dell, Hewlett-Packard and Apple;
- e-tailers such as Amazon, Newegg, TigerDirect.com and Buy.com;

- Large service providers and system integrators, such as IBM, Accenture, Hewlett-Packard and Dell; and
- Retailers (including their e-commerce activities) such as Staples, Office Depot and Office Max.

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We expect the competitive landscape in which we compete to continue changing as new technologies are developed. While innovation can help our business as it creates new offerings for us to sell, it can also disrupt our business model and create new and stronger competitors. For a discussion of the risks associated with competition, see "Risk Factors" included elsewhere in this report.

Marketing

We market the CDW brand on a national basis through a variety of public and community relations and corporate communications efforts, and through brand advertising that includes the use of online, broadcast, print and other media. We also market to current and prospective customers through integrated marketing programs that include print and online media, events and sponsorships. As a result of our relationships with our vendor partners, a significant portion of our advertising and marketing expenses are reimbursed through cooperative advertising reimbursement programs. These programs are at the discretion of our vendor partners and are typically tied to sales or purchasing volumes or other commitments to be met by us within a specified period of time.

Coworkers

As of December 31, 2012, we employed more than 6,800 coworkers, none of whom is covered by collective bargaining agreements. We consider our coworker relations to be good.

Intellectual Property

The CDW trademark and certain variations thereon are registered or subject to pending trademark applications in the U.S., Canada and certain other jurisdictions. We believe our trademarks have significant value and are important factors in our marketing programs. In addition, we own registrations for domain names, including cdw.com and cdwg.com, for certain of our primary trademarks. We also have unregistered copyrights in our website content.

Equity Sponsors

Madison Dearborn Partners, LLC, based in Chicago, is an experienced private equity investment firm that has raised over $18 billion of capital. Since its formation in 1992, it has invested in approximately 125 companies across a broad spectrum of industries, including basic industries, business and government services, consumer, financial services, healthcare and telecom, media and technology services. Madison Dearborn's objective is to invest in companies in partnership with outstanding management teams to achieve significant long-term appreciation in equity value. To achieve this objective, Madison Dearborn seeks to partner with outstanding management teams that have a solid understanding of their businesses as well as track records of building stockholder value.

Providence Equity Partners L.L.C. is a leading global private equity firm focused on media, communications, education and information investments. Providence Equity has $27 billion of equity under management and has invested in more than 130 companies over its 23-year history. Providence Equity is headquartered in Providence, Rhode Island and has offices in New York, London, Hong Kong, Beijing and New Delhi. Providence's objective is to build extraordinary companies that will shape the future of the media, communications, education and information industries. To achieve this objective, Providence Equity creates value by forging lasting partnerships with talented entrepreneurs and executives and providing them with capital, industry expertise and a broad network of relationships that they need to succeed.

Item 1A. Risk Factors

There are many factors that affect our business and the results of operations, some of which are beyond our control. The following is a description of some important factors that may cause the actual results of operations in future periods to differ materially from those currently expected or desired.

Risks Related to Our Indebtedness

Our substantial indebtedness could have a material adverse effect on our financial condition and our business and our ability to incur additional indebtedness could intensify these risks.

We are a highly leveraged company, and our substantial level of indebtedness increases the risk that we may be unable to generate sufficient cash to pay amounts due in respect of our indebtedness. As of December 31, 2012, we had $3.8 billion of total long-term debt outstanding, as defined by accounting principles generally accepted in the United States of America ("GAAP"), and $249.2 million of obligations outstanding under our inventory financing agreements, and we had the ability to borrow an additional $622.4 million under our senior secured asset-based revolving credit facility (the "Revolving Loan"). Subject to the limits contained in our senior credit facilities and indentures, we may be able to incur additional debt from time

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to time, including drawing on our Revolving Loan, to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our business associated with our high level of debt could intensify. Specifically, our high level of debt could have important consequences, including the following:

- making it more difficult for us to satisfy our obligations with respect to our indebtedness;
- requiring us to dedicate a substantial portion of our cash flow from operations to debt service payments on our and our subsidiaries' debt, which reduces the funds available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- requiring us to comply with restrictive covenants in our senior credit facilities and indentures, which limit the manner in which we conduct our business;
- making it more difficult for us to obtain vendor financing from our vendor partners;
- limiting our flexibility in planning for, or reacting to, changes in the industry in which we operate;
- placing us at a competitive disadvantage compared to any of our less leveraged competitors;
- increasing our vulnerability to both general and industry-specific adverse economic conditions; and
- limiting our ability to obtain additional debt or equity financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements and increasing our cost of borrowing.

Restrictive covenants under our senior credit agreements and indentures may adversely affect our operations and liquidity.

Our senior credit agreements and our indentures contain, and any future indebtedness of ours may contain, various covenants that limit our ability to, among other things:

- incur or guarantee additional debt;
- pay dividends or make distributions to holders of our capital stock or to make certain other restricted payments or investments;
- repurchase or redeem capital stock;
- make loans, capital expenditures or investments or acquisitions;
- receive dividends or other payments from our subsidiaries;
- enter into transactions with affiliates;
- create liens;
- merge or consolidate with other companies or transfer all or substantially all of our assets;
- transfer or sell assets, including capital stock of subsidiaries; and
- prepay, repurchase or redeem debt.

Upon the occurrence of an event of default under our senior credit agreements or indentures, the holders of such indebtedness could elect to declare all amounts outstanding to be due and payable, require us to apply all of our available cash to repay these amounts and exercise other remedies. If such indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay this indebtedness in full.

Variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Certain of our borrowings, primarily borrowings under our senior credit facilities, are at variable rates of interest and expose us to interest rate risk. As of December 31, 2012, we had $1,339.5 million of variable rate debt outstanding. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income would decrease. Although we have entered into interest rate cap agreements on our term loan facility to reduce interest rate volatility, we cannot assure you we will be able to do so in the future on acceptable terms or that such caps or the caps we have in place now will be effective.

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Risks Related to Our Business

General economic conditions could negatively affect technology spending by our customers and put downward pressure on prices, which may have an adverse impact on our business, results of operations or cash flows.

Weak economic conditions generally, sustained uncertainty about global economic conditions, skepticism about the resolution of U.S. fiscal cliff negotiations and the implementation of resulting agreements, concerns about future scheduled budgetary cuts and that the U.S. government may reach its debt ceiling in early 2013, or a prolonged or further tightening of credit markets could cause our customers and potential customers to postpone or reduce spending on technology products or services or put downward pressure on prices, which could have an adverse effect on our business, results of operations or cash flows. For example, during the economic downturn at the end of 2008 and in 2009, due to a number of factors, including declines in the availability of credit, weakening consumer and business confidence and increased unemployment, we experienced significantly reduced revenue and gross margins when our customers and potential customers reduced their spending on technology and put downward pressure on prices.

Our financial performance could be adversely affected by decreases in spending on technology products and services by our Public segment customers.

Our sales to our Public segment customers are impacted by government spending policies, budget priorities and revenue levels. Although our sales to the federal government are diversified across multiple agencies and departments, they collectively accounted for approximately 10% of 2012 net sales. An adverse change in government spending policies (including budget cuts at the federal level resulting from sequestration), budget priorities or revenue levels could cause our Public segment customers to reduce their purchases or to terminate or not renew their contracts with us, which could adversely affect our business, results of operations or cash flows.

Our business depends on our vendor partner relationships and the availability of their products.

We purchase products for resale from vendor partners, which include OEMs and software publishers, and wholesale distributors. For the year ended December 31, 2012, we purchased approximately 52% of the products we sold directly from vendor partners and the remaining amount from wholesale distributors. We are authorized by vendor partners to sell all or some of their products via direct marketing activities. Our authorization with each vendor partner is subject to specific terms and conditions regarding such things as sales channel restrictions, product return privileges, price protection policies, purchase discounts and vendor partner programs and funding, including purchase rebates, sales volume rebates, purchasing incentives and cooperative advertising reimbursements. However, we do not have any long-term contracts with our vendor partners and many of these arrangements are terminable upon notice by either party. A reduction in vendor partner programs or funding or our failure to timely react to changes in vendor partner programs or funding could have an adverse effect on our business, results of operations or cash flows. In addition, a reduction in the amount of credit granted to us by our vendor partners could increase our need for, and the cost of, working capital and could have an adverse effect on our business, results of operations or cash flows, particularly given our substantial indebtedness.

From time to time, vendor partners may terminate or limit our right to sell some or all of their products or change the terms and conditions or reduce or discontinue the incentives that they offer us. For example, there is no assurance that, as our vendor partners continue to sell directly to end users and through resellers, they will not limit or curtail the availability of their products to resellers like us. Any such termination or limitation or the implementation of such changes could have a negative impact on our business, results of operations or cash flows.

Although we purchase from a diverse vendor base, in 2012, products we purchased from distributors Ingram Micro, Tech Data and SYNNEX represented 12%, 10% and 9%, respectively, of our total purchases. In addition, sales of Apple, Cisco, EMC, Hewlett-Packard, Lenovo and Microsoft products comprise a substantial portion of our sales, representing approximately 56% of net sales in 2012. Sales of products manufactured by Hewlett-Packard and Cisco represented approximately 21% and 13%, respectively, of our 2012 net sales. The loss of, or change in business relationship with, any of these or any other key vendor partners, the diminished availability of their products, or backlogs for their products leading to manufacturer allocation, could reduce the supply and increase the cost of products we sell and negatively impact our competitive position.

Additionally, the relocation of key distributors utilized in our purchasing model could increase our need for, and the cost of, working capital and have an adverse effect on our business, results of operations or cash flows. Further, the sale, spin-off or combination of any of our vendor partners and/or certain of their business units, including any such sale to or combination with a vendor with whom we do not currently have a commercial relationship or whose products we do not sell, could have an adverse impact on our business, results of operations or cash flows.

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Our sales are dependent on continued innovations in hardware, software and services offerings by our vendor partners and the competitiveness of their offerings, and our ability to partner with new and emerging technology providers.
The technology industry is characterized by rapid innovation and the frequent introduction of new and enhanced hardware, software and services offerings. We have been and will continue to be dependent on innovations in hardware, software and services offerings, as well as the acceptance of those innovations by customers. A decrease in the rate of innovation, or the lack of acceptance of innovations by customers, could have an adverse effect on our business, results of operations or cash flows.
In addition, if we are unable to keep up with changes in technology and new hardware, software and services offerings, for example by providing the appropriate training to our account managers, sales technology specialists and engineers to enable them to effectively sell and deliver such new offerings to customers, our business, results of operations or cash flows could be adversely affected.
We also are dependent upon our vendor partners for the development and marketing of hardware, software and services to compete effectively with hardware, software and services of vendors whose products and services we do not currently offer or that we are not authorized to offer in one or more customer channels. To the extent that a vendor's offering that is highly in demand is not available to us for resale in one or more customer channels, and there is not a competitive offering from another vendor that we are authorized to sell in such customer channels, our business, results of operations or cash flows could be adversely impacted.
Substantial competition could reduce our market share and significantly harm our financial performance.
Our current competition includes:

- National resellers such as Dimension Data, ePlus, Insight Enterprises, PC Connection, PCM, Presidio, Softchoice, World Wide Technology and many regional and local resellers;
- Manufacturers who sell directly to customers, such as Dell, Hewlett-Packard and Apple;
- e-tailers, such as Amazon, Newegg, TigerDirect.com and Buy.com;
- Large service providers and system integrators, such as IBM, Accenture, Hewlett-Packard and Dell; and
- Retailers (including their e-commerce activities) such as Staples, Office Depot and Office Max.

We expect the competitive landscape in which we compete to continue to change as new technologies are developed. While innovation can help our business as it creates new offerings for us to sell, it can also disrupt our business model and create new and stronger competitors.
Some of our hardware and software vendor partners sell, and could intensify their efforts to sell, their products directly to our customers. In addition, traditional OEMs are increasing their services capabilities through mergers and acquisitions with service providers, which could potentially increase competition in the market to provide comprehensive technology solutions to customers. Moreover, newer, potentially disruptive technologies exist and are being developed that deliver technology solutions as a service, for example, cloud based solutions, including Software as a Service ("SaaS"), Infrastructure as a Service ("IaaS") and Platform as a Service ("PaaS"). These technologies could increase the amount of sales directly to customers rather than through resellers like us, or could lead to a reduction in our profitability. If any of these trends becomes more prevalent, it could adversely affect our business, results of operations or cash flows.
We focus on offering a high level of service to gain new customers and retain existing customers. To the extent we face increased competition to gain and retain customers, we may be required to reduce prices, increase advertising expenditures or take other actions which could adversely affect our business, results of operations or cash flows. Additionally, some of our competitors may reduce their prices in an attempt to stimulate sales, which may require us to reduce prices. This would require us to sell a greater number of products to achieve the same level of net sales and gross profit. If such a reduction in prices occurs and we are unable to attract new customers and sell increased quantities of products, our sales growth and profitability could be adversely affected.
The success of our business depends on the continuing development, maintenance and operation of our information technology systems.
Our success is dependent on the accuracy, proper utilization and continuing development of our information technology systems, including our business systems, Web servers and voice and data networks. The quality and our

utilization

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of the information generated by our information technology systems, and our success in implementing new systems and upgrades, affects, among other things, our ability to:

- conduct business with our customers;
- manage our inventory and accounts receivable;
- purchase, sell, ship and invoice our hardware and software products and provide and invoice our services efficiently and on a timely basis; and
- maintain our cost-efficient operating model.

The integrity of our information technology systems is vulnerable to disruption due to forces beyond our control. While we have taken steps to protect our information technology systems from a variety of threats, including computer viruses and malicious hackers, there can be no guarantee that those steps will be effective. Furthermore, although we have redundant systems at a separate location to back up our primary systems, there can be no assurance that these redundant systems will operate properly if and when required. Any disruption to or infiltration of our information technology systems could significantly harm our business and results of operations.

Breaches of data security could impact our business.

Our business involves the storage and transmission of proprietary information and sensitive or confidential data, including personal information of coworkers, customers and others. In addition, we operate three customer data centers which may store and transmit both business-critical data and confidential information of our customers. In connection with our services business, our coworkers also have access to our customers' confidential data and other information. We have privacy and data security policies in place that are designed to prevent security breaches; however, breaches in security could expose us, our customers or other individuals to a risk of public disclosure, loss or misuse of this information, resulting in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, as well as the loss of existing or potential customers and damage to our brand and reputation. In addition, the cost and operational consequences of implementing further data protection measures could be significant. Such breaches, costs and consequences could adversely affect our business, results of operations or cash flows.

The failure to comply with our Public segment contracts or applicable laws and regulations could result in, among other things, termination, fines or other liabilities, and changes in procurement regulations could adversely impact our business, results of operations or cash flows.

Revenues from our Public segment customers are derived from sales to governmental departments and agencies, educational institutions and healthcare customers, through various contracts and open market sales of products and services. Sales to Public segment customers are highly regulated. Noncompliance with contract provisions, government procurement regulations or other applicable laws or regulations (including but not limited to the False Claims Act and the Medicare and Medicaid Anti-Kickback Statute) could result in civil, criminal and administrative liability, including substantial monetary fines or damages, termination of government contracts or other Public segment customer contracts, and suspension, debarment or ineligibility from doing business with the government and other customers in the Public segment. In addition, generally contracts in the Public segment are terminable at any time for convenience of the contracting agency or group purchasing organization or upon default. The effect of any of these possible actions could adversely affect our business, results of operations or cash flows. In addition, the adoption of new or modified procurement regulations and other requirements may increase our compliance costs and reduce our gross margins, which could have a negative effect on our business, results of operations or cash flows.

If we fail to provide high-quality services to our customers, or if our third-party service providers fail to provide high-quality services to our customers, our reputation, business, results of operations or cash flows could be adversely affected.

Our service offerings include field services, managed services, warranties, configuration services, partner services and telecom services. Additionally, we deliver and manage mission critical software, systems and network solutions for our customers. Finally, we also offer certain services, such as implementation and installation services and repair services, to our customers through various third-party service providers engaged to perform these services on our behalf. If we or our third-party service providers fail to provide high quality services to our customers or such services result in a disruption of our customers' businesses, this could, among other things, result in legal claims and proceedings and liability, and our reputation with our customers, our brand and our business, results of operations or cash flows could be adversely affected.

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If we lose any of our key personnel, or are unable to attract and retain the talent required for our business, our business could be disrupted and our financial performance could suffer.

Our success is heavily dependent upon our ability to attract, develop and retain key personnel to manage and grow our business, including our key executive, management, sales, services and technical coworkers.

Our future success will depend to a significant extent on the efforts of Thomas E. Richards, our Chairman and Chief Executive Officer, as well as the continued service and support of our other executive officers. Our future success also will depend on our ability to retain our customer-facing coworkers, who have been given critical CDW knowledge regarding, and the opportunity to develop strong relationships with, many of our customers. In addition, as we seek to expand our offerings of value-added services and solutions, our success will even more heavily depend on attracting and retaining highly skilled technology specialists and engineers, for whom the market is extremely competitive.

Our inability to attract, develop and retain key personnel could have an adverse effect on our relationships with our vendor partners and customers and adversely affect our ability to expand our offerings of value-added services and solutions. Moreover, our inability to train our sales, services and technical personnel effectively to meet the rapidly changing technology needs of our customers could cause a decrease in the overall quality and efficiency of such personnel. Such consequences could adversely affect our business, results of operations or cash flows.

The interruption of the flow of products from suppliers could disrupt our supply chain.

A significant portion of the products we sell are manufactured or purchased by our vendor partners outside of the U.S., primarily in Asia. Political, social or economic instability in Asia, or in other regions in which our vendor partners purchase or manufacture the products we sell, could cause disruptions in trade, including exports to the U.S. Other events that could also cause disruptions to our supply chain include:

- the imposition of additional trade law provisions or regulations;
- the imposition of additional duties, tariffs and other charges on imports and exports;
- foreign currency fluctuations;
- natural disasters or other adverse occurrences at, or affecting, any of our suppliers' facilities;
- restrictions on the transfer of funds;
- the financial instability or bankruptcy of manufacturers; and
- significant labor disputes, such as strikes.

We cannot predict whether the countries in which the products we sell are purchased or manufactured, or may be purchased or manufactured in the future, will be subject to new or additional trade restrictions or sanctions imposed by the U.S. or foreign governments, including the likelihood, type or effect of any such restrictions. Trade restrictions, including new or increased tariffs or quotas, embargos, sanctions, safeguards and customs restrictions against the products we sell, as well as foreign labor strikes and work stoppages or boycotts, could increase the cost or reduce the supply of product available to us and adversely affect our business, results of operations or cash flows.

A natural disaster or other adverse occurrence at one of our primary facilities or customer data centers could damage our business.

Substantially all of our corporate, warehouse and distribution functions are located at our Vernon Hills, Illinois facilities and our second distribution center in North Las Vegas, Nevada. If the warehouse and distribution equipment at one of our distribution centers were to be seriously damaged by a natural disaster or other adverse occurrence, we could utilize the other distribution center or third-party distributors to ship products to our customers. However, this may not be sufficient to avoid interruptions in our service and may not enable us to meet all of the needs of our customers and would cause us to incur incremental operating costs. In addition, we operate three customer data centers and numerous sales offices which may contain both business-critical data and confidential information of our customers. A natural disaster or other adverse occurrence at any of the customer data centers or at any of our major sales offices could negatively impact our business, results of operations or cash flows.

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We are heavily dependent on commercial delivery services.

We generally ship hardware products to our customers by FedEx, United Parcel Service and other commercial delivery services and invoice customers for delivery charges. If we are unable to pass on to our customers future increases in the cost of commercial delivery services, our profitability could be adversely affected. Additionally, strikes or other service interruptions by such shippers could adversely affect our ability to deliver products on a timely basis.

We are exposed to accounts receivable and inventory risks.

We extend credit to our customers for a significant portion of our net sales, typically on 30-day payment terms. We are subject to the risk that our customers may not pay for the products they have purchased, or may pay at a slower rate than we have historically experienced, the risk of which is heightened during periods of economic downturn or uncertainty or, in the case of Public segment customers, during periods of budget constraints.

We are also exposed to inventory risks as a result of the rapid technological changes that affect the market and pricing for the products we sell. We seek to minimize our inventory exposure through a variety of inventory management procedures and policies, including our rapid-turn inventory model, as well as vendor price protection and product return programs. However, if we were unable to maintain our rapid-turn inventory model, if there were unforeseen product developments that created more rapid obsolescence or if our vendor partners were to change their terms and conditions, our inventory risks could increase. We also from time to time take advantage of cost savings associated with certain opportunistic bulk inventory purchases offered by our vendor partners or we may decide to carry high inventory levels of certain products that have limited or no return privileges due to customer demand or request. These bulk purchases could increase our exposure to inventory obsolescence.

We could be exposed to additional risks if we make acquisitions or enter into alliances.

We may pursue transactions, including acquisitions or alliances, in an effort to extend or complement our existing business. These types of transactions involve numerous risks, including finding suitable transaction partners and negotiating terms that are acceptable to us, the diversion of management's attention from other business concerns, extending our product or service offerings into areas in which we have limited experience, entering into new geographic markets, the potential loss of key coworkers or business relationships and successfully integrating acquired businesses, any of which could adversely affect our operations.

In addition, our financial results could be adversely affected by financial adjustments required by GAAP in connection with these types of transactions where significant goodwill or intangible assets are recorded. To the extent the value of goodwill or identifiable intangible assets with indefinite lives becomes impaired, we may be required to incur material charges relating to the impairment of those assets.

Our future operating results may fluctuate significantly.

We may experience significant variations in our future quarterly results of operations. These fluctuations may result from many factors, including the condition of the technology industry in general, shifts in demand and pricing for hardware, software and services and the introduction of new products or upgrades.

Our operating results are also highly dependent on our level of gross profit as a percentage of net sales. Our gross profit percentage fluctuates due to numerous factors, some of which may be outside of our control, including pricing pressures; changes in product costs from our vendor partners; the availability of price protection, purchase discounts and incentive programs from our vendor partners; changes in product, order size and customer mix; the risk of some items in our inventory becoming obsolete; increases in delivery costs that we cannot pass on to customers; and general market and competitive conditions.

In addition, our cost structure is based, in part, on anticipated sales and gross margins. Therefore, we may not be able to adjust our cost structure quickly enough to compensate for any unexpected sales or gross margin shortfall, and any such inability could have an adverse effect on our business, results of operations or cash flows.

We are exposed to risks from legal proceedings and audits.

We are party to various legal proceedings that arise in the ordinary course of our business, which include commercial, employment, tort and other litigation.

We are subject to intellectual property infringement claims against us in the ordinary course of our business, either because of the products and services we sell or the business systems and processes we use to sell such products and services, in

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the form of cease-and-desist letters, licensing inquiries, lawsuits and other communications and demands. In our industry, such intellectual property claims have become more frequent as the complexity of technological products and the intensity of competition in our industry have increased. Increasingly, many of these assertions are brought by non-practicing entities whose principal business model is to secure patent licensing revenue, but we may also be subject to suits from competitors who may seek licensing revenue, lost profits and/or an injunction preventing us from engaging in certain activities, including selling certain products and services.

Because of our significant sales to governmental entities, we also are subject to audits by federal, state and local authorities. We also are subject to audits by various vendor partners and large customers, including government agencies, relating to purchases and sales under various contracts. In addition, we are subject to indemnification claims under various contracts.

Current and future litigation, infringement claims, governmental proceedings, audits or indemnification claims that we face may result in substantial costs and expenses and significantly divert the attention of our management regardless of the outcome. In addition, current and future litigation, infringement claims, governmental proceedings, audits or indemnification claims could lead to increased costs or interruptions of our normal business operations. Litigation, infringement claims, governmental proceedings, audits or indemnification claims involve uncertainties and the eventual outcome of any litigation, infringement claim, governmental proceeding, audit or indemnification claim could adversely affect our business, results of operations or cash flows.

We are controlled by the Equity Sponsors, whose interests may differ from our other stakeholders.

Substantially all of the common stock of Parent is held indirectly by investment funds affiliated with, or co-investment vehicles controlled by, the Equity Sponsors. As a result, the Equity Sponsors control us and have the power to elect all of the members of Parent's board of directors and approve any action requiring the approval of the holders of Parent's stock, including approving acquisitions or sales of all or substantially all of our assets. The directors appointed by the Equity Sponsors have the ability to control decisions affecting our capital structure, including the issuance of additional debt and capital stock, the declaration of dividends, and to appoint new management. If we encounter financial difficulties, or we are unable to pay our debts as they mature, the interests of the Equity Sponsors might conflict with the interests of our other equity holders, debt holders or other stakeholders. Additionally, the Equity Sponsors are in the business of investing in companies and may, from time to time, acquire and hold interests in businesses that compete directly or indirectly with us. The Equity Sponsors may also separately pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. Since our equity securities, which are not registered under the Securities Exchange Act of 1934, are not listed on any U.S. securities exchange, we are not subject to any of the corporate governance requirements of any U.S. securities exchange.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2012, we owned or leased a total of approximately 2.1 million square feet of space throughout the U.S. and Canada. We own two properties: a combined office and an approximately 450,000 square foot distribution center in Vernon Hills, Illinois, and an approximately 513,000 square foot distribution center in North Las Vegas, Nevada. In addition, we conduct sales, services and administrative activities in various leased locations throughout the U.S. and Canada, including data centers in Madison, Wisconsin and Minneapolis, Minnesota.

We believe that our facilities are well maintained, suitable for our business and occupy sufficient space to meet our operating needs. As part of our normal business, we regularly evaluate sales center performance and site suitability. Leases covering our currently occupied leased properties expire at varying dates, generally within the next ten years. We anticipate no difficulty in retaining occupancy through lease renewals, month-to-month occupancy or replacing the leased properties with equivalent properties. We believe that suitable additional or substitute leased properties will be available as required.

Item 3. Legal Proceedings

We are party to various legal proceedings that arise in the ordinary course of our business, which include commercial, intellectual property, employment, tort and other litigation matters. We are 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, we are subject to indemnification claims under various contracts. From time to time, certain of our customers file voluntary petitions for reorganization or liquidation under the U.S. bankruptcy laws. In such cases, certain pre-petition payments received by us could be considered preference items and subject to return to the bankruptcy administrator.

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As of December 31, 2012, we do 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, our 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.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our outstanding common stock is privately held, and there is no established public trading market for our common stock.

Holders

All of our outstanding common stock is owned by CDW Holdings LLC.

Dividends

We did not pay any dividends in 2012 or 2011.

Our senior credit agreements and indentures impose restrictions on our ability to pay dividends, and thus our ability to pay dividends on our common stock will depend upon, among other things, our level of indebtedness at the time of the proposed dividend and whether we are in default under any of our debt instruments. Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors considered relevant by our board of directors. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, business opportunities, provision of applicable law and other factors that our board of directors may deem relevant. For a discussion of our cash resources and needs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" included elsewhere in this report.

Item 6. Selected Financial Data

The selected financial data set forth below are not necessarily indicative of the results of future operations and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the related notes included elsewhere in this report.

We have derived the selected financial data presented below as of December 31, 2011 and December 31, 2012 and for the years ended December 31, 2010, 2011, and 2012 from our audited consolidated financial statements and related notes, which are included elsewhere in this report. The selected financial data as of December 31, 2008 and December 31, 2009 have been derived from our audited consolidated financial statements as of and for those periods, which are not included in this report.

The following are some of the items affecting comparability of the selected financial data for the periods presented:

- During the years ended December 31, 2011 and 2012, we recorded net losses on extinguishments of long-term debt of $118.9 million and $17.2 million, respectively. The losses represented the difference between the amount paid upon extinguishment, including call premiums and expenses paid to the debt holders and agents, and the net carrying amount of the extinguished debt, adjusted for a portion of the unamortized deferred financing costs.
- During the years ended December 31, 2008 and 2009, we recorded goodwill impairment charges of $1,712.0 million and $241.8 million, respectively. These impairments were primarily attributable to deterioration in macroeconomic conditions and overall declines in net sales.

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(in millions)	Years Ended December 31, 2008	2009	2010	2011	2012
Statement of Operations Data:					
Net sales	$8,071.2	$7,162.6	$8,801.2	$9,602.4	$10,128.2
Cost of sales	6,710.2	6,029.7	7,410.4	8,018.9	8,458.6
Gross profit	1,361.0	1,132.9	1,390.8	1,583.5	1,669.6
Selling and administrative expenses	894.8	821.1	932.1	990.1	1,029.5
Advertising expense	141.3	101.9	106.0	122.7	129.5
Goodwill impairment	1,712.0	241.8	—	—	—
Income (loss) from operations	(1,387.1)	(31.9)	352.7	470.7	510.6
Interest expense, net	(390.3)	(431.7)	(391.9)	(324.2)	(307.4)
Net gain (loss) on extinguishments of long-term debt	—	—	2.0	(118.9)	(17.2)
Other income, net	0.2	2.4	0.2	0.7	0.1
Income (loss) before income taxes	(1,777.2)	(461.2)	(37.0)	28.3	186.1
Income tax benefit (expense)	12.1	87.8	7.8	(11.2)	(67.1)
Net (loss) income	$(1,765.1)	$(373.4)	$(29.2)	$17.1	$119.0
Balance Sheet Data (at period end):					
Cash and cash equivalents	$94.4	$88.0	$36.6	$99.9	$37.9
Working capital	877.6	923.2	675.4	538.1	666.5
Total assets	6,276.3	5,976.0	5,943.8	5,949.6	5,700.1
Total debt and capitalized lease obligations (1)	4,633.5	4,621.9	4,290.0	4,066.0	3,771.0
Total shareholders' equity (deficit)	262.2	(44.7)	(43.5)	(7.3)	136.5
Other Financial Data:					
Capital expenditures	$41.1	$15.6	$41.5	$45.7	$41.4
Depreciation and amortization	218.4	218.2	209.4	204.9	210.2
Gross profit as a percentage of net sales	16.9%	15.8%	15.8%	16.5%	16.5%
Ratio of earnings to fixed charges (2)	(a)	(a)	(a)	1.1	1.6
EBITDA (3)	(1,168.5)	188.7	564.3	557.4	703.7
Adjusted EBITDA (3)	570.6	465.4	601.8	717.3	766.6
Statement of Cash Flows Data:					
Net cash provided by (used in):					
Operating activities	$215.4	$107.6	$423.7	$214.7	$317.4
Investing activities	(60.3)	(82.6)	(125.4)	(56.0)	(41.7)
Financing activities	(75.8)	(31.9)	(350.1)	(95.4)	(338.0)

(1)

Excludes borrowings of $34.1 million, $25.0 million, $28.2 million, $278.7 million and $249.2 million, as of December 31, 2008, 2009, 2010, 2011 and 2012, respectively, under our inventory financing agreements. We do not include these borrowings in total debt because we have not in the past incurred, and in the future do not expect to incur, any interest expense or late fees under these agreements.

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(2) For purposes of calculating the ratio of earnings to fixed charges, earnings consist of earnings before income taxes minus income from equity investees plus fixed charges. Fixed charges consist of interest expensed and the portion of rental expense we believe is representative of the interest component of rental expense.

(a) For the years ended December 31, 2008, 2009 and 2010, earnings available for fixed charges were inadequate to cover fixed charges by $1,777.2 million, $461.2 million and $37.0 million, respectively.

(3) EBITDA is defined as consolidated net income (loss) before interest income (expense), income tax benefit (expense), depreciation, and amortization. Adjusted EBITDA, which is a measure defined in our credit agreements, is calculated by adjusting EBITDA for certain items of income and expense including (but not limited to) the following: (a) non-cash equity-based compensation; (b) goodwill impairment charges; (c) sponsor fees; (d) certain consulting fees; (e) debt-related legal and accounting costs; (f) equity investment income and losses; (g) certain severance and retention costs; (h) gains and losses from the early extinguishment of debt; (i) gains and losses from asset dispositions outside the ordinary course of business; and (j) non-recurring, extraordinary or unusual gains or losses or expenses.

We have included a reconciliation of EBITDA and Adjusted EBITDA in the table below. Both EBITDA and Adjusted EBITDA are considered non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally included or excluded in the most directly comparable measure calculated and presented in accordance with GAAP. Non-GAAP measures used by the Company may differ from similar measures used by other companies, even when similar terms are used to identify such measures. We believe that EBITDA and Adjusted EBITDA provide helpful information with respect to our operating performance and cash flows including our ability to meet our future debt service, capital expenditures and working capital requirements. Adjusted EBITDA also provides helpful information as it is the primary measure used in certain financial covenants contained in our credit agreements.

The following unaudited table sets forth reconciliations of net income (loss) to EBITDA and EBITDA to Adjusted EBITDA for the periods presented:

	Years Ended December 31,				
(in millions)	2008	2009	2010	2011	2012
Net (loss) income	$(1,765.1)	$(373.4)	$(29.2)	$17.1	$119.0
Depreciation and amortization	218.4	218.2	209.4	204.9	210.2
Income tax (benefit) expense	(12.1)	(87.8)	(7.8)	11.2	67.1
Interest expense, net	390.3	431.7	391.9	324.2	307.4
EBITDA	(1,168.5)	188.7	564.3	557.4	703.7
Non-cash equity-based compensation	17.8	15.9	11.5	19.5	22.1
Sponsor fees	5.0	5.0	5.0	5.0	5.0
Consulting and debt-related professional fees	4.3	14.1	15.1	5.1	0.6
Goodwill impairment	1,712.0	241.8	—	—	—
Net (gain) loss on extinguishments of long-term debt	—	—	(2.0)	118.9	17.2
Other adjustments (i)	—	(0.1)	7.9	11.4	18.0
Adjusted EBITDA	$570.6	$465.4	$601.8	$717.3	$766.6

(i) Includes certain retention costs and equity investment income, a litigation loss in the fourth quarter of 2012, certain severance costs in 2009, and a gain related to the sale of the Informacast software and equipment in 2009.

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The following unaudited table sets forth a reconciliation of EBITDA to net cash provided by operating activities for the periods presented:

	Years Ended December 31,				
(in millions)	2008	2009	2010	2011	2012
EBITDA	$(1,168.5)	$188.7	$564.3	$557.4	$703.7
Depreciation and amortization	(218.4)	(218.2)	(209.4)	(204.9)	(210.2)
Income tax benefit (expense)	12.1	87.8	7.8	(11.2)	(67.1)
Interest expense, net	(390.3)	(431.7)	(391.9)	(324.2)	(307.4)
Net (loss) income	(1,765.1)	(373.4)	(29.2)	17.1	119.0
Depreciation and amortization	218.4	218.2	209.4	204.9	210.2
Goodwill impairment	1,712.0	241.8	—	—	—
Equity-based compensation expense	17.8	15.9	11.5	19.5	22.1
Amortization of deferred financing costs and debt premium	38.6	16.2	18.0	15.7	13.6
Deferred income taxes	(39.9)	(94.4)	(4.3)	(10.2)	(56.3)
Allowance for doubtful accounts	0.4	(0.2)	(1.3)	0.4	—
Realized loss on interest rate swap agreements	18.6	103.2	51.5	2.8	—
Mark to market loss on interest rate derivatives	—	—	4.7	4.2	0.9
Net (gain) loss on extinguishments of long-term debt	—	—	(2.0)	118.9	17.2
Net loss (gain) on sale and disposal of assets	0.5	(1.7)	0.7	0.3	0.1
Changes in assets and liabilities	14.1	(18.0)	165.3	(158.3)	(9.4)
Other non-cash items	—	—	(0.6)	(0.6)	—
Net cash provided by operating activities	$215.4	$107.6	$423.7	$214.7	$317.4

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated or the context otherwise requires, as used in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," the terms "we," "us," "the Company," "our," "CDW" and similar terms refer t CDW Corporation and its subsidiaries. "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with the audited consolidated financial statements and the related notes included elsewhere in this report. This discussion contains forward-looking statements that are subject to numerous risks and uncertainties. Actual results may differ materially from those contained in any forward-looking statements. See "Forward-Looking Statements" at the end of this discussion.

Overview

CDW is a Fortune 500 company and a leading provider of integrated information technology ("IT") solutions in the U.S. and Canada. We help our customer base of more than 250,000 small, medium and large business, government, education and healthcare customers by delivering critical solutions to their increasingly complex IT needs. Our broad array of offerings range from discrete hardware and software products to integrated IT solutions such as mobility, security, data center optimization, cloud computing, virtualization and collaboration. Our product portfolio includes more than 100,000 products from more than 1,000 brands. We provide these solutions through a large and experienced sales force and service delivery team consisting of more than 4,300 coworkers, including nearly 1,400 highly skilled technology specialists and engineers.

We are a leading U.S. sales channel partner for many original equipment manufacturers ("OEMs") and software publishers (collectively, our "vendor partners"), whose products we include in our offerings. We believe we are an important extension of our vendor partners' sales and marketing capabilities, providing them with a cost-effective way to reach customers and maintain a consistent brand experience through our established end-market coverage and extensive customer access.

We have 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. Our Corporate segment is divided into a medium-large business customer channel, primarily serving customers with more than 100 employees, and a small business customer channel, primarily serving customers with up to 100 employees. We also have 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 CDW Advanced Services business consists primarily of customized engineering services delivered by technology specialists and engineers, and managed services that include Infrastructure as a Service ("IaaS") offerings. Revenues from the sale of hardware, software, custom configuration and third-party provided services are recorded within our Corporate and Public segments.

We may sell all or only select products that our vendor partners offer. Each vendor partner agreement provides for specific terms and conditions, which may include one or more of the following: product return privileges, price protection policies, purchase discounts and vendor incentive programs, such as purchase or sales rebates and cooperative advertising reimbursements. We also resell software for major software publishers. Our agreements with software publishers allow the end-user customer to acquire software or licensed products and services. In addition to helping our customers determine the best software solutions for their needs, we help them manage their software agreements, including warranties and renewals. A significant portion of our advertising and marketing expenses are reimbursed through cooperative advertising reimbursement programs. These programs are at the discretion of our vendors and are typically tied to sales or purchasing volumes or other commitments to be met by us within a specified period of time.

Trends and Key Factors Affecting our Financial Performance

Net sales, gross profit and operating income increased 5.5%, 5.4% and 8.5%, respectively, in 2012 compared to 2011. Our Corporate segment grew net sales by 3.3% and our Public segment grew net sales by 7.1%. Gross profit as a percentage of net sales remained flat from 2011 at 16.5%. The increase in operating income was driven by sales growth and our continued focus on cost management. Net income increased $101.9 million, to $119.0 million in 2012, compared to $17.1 million in 2011.

We believe the following trends may have an important impact on our financial performance:

- An important factor affecting our ability to generate sales and achieve our targeted operating results is the impact of general economic conditions on our customers' willingness to spend on information technology. Beginning in the second quarter of 2012, we began to see customers take a more cautious approach to spending as increased macroeconomic uncertainty impacted decision-making and led to some customers delaying purchases. We expect this trend to continue into 2013. Uncertainties related to the potential impacts of federal budget negotiations, potential changes in tax and regulatory policy, weakening consumer and business confidence or increased unemployment could

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result in reduced or deferred spending by our customers on information technology products and services and increased competitive pricing pressures.

- Our Public segment sales are impacted by government spending policies, budget priorities and revenue levels. An adverse change in any of these factors could cause our Public segment customers to reduce their purchases or to terminate or not renew contracts with us, which could adversely affect our business, results of operations or cash flows. Although our sales to the federal government are diversified across multiple agencies and departments, they collectively accounted for approximately 10%, 10% and 11% of our net sales in 2012, 2011 and 2010, respectively.
- We believe that the transition to more complex technology solutions will continue as important growth areas for us in the future. The market for technology products and services is highly competitive. Competition is based on the ability to tailor specific solutions to customer needs, quality and breadth of product and service offerings, knowledge and expertise of sales force, customer service, price, product availability, speed of delivery and credit availability.

Key Business Metrics

Our management monitors a number of financial and non-financial measures and ratios on a regular basis in order to track the progress of our business and make adjustments as necessary. We believe that the most important of these measures and ratios include average daily sales, gross margin, operating margin, EBITDA and Adjusted EBITDA, cash and cash equivalents, net working capital, cash conversion cycle (defined to be days of sales outstanding in accounts receivable plus days of supply in inventory minus days of purchases outstanding in accounts payable), debt levels including available credit and leverage ratios, sales per coworker and coworker turnover. These measures and ratios are compared to standards or objectives set by management, so that actions can be taken, as necessary, in order to achieve the standards and objectives. Adjusted EBITDA, a non-GAAP financial measure, also provides helpful information as it is the primary measure used in certain financial covenants contained in our senior credit facilities. In addition to net sales, gross profit, operating income and net income discussed above, the following are the results of other key measures in 2012 compared to 2011:

- Average daily sales increased 5.9% to $39.9 million.
- Adjusted EBITDA increased 6.9% to $766.6 million.
- The cash conversion cycle decreased from 27 days to 24 days.
- Net debt (defined as long-term debt minus cash and cash equivalents) decreased $233.0 million from $3,966.1 million to $3,733.1 million.
- The senior secured leverage ratio (as defined in our credit agreements) decreased from 2.7 to 2.4.
- The net leverage ratio (as defined in our credit agreements) decreased from 5.9 to 5.2.

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Results of Operations

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

The following table presents our results of operations, in dollars and as a percentage of net sales, for the years ended December 31, 2012 and 2011:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Dollars in Millions	Percentage of Net Sales	Dollars in Millions	Percentage of Net Sales
Net sales	$10,128.2	100.0 %	$9,602.4	100.0 %
Cost of sales	8,458.6	83.5	8,018.9	83.5
Gross profit	1,669.6	16.5	1,583.5	16.5
Selling and administrative expenses	1,029.5	10.2	990.1	10.3
Advertising expense	129.5	1.3	122.7	1.3
Income from operations	510.6	5.0	470.7	4.9
Interest expense, net	(307.4)	(3.0)	(324.2)	(3.4)
Net loss on extinguishments of long-term debt	(17.2)	(0.2)	(118.9)	(1.2)
Other income, net	0.1	—	0.7	—
Income before income taxes	186.1	1.8	28.3	0.3
Income tax expense	(67.1)	(0.7)	(11.2)	(0.1)
Net income	$119.0	1.1 %	$17.1	0.2 %

Net sales

The following table presents our net sales by segment, in dollars and as a percentage of total net sales, and the year-over-year dollar and percentage change in net sales for the years ended December 31, 2012 and 2011:

	Years Ended December 31, 2012		2011			
	Dollars in Millions	Percentage of Total Net Sales	Dollars in Millions	Percentage of Total Net Sales	Dollar Change	Percent Change (1)
Corporate	$5,512.8	54.4 %	$5,334.4	55.6 %	$178.4	3.3 %
Public	4,023.0	39.7	3,757.2	39.1	265.8	7.1
Other	592.4	5.9	510.8	5.3	81.6	16.0
Total net sales	$10,128.2	100.0 %	$9,602.4	100.0 %	$525.8	5.5 %

(1) There were 254 and 255 selling days in the years ended December 31, 2012 and 2011, respectively. On an average daily basis, total net sales increased 5.9%.

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The following table presents our net sales by customer channel for our Corporate and Public segments and the year-over-year dollar and percentage change in net sales for the years ended December 31, 2012 and 2011:

(in millions)	Years Ended December 31,			
	2012	2011	Dollar Change	Percent Change
Corporate:				
Medium / Large	$4,448.5	$4,287.1	$161.4	3.8 %
Small Business	1,064.3	1,047.3	17.0	1.6
Total Corporate	$5,512.8	$5,334.4	$178.4	3.3 %
Public:				
Government	$1,394.1	$1,343.5	$50.6	3.8 %
Education	1,192.3	1,197.7	(5.4)	(0.4)
Healthcare	1,436.6	1,216.0	220.6	18.1
Total Public	$4,023.0	$3,757.2	$265.8	7.1 %

Total net sales in 2012 increased $525.8 million, or 5.5%, to $10,128.2 million, compared to $9,602.4 million in 2011. There were 254 and 255 selling days in the years ended December 31, 2012 and 2011, respectively. On an average daily basis, total net sales increased 5.9%. The increase in total net sales was the result of general volume growth, market share gains, a more tenured sales force, and a continued focus on seller productivity across all areas of the organization. Our net sales growth for the year ended December 31, 2012 reflected growth in notebooks/mobile devices, netcomm products, software products, desktop computers and enterprise storage.

Corporate segment net sales in 2012 increased $178.4 million, or 3.3%, compared to 2011. Within our Corporate segment, net sales to medium/large customers increased 3.8% between years, and net sales to small business customers increased 1.6% between years. Customers within the Corporate segment continued to take a more cautious approach to spending as increased macroeconomic uncertainty impacted decision-making and led to some customers delaying purchases. The increases in Corporate segment net sales were primarily a result of hardware growth, most notably in netcomm products, and unit volume growth in desktop computers. Software product growth, led by network management and security software, also contributed to the increase in net sales. Partially offsetting the growth was a decline in net sales of memory products due to several large orders in the second and third quarters of 2011 that did not recur.

Public segment net sales in 2012 increased $265.8 million, or 7.1%, between years, driven by continued strong performance in the healthcare customer channel. Net sales to healthcare customers increased $220.6 million, or 18.1%, between years, led by hardware growth, most notably in enterprise storage, and unit volume growth in netcomm products, desktop computers and point of care technology carts. Software product growth also contributed to the increase in net sales in healthcare. The healthcare customer channel growth was primarily the result of deeper relationships with several group purchasing organizations and increased healthcare industry demand for IT products, as the healthcare industry continued its adoption of electronic medical records and point of care technologies. Net sales to government customers increased $50.6 million, or 3.8%, in 2012 compared to 2011 led by unit volume increases in sales of notebooks/mobile devices, partially offset by a decline in net sales of netcomm products. Net sales to education customers decreased $5.4 million, or 0.4%, between years, reflecting budget constraints. A decline in sales to K-12 customers was partially offset by growth in sales to higher education customers that was led by increased sales of netcomm products, as higher education customers refreshed and added additional enterprise technology.

Gross profit

Gross profit increased $86.1 million, or 5.4%, to $1,669.6 million in 2012, compared to $1,583.5 million in 2011. As a percentage of total net sales, gross profit was 16.5% in both 2012 and 2011. Gross profit margin was positively impacted 10 basis points by a higher mix of commission and net service contract revenue. Fully offsetting these increases in gross profit margin were declines in vendor funding primarily due to program changes for certain vendors. Commission revenue, including agency fees earned on sales of software licenses and software assurance under enterprise agreements, has a positive impact on our gross profit margin, as we record the fee or commission as a component of net sales when earned and there is no corresponding cost of sales. Net service contract revenue, including items such as third-party services and warranties, also has a positive impact on gross profit margin as our cost paid to the vendor or third-party service provider is recorded as a reduction to net sales, resulting in net sales being equal to the gross profit on the transaction. Vendor funding includes purchase discounts, volume rebates and cooperative advertising.

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The gross profit margin may fluctuate based on various factors, including vendor incentive and inventory price protection programs, cooperative advertising funds classified as a reduction of cost of sales, product mix, net service contract revenue, commission revenue, pricing strategies, market conditions, and other factors, any of which could result in changes in gross profit margins.

Selling and administrative expenses

Selling and administrative expenses increased $39.4 million, or 4.0%, to $1,029.5 million in 2012, compared to $990.1 million in 2011. As a percentage of total net sales, selling and administrative expenses decreased 10 basis points to 10.2% in 2012, down from 10.3% in 2011. The dollar increase in selling and administrative expenses was primarily due to higher payroll costs (excluding bonus compensation tied to Adjusted EBITDA) of $43.0 million. The higher payroll costs reflected in selling and administrative expenses were driven by increased sales commissions and other variable compensation costs consistent with higher sales and gross profit. While total coworker count increased by 59 coworkers, from 6,745 coworkers at December 31, 2011 to 6,804 coworkers at December 31, 2012, the increase was primarily comprised of service delivery coworkers, the cost of which is reflected in cost of sales. Other factors that increased selling and administrative expenses included a $5.8 million increase in health benefits due to higher claims costs and a higher average number of participants in 2012 compared to 2011, a $5.3 million increase in depreciation and amortization expense related primarily to additional capital expenditures for information technology systems, and a $2.6 million increase in stock compensation expense, primarily due to incremental expense related to a modified Class B Common Unit grant agreement with our former chief executive officer. Partially offsetting these increases was an $11.8 million decline in bonus compensation tied to Adjusted EBITDA, as performance fell below target, $3.8 million of expenses related to the modification of our senior secured term loan facility in 2011 that did not recur in 2012, and a $3.3 million decline in litigation expenses between years.

The decrease in selling and administrative expenses as a percentage of sales of 10 basis points between years was driven by the decline in incentive compensation tied to Adjusted EBITDA.

Advertising expense

Advertising expense increased $6.8 million, or 5.6%, to $129.5 million in 2012, compared to $122.7 million in 2011. As a percentage of net sales, advertising expense was 1.3% in both 2012 and 2011. The increase in advertising expense was due to a focus on continuing to advertise our solutions and products and to build our reputation as a leading IT solutions provider, primarily through targeted digital advertising, partially offset by decreases in expenditures for print advertising.

Income from operations

The following table presents income (loss) from operations by segment, in dollars and as a percentage of net sales, and the year-over-year percentage change in income (loss) from operations for the years ended December 31, 2012 and 2011:

	Year Ended December 31, 2012		Year Ended December 31, 2011		
	Dollars in Millions	Operating Margin Percentage	Dollars in Millions	Operating Margin Percentage	Percent Change in Income (Loss) from Operations
Segments: [1]					
Corporate	$ 349.0	6.3 %	$ 331.6	6.2 %	5.2 %
Public	246.7	6.1	233.3	6.2	5.7
Other	18.6	3.1	17.5	3.4	6.5
Headquarters [2]	(103.7)	nm*	(111.7)	nm*	7.2
Total income from operations	$ 510.6	5.0 %	$ 470.7	4.9 %	8.5 %

* Not meaningful

(1) Segment income (loss) from operations includes the segment's direct operating income (loss) and allocations for Headquarters' costs, allocations for logistics services, certain inventory adjustments, and volume rebates and cooperative advertising from vendors.

(2) Includes Headquarters' function costs that are not allocated to the segments.

Income from operations was $510.6 million in 2012, an increase of $39.9 million, or 8.5%, compared to $470.7 million in 2011. This increase was driven by higher net sales and gross profit, partially offset by higher selling and administrative expenses and advertising expense. Total operating margin percentage increased 10 basis points to 5.0% in 2012, compared to 4.9% in 2011. Operating margin percentage was positively impacted by the decrease in selling and administrative expenses as a percentage of net sales.

Corporate segment income from operations was $349.0 million in 2012, an increase of $17.4 million, or 5.2%, compared to $331.6 million in 2011. This increase was primarily driven by higher net sales and gross profit margin, partially offset by higher selling and administrative expenses, resulting in a net increase in segment operating income before allocations of $14.4 million in 2012 compared to 2011. In addition, Corporate segment income from operations benefited from an increase of $2.5 million in income allocations from our logistics operations and a decrease of $0.5 million in Headquarters' expense allocations in 2012 compared to 2011. The improved profitability of our logistics operations was driven by stronger operating leverage given higher purchase volumes while support costs remained flat.

Public segment income from operations was $246.7 million in 2012, an increase of $13.4 million, or 5.7%, compared to $233.3 million in 2011. This increase reflected higher segment operating income before allocations of $4.0 million as a result of increased net sales and gross profit dollars, partially offset by higher selling and administrative costs. In addition, Public segment income from operations benefited from an increase of $5.7 million in income allocations from our logistics operations and a decrease in Headquarters' expense allocations of $3.7 million in 2012 compared to 2011.

Interest expense, net

At December 31, 2012, our outstanding long-term debt totaled $3,771.0 million, compared to $4,066.0 million at December 31, 2011. Net interest expense in 2012 was $307.4 million, a decrease of $16.8 million compared to $324.2 million in 2011. Interest expense in 2011 included a benefit of $19.4 million, due to an adjustment to the long-term accrued interest liability associated with the extinguishment of $1,078.0 million of senior notes due 2015. The long-term accrued interest liability represents the difference between interest expense previously recognized under the effective interest method and actual interest paid. Of the remaining net decrease of $36.2 million, $27.2 million was due to lower effective interest rates and lower debt balances in 2012 compared to the prior year as a result of debt repayment and refinancing activities completed during 2011 and 2012. The remaining net decrease was primarily attributable to additional interest expense in 2011 related to the interest rate swaps that terminated in January 2011, higher 2011 mark-to-market losses on interest rate caps, higher amortization of deferred financing costs in 2011 compared to 2012 and a 2012 benefit related to an adjustment to the long-term accrued interest liability associated with the extinguishment of $100.0 million of senior subordinated notes due 2017.

Net loss on extinguishments of long-term debt

During 2012, we recorded a net loss on extinguishments of long-term debt of $17.2 million compared to $118.9 million in 2011.

In February and March 2012, we purchased or redeemed the remaining $129.0 million of senior notes due 2015, funded with the issuance of an additional $130.0 million of senior notes due 2019. As a result, we recorded a loss on extinguishment of long-term debt of $9.4 million, representing the difference between the purchase or redemption price of the senior notes due 2015 and the net carrying amount of the purchased debt, adjusted for the remaining unamortized deferred financing costs.

In December 2012, we redeemed $100.0 million aggregate principal amount of senior subordinated notes due 2017 for $106.3 million. We recorded a loss on extinguishment of long-term debt of $7.8 million representing the difference between the redemption price and the net carrying amount of the purchased debt, adjusted for a portion of the unamortized deferred financing costs.

In March 2011, we amended our senior secured term loan facility and recorded a loss on extinguishment of long-term debt of $3.2 million, representing a write-off of a portion of the unamortized deferred financing costs on this facility.

In April and May 2011, we purchased $1,078.0 million of senior notes due 2015, funded with the issuance of $1,175.0 million of senior notes due 2019. As a result, we recorded a loss on extinguishment of long-term debt of $114.1 million, representing the difference between the purchase price of the senior notes due 2015 at 109% of principal amount and the net carrying amount of the purchased debt, adjusted for a portion of the unamortized deferred financing costs.

In June 2011, we entered into a new $900.0 million senior secured asset-based revolving credit facility, replacing the existing $800.0 million facility. As a result, we recorded a loss on extinguishment of long-term debt of $1.6 million representing a write-off of a portion of the unamortized deferred financing costs related to the previous facility.

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Income tax expense

Income tax expense was $67.1 million in 2012, compared to $11.2 million in 2011. The effective income tax rate was 36.0% and 39.7% for 2012 and 2011, respectively.

For 2012, the effective tax rate differed from the U.S. federal statutory rate primarily due to favorable adjustments to state tax credits which are partially offset by the unfavorable impact of adjustments to deferred taxes due to changes in state tax laws and permanent differences. For 2011, the effective tax rate differed from the U.S. federal statutory rate primarily due to the unfavorable impact of permanent differences offset by a benefit for state income taxes. The lower effective tax rate for 2012 as compared to 2011 was primarily driven by the impact of favorable adjustments to state tax credits in 2012 and the lower rate impact of permanent differences in 2012 due to the significantly greater amount of pre-tax income.

Net income

Net income was $119.0 million in 2012, compared to $17.1 million in 2011. The 2012 and 2011 results included after tax losses on extinguishments of long-term debt of $10.5 million and $72.5 million, respectively. Other significant factors and events causing the net changes from 2011 to 2012 are discussed above.

Adjusted EBITDA

Adjusted EBITDA was $766.6 million in 2012, an increase of $49.3 million, or 6.9%, compared to $717.3 million in 2011. As a percentage of net sales, Adjusted EBITDA was 7.6% and 7.5% in 2012 and 2011, respectively.

We have included a reconciliation of EBITDA and Adjusted EBITDA for 2012 and 2011 in the table below. EBITDA is defined as consolidated net income before interest expense, income tax expense, depreciation and amortization. Adjusted EBITDA, which is a measure defined in our credit agreements, means EBITDA adjusted for certain items which are described in the table below. Both EBITDA and Adjusted EBITDA are considered non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally included or excluded in the most directly comparable measure calculated and presented in accordance with GAAP. Non-GAAP measures used by the Company may differ from similar measures used by other companies, even when similar terms are used to identify such measures. We believe that EBITDA and Adjusted EBITDA provide helpful information with respect to our operating performance and cash flows including our ability to meet our future debt service, capital expenditures and working capital requirements. Adjusted EBITDA also provides helpful information as it is the primary measure used in certain financial covenants contained in our credit agreements. See “Selected Financial Data” included elsewhere in this report for a reconciliation of EBITDA to cash flows from operating activities.

(in millions)	Years Ended December 31,	
	2012	2011
Net income	$119.0	$17.1
Depreciation and amortization	210.2	204.9
Income tax expense	67.1	11.2
Interest expense, net	307.4	324.2
EBITDA	703.7	557.4
Adjustments:		
Non-cash equity-based compensation	22.1	19.5
Sponsor fee	5.0	5.0
Consulting and debt-related professional fees	0.6	5.1
Net loss on extinguishments of long-term debt	17.2	118.9
Other adjustments [1]	18.0	11.4
Total adjustments	62.9	159.9
Adjusted EBITDA	$766.6	$717.3

(1)

Other adjustments include certain retention costs, equity investment income and a litigation loss in the fourth quarter of 2012.

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Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

The following table presents our results of operations, in dollars and as a percentage of net sales, for the years ended December 31, 2011 and 2010:

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	Dollars in Millions	Percentage of Net Sales	Dollars in Millions	Percentage of Net Sales
Net sales	$9,602.4	100.0 %	$8,801.2	100.0 %
Cost of sales	8,018.9	83.5	7,410.4	84.2
Gross profit	1,583.5	16.5	1,390.8	15.8
Selling and administrative expenses	990.1	10.3	932.1	10.6
Advertising expense	122.7	1.3	106.0	1.2
Income from operations	470.7	4.9	352.7	4.0
Interest expense, net	(324.2)	(3.4)	(391.9)	(4.4)
Net (loss) gain on extinguishments of long-term debt	(118.9)	(1.2)	2.0	—
Other income, net	0.7	—	0.2	—
Income (loss) before income taxes	28.3	0.3	(37.0)	(0.4)
Income tax (expense) benefit	(11.2)	(0.1)	7.8	0.1
Net income (loss)	$17.1	0.2 %	$(29.2)	(0.3)%

Net sales

The following table presents our net sales by segment, in dollars and as a percentage of total net sales, and the year-over-year dollar and percentage change in net sales for the years ended December 31, 2011 and 2010:

	Years Ended December 31, 2011		2010			
	Dollars in Millions	Percentage of Total Net Sales	Dollars in Millions	Percentage of Total Net Sales	Dollar Change	Percent Change (1)
Corporate	$5,334.4	55.6 %	$4,833.6	54.9 %	$500.8	10.4 %
Public	3,757.2	39.1	3,560.6	40.5	196.6	5.5
Other	510.8	5.3	407.0	4.6	103.8	25.5
Total net sales	$9,602.4	100.0 %	$8,801.2	100.0 %	$801.2	9.1 %

(1) There were 255 and 254 selling days in the years ended December 31, 2011 and 2010, respectively. On an average daily basis, total net sales increased 8.7%.

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The following table presents our net sales by customer channel for our Corporate and Public segments and the year-over-year dollar and percentage change in net sales for the years ended December 31, 2011 and 2010:

(in millions)	Years Ended December 31, 2011	2010	Dollar Change	Percent Change
Corporate:				
Medium / Large	$4,287.1	$3,867.3	$419.8	10.9 %
Small Business	1,047.3	966.3	81.0	8.4
Total Corporate	$5,334.4	$4,833.6	$500.8	10.4 %
Public:				
Government	$1,343.5	$1,368.6	$(25.1)	(1.8)%
Education	1,197.7	1,200.6	(2.9)	(0.2)
Healthcare	1,216.0	991.4	224.6	22.7
Total Public	$3,757.2	$3,560.6	$196.6	5.5 %

Total net sales in 2011 increased $801.2 million, or 9.1%, to $9,602.4 million, compared to $8,801.2 million in 2010. There were 255 and 254 selling days in the years ended December 31, 2011 and 2010, respectively. On an average daily basis, total net sales increased 8.7%. The increase in total net sales was the result of general volume growth and increased demand in the information technology industry overall, in addition to our focus on growing market share. The most significant drivers of sales growth in 2011 were hardware unit volume growth in notebook/mobile devices, desktop computers and netcomm products, along with growth in software products.

Corporate segment net sales in 2011 increased $500.8 million, or 10.4%, compared to 2010. Within our Corporate segment, net sales to medium / large customers increased 10.9% between years, and net sales to small business customers increased 8.4% between years. These increases were primarily a result of hardware unit volume growth, most notably in notebook/mobile devices and netcomm products, and growth in software products as we continued to benefit from increased demand from our Corporate customers. Public segment net sales in 2011 increased $196.6 million, or 5.5%, between years as growth in the healthcare customer channel more than offset slight declines in the government and education customer channels. Net sales to healthcare customers increased $224.6 million, or 22.7%, between years, primarily driven by hardware unit volume increases in desktop computers, notebook/mobile devices and netcomm products, growth in software products and additional sales from an expanded relationship with a group purchasing organization. Net sales to government customers decreased $25.1 million, or 1.8%, in 2011 compared to 2010 driven by a 10.2% decline between years for the first nine months of 2011, partially offset by net sales growth of 22.8% between years for the fourth quarter of 2011. Although government spending was impacted negatively throughout 2011 as a result of budget constraints and uncertainty, net sales to federal government customers drove the fourth quarter increase of 22.8% in the government customer channel. The fourth quarter of 2011 benefited from increased orders placed late in the third quarter, the end of the federal government's fiscal year, that shipped during the fourth quarter, compared to the same period of the prior year. Net sales to education customers decreased $2.9 million, or 0.2%, between years, due to continuing budget pressures.

Gross profit

Gross profit increased $192.7 million, or 13.9%, to $1,583.5 million in 2011, compared to $1,390.8 million in 2010. As a percentage of total net sales, gross profit was 16.5% in 2011, up from 15.8% in 2010. Gross profit margin increased 70 basis points between years, primarily due to favorable price/mix changes within product margin across most product categories of 30 basis points, and a higher mix of commission and net service contract revenue of 20 basis points. Commission revenue, including agency fees earned on sales of software licenses and software assurance under enterprise agreements, has a positive impact on our gross profit margin as we record the fee or commission as a component of net sales when earned and there is no corresponding cost of sales amount. Net service contract revenue, including items such as third-party services and warranties, also has a positive impact on gross profit margin as our cost paid to the vendor or third-party service provider is recorded as a reduction to sales, resulting in net sales being equal to the gross profit on the transaction.

The gross profit margin may fluctuate based on various factors, including vendor incentive and inventory price protection programs, cooperative advertising funds classified as a reduction of cost of sales, product mix, net service contract revenue, commission revenue, pricing strategies, market conditions, and other factors, any of which could result in changes in gross profit margins.

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Selling and administrative expenses

Selling and administrative expenses increased $58.0 million, or 6.2%, to $990.1 million in 2011, compared to $932.1 million in 2010. The increase was primarily due to higher payroll costs of $62.1 million driven by increased sales commissions and other variable compensation costs consistent with higher sales and gross profit and an increase in the number of coworkers in 2011. Our sales force increased to 3,636 coworkers at December 31, 2011, compared to 3,405 coworkers at December 31, 2010, while total coworker count increased to 6,745 coworkers at December 31, 2011, compared to 6,268 coworkers at December 31, 2010. We also had increases in profit sharing/401(k) expense of $4.9 million, travel and entertainment expense of $3.7 million and bad debt expense of $2.7 million. These increases were partially offset by lower consulting and debt-related professional fees of $10.0 million, lower depreciation and amortization expense of $4.2 million, lower healthcare benefits expense of $3.6 million and lower sales and use tax expense of $3.3 million.

Advertising expense

Advertising expense increased $16.7 million, or 15.7%, to $122.7 million in 2011, compared to $106.0 million in 2010. Higher expenses were due to increased spending on web-based advertising, TV advertising and customer-focused marketing events. As a percentage of net sales, advertising expense was 1.3% in 2011, compared to 1.2% in 2010.

Income from operations

The following table presents income (loss) from operations by segment, in dollars and as a percentage of net sales, and the year-over-year percentage change in income (loss) from operations for the years ended December 31, 2011 and 2010:

	Year Ended December 31, 2011		Year Ended December 31, 2010		
	Dollars in Millions	Operating Margin Percentage	Dollars in Millions	Operating Margin Percentage	Percent Change in Income (Loss) from Operations
Segments: [1]					
Corporate	$ 331.6	6.2 %	$ 256.2	5.3 %	29.4 %
Public	233.3	6.2	193.0	5.4	20.9
Other	17.5	3.4	14.3	3.5	22.3
Headquarters [2]	(111.7)	nm	(110.8)	nm	(0.8)
Total income from operations	$ 470.7	4.9 %	$ 352.7	4.0 %	33.5 %

(1) Segment income (loss) from operations includes the segment's direct operating income (loss) and allocations for Headquarters' costs, allocations for logistics services, certain inventory adjustments, and volume rebates and cooperative advertising from vendors.

(2) Includes Headquarters' function costs that are not allocated to the segments.

Income from operations was $470.7 million in 2011, an increase of $118.0 million, or 33.5%, compared to $352.7 million in 2010. This increase was driven by higher net sales and gross profit, partially offset by higher advertising expense and selling and administrative expenses.

Corporate segment income from operations was $331.6 million in 2011, an increase of $75.4 million, or 29.4%, compared to $256.2 million in 2010. The increase in Corporate segment income from operations was primarily driven by higher net sales and gross profit margin, partially offset by higher selling and administrative costs, resulting in a net increase before allocations of $49.6 million in 2011 compared to 2010. In addition, Corporate segment income from operations benefited from an increase of $28.3 million in income allocations from our logistics operations in 2011 compared to 2010. The improved profitability of our logistics operations was driven by stronger operating leverage given higher purchase volumes while support structure costs remained flat. Partially offsetting the above items was an increase in Headquarters' expense allocations to the Corporate segment of $2.5 million.

Public segment income from operations was $233.3 million in 2011, an increase of $40.3 million, or 20.9%, compared to $193.0 million in 2010. The increase reflected higher operating income before allocations of $25.9 million as a result of higher net sales and gross profit margin, partially offset by higher selling and administrative costs. In addition, Public segment income from operations benefited from an increase of $15.1 million in income allocations from our logistics operations in 2011 compared to 2010.

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The loss from operations for our Headquarters' function of $111.7 million in 2011 was flat compared to the loss from operations of $110.8 million in 2010.

Interest expense, net

At December 31, 2011, our outstanding long-term debt totaled $4,066.0 million, compared to $4,289.1 million at December 31, 2010. Net interest expense in 2011 was $324.2 million, a decrease of $67.7 million compared to $391.9 million in 2010. Interest expense was reduced by $19.4 million in 2011 due to a decrease in the long-term accrued interest liability associated with the extinguishment of $1,078.0 million of senior notes due 2015. The long-term accrued interest liability represents the difference between interest expense previously recognized under the effective interest method and actual interest paid. The remaining decrease of $48.3 million was primarily due to lower effective interest rates in 2011 resulting from the termination of our interest rate swaps in January 2011 and the debt refinancing activities completed during the first half of 2011, partially offset by non-cash gains on hedge ineffectiveness recorded to interest expense in the prior year.

Net (loss) gain on extinguishments of long-term debt

During 2011, we recorded a net loss on extinguishments of long-term debt of $118.9 million compared to a net gain on extinguishments of long-term debt of $2.0 million in 2010.

In March 2011, we amended our senior secured term loan facility and recorded a loss on extinguishment of long-term debt of $3.2 million, representing a write-off of a portion of the unamortized deferred financing costs on this facility.

In April and May 2011, we purchased $1,078.0 million of senior notes due 2015, funded with the issuance of $1,175.0 million of senior notes due 2019. As a result, we recorded a loss on extinguishment of long-term debt of $114.1 million, representing the difference between the purchase price of the senior notes due 2015 at 109% of par value and the net carrying amount of the purchased debt, adjusted for a portion of the unamortized deferred financing costs.

In June 2011, we entered into a new $900.0 million senior secured asset-based revolving credit facility, replacing the existing $800.0 million facility. As a result, we recorded a loss on extinguishment of long-term debt of $1.6 million representing a write-off of a portion of the unamortized deferred financing costs related to the previous facility.

During 2010, we recorded a net gain of $2.0 million on the extinguishments of long-term debt resulting from two transactions. In March 2010, we repurchased $28.5 million of principal amount of senior subordinated notes due 2017 for a purchase price of $18.6 million. We recorded a gain of $9.2 million representing the difference between the purchase price, including expenses paid to the debt holders and agent, and the net carrying amount of the purchased debt, adjusted for a portion of the unamortized deferred financing costs. The $28.5 million in principal amount of senior subordinated notes due 2017 that was repurchased was exchanged for increasing rate notes and subsequently surrendered to the indenture trustee for cancellation. In December 2010, we extinguished $500.0 million of the outstanding principal balance of our senior secured term loan facility funded by proceeds from the issuance of 8.0% senior secured notes due 2018. We recorded a loss of $7.2 million on the extinguishment of the senior secured term loan facility, representing a write-off of a portion of the unamortized deferred financing costs. There was no additional gain or loss resulting from the paydown of the debt balance, as the cash paid equaled the principal amount of the debt extinguished.

Income tax (expense) benefit

The effective income tax rate was 39.7% and 21.1% for 2011 and 2010, respectively.

For 2011, the effective tax rate differed from the U.S. federal statutory rate primarily due to the unfavorable impact of permanent differences relative to pre-tax income. The effective tax rate for 2010 reflects the unfavorable impact of permanent differences relative to a small pre-tax loss.

Net income (loss)

Net income was $17.1 million in 2011, compared to a net loss of $29.2 million in 2010.

Adjusted EBITDA

Adjusted EBITDA was $717.3 million in 2011, an increase of $115.4 million, or 19.2%, compared to $601.8 million in 2010. As a percentage of net sales, Adjusted EBITDA was 7.5% and 6.8% in 2011 and 2010, respectively.

We have included a reconciliation of EBITDA and Adjusted EBITDA for 2011 and 2010 in the table below. EBITDA is defined as consolidated net income (loss) before interest expense, income tax expense (benefit), depreciation and amortization. Adjusted EBITDA, which is a measure defined in our credit agreements, means EBITDA adjusted for certain

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items which are described in the table below. Both EBITDA and Adjusted EBITDA are considered non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally included or excluded in the most directly comparable measure calculated and presented in accordance with GAAP. Non-GAAP measures used by the Company may differ from similar measures used by other companies, even when similar terms are used to identify such measures. We believe that EBITDA and Adjusted EBITDA provide helpful information with respect to our operating performance and cash flows including our ability to meet our future debt service, capital expenditures and working capital requirements. Adjusted EBITDA also provides helpful information as it is the primary measure used in certain financial covenants contained in our credit agreements. See "Selected Financial Data" included elsewhere in this report for a reconciliation of EBITDA to cash flows from operating activities.

(in millions)	Years Ended December 31,	
	2011	2010
Net income (loss)	$17.1	$(29.2)
Depreciation and amortization	204.9	209.4
Income tax expense (benefit)	11.2	(7.8)
Interest expense, net	324.2	391.9
EBITDA	557.4	564.3
Adjustments:		
Non-cash equity-based compensation	19.5	11.5
Sponsor fee	5.0	5.0
Consulting and debt-related professional fees	5.1	15.1
Net loss (gain) on extinguishments of long-term debt	118.9	(2.0)
Other adjustments [(1)]	11.4	7.9
Total adjustments	159.9	37.5
Adjusted EBITDA	$717.3	$601.8

(1) Other adjustments include certain retention costs and equity investment income.

Seasonality

While we have not historically experienced significant seasonality throughout the year, sales in our Corporate segment, which primarily serves business customers, are typically higher in the fourth quarter than in other quarters due to customers spending their remaining technology budget dollars at the end of the year. Additionally, sales in our Public segment have historically been higher in the third quarter than in other quarters primarily due to the buying patterns of the federal government and education customers.

Liquidity and Capital Resources

Overview

We finance our operations and capital expenditures through a combination of internally generated cash from operations and from borrowings under our senior secured asset-based revolving credit facility. We believe that our current sources of funds will be sufficient to fund our cash operating requirements for the next year. In addition, we believe that, in spite of the uncertainty of future macroeconomic conditions, we have adequate sources of liquidity and funding available to meet our longer-term needs. However, there are a number of factors that may negatively impact our available sources of funds. The amount of cash generated from operations will be dependent upon factors such as the successful execution of our business plan and general economic conditions.

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Cash Flows

Cash flows from operating, investing and financing activities were as follows:

(in millions)	Years Ended December 31,		
	2012	2011	2010
Net cash provided by (used in):			
Operating activities	$317.4	$214.7	$423.7
Investing activities	(41.7)	(56.0)	(125.4)
Net change in accounts payable - inventory financing	(29.5)	250.5	3.2
Other financing activities	(308.5)	(345.9)	(353.3)
Financing activities	(338.0)	(95.4)	(350.1)
Effect of exchange rate changes on cash and cash equivalents	0.3	—	0.4
Net (decrease) increase in cash and cash equivalents	$(62.0)	$63.3	$(51.4)

Operating Activities

Net cash provided by operating activities for 2012 increased $102.7 million compared to 2011. The increase was primarily driven by changes in assets and liabilities, resulting in a $148.9 million increase in net cash provided by operating activities between periods. Despite a 2012 fourth quarter increase in net sales of 4.9% between years, accounts receivable remained relatively flat from the prior year end driven by improved collection results, particularly within the Public segment. Accounts receivable in 2011 represented a use of cash of $165.3 million, primarily due to a 2011 fourth quarter increase in net sales of 9.3% from the same period in the prior year. Merchandise inventory also contributed $36.1 million of the increase in cash between years driven by a return to more normalized inventory levels in 2012 following the build-up at the end of 2011 related to the hard drive shortage from the Thailand floods, along with a higher percentage of drop shipments from vendor partners and distributors in 2012 compared to 2011. Partially offsetting these factors in 2012 was a $54.1 million decrease in other assets as we collected $53.3 million in income tax refunds in 2011 that did not repeat in 2012. Net income adjusted for the impact of non-cash items such as losses on extinguishment of long-term debt was $326.8 million in 2012 compared to $373.0 million in 2011, or a decrease of $46.2 million. Improved operating performance in 2012 drove higher net income between years, but also higher net cash income taxes paid. Net cash income taxes paid in 2012 were $123.2 million compared to a net cash tax refund of $20.9 million in 2011. In addition to the $53.3 million in cash tax refunds received in 2011, we also fully utilized our remaining federal net operating tax loss carryforwards during 2011.

Net cash provided by operating activities for 2011 decreased $209.0 million compared to 2010. The decrease was primarily driven by the changes in assets and liabilities, resulting in a $323.6 million reduction in cash between years. For 2011, the changes in assets and liabilities, excluding cash and cash equivalents, reduced cash by $158.3 million compared to a cash contribution of $165.3 million in 2010. The most significant driver of the cash contribution in 2010 was an increase in accounts payable-trade of $269.3 million as we reduced the amount of accelerated payments we made in exchange for early pay discounts at December 31, 2010 compared to the prior year. Accounts payable-trade decreased $19.8 million in 2011 compared to 2010, resulting in a relatively small reduction in cash. Cash flow from operating activities was further reduced by $83.7 million in 2011 compared to 2010 following an increase in accounts receivable between years driven by higher fourth quarter net sales in 2011. During 2011, we collected $53.3 million in cash tax refunds which reduced other assets between years, resulting in an increase in cash flow from operating activities. Net income, adjusting for the impact of non-cash items such as losses on extinguishment of long-term debt, increased $114.6 million between years reflecting our improved operating results in 2011.

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In order to manage our working capital and operating cash needs, we monitor our cash conversion cycle, defined as days of sales outstanding in accounts receivable plus days of supply in inventory, less days of purchases outstanding in accounts payable. The following table presents the components of our cash conversion cycle:

(in days)	December 31,		
	2012	2011	2010
Days of sales outstanding (DSO) [(1)]	42	44	43
Days of supply in inventory (DIO) [(2)]	14	15	15
Days of purchases outstanding (DPO) [(3)]	(32)	(32)	(26)
Cash conversion cycle	24	27	32

(1) Represents the rolling three month average of the balance of trade accounts receivable, net at the end of the period divided by average daily net sales. Also incorporates components of other miscellaneous receivables.

(2) Represents the rolling three month average of the balance of inventory at the end of the period divided by average daily cost of goods sold for the same three month period.

(3) Represents the rolling three month average of the combined balance of accounts payable-trade, excluding cash overdrafts, and accounts payable-inventory financing at the end of the period divided by average daily cost of goods sold for the same three month period.

The cash conversion cycle decreased to 24 days at December 31, 2012 compared to 27 days at December 31, 2011, driven by improvements in DSO and DIO. The DSO decline was primarily related to improved collections in the Public segment. The DIO decline was primarily related to an increase in the percentage of products delivered to customers via drop-shipment in 2012 compared to 2011, which had the effect of increasing cost of sales without a corresponding increase in inventory-related working capital.

The cash conversion cycle decreased to 27 days at December 31, 2011 compared to 32 days at December 31, 2010, driven by a six-day increase in DPO. The increase in DPO reflected a higher combined balance of accounts payable-trade and accounts payable-inventory financing at December 31, 2011 compared to December 31, 2010 as purchase volumes increased to support higher net sales and we received more favorable payment terms for payables related to certain vendors. The one-day increase in DSO primarily reflected our overall sales growth and a higher proportion of government sales in the fourth quarter of 2011 compared to the same period in 2010.

Investing Activities

Net cash used in investing activities in 2012 decreased $14.3 million compared to 2011. This decline was primarily due to a reduction in cash payments between years of $6.6 million related to interest rate swap agreements, as the $6.6 million paid in 2011 reflected the final payment upon termination of the swap agreements on January 14, 2011. Capital expenditures were $41.4 million for 2012 and $45.7 million for 2011, primarily for improvements to our information technology systems during both years. During 2012 and 2011, we paid $0.3 million and $3.7 million, respectively, for new interest rate cap agreements.

Net cash used in investing activities in 2011 decreased $69.4 million compared to 2010. This decline was primarily due to a reduction in cash payments between years of $71.5 million under our interest rate swap agreements, as the $6.6 million paid in 2011 reflected the final payment upon termination of the swap agreements. Capital expenditures were $45.7 million for 2011 and $41.5 million for 2010, primarily for improvements to our information technology systems during both years. During 2011 and 2010, we paid $3.7 million and $5.9 million, respectively, for new interest rate cap agreements.

Financing Activities

Net cash used in financing activities increased $242.6 million in 2012 compared to 2011. This change was primarily driven by 2011 net inflows from accounts payable-inventory financing of $250.5 million compared to 2012 outflows of $29.5 million, resulting in a total impact on the change in cash used in financing activities of $280.0 million from accounts payable-inventory financing. The reduction in cash during 2012 from accounts payable-inventory financing was primarily due to the termination of one of our inventory financing agreements in the first quarter of 2012, with amounts owed for subsequent purchases being included in accounts payable-trade on the consolidated balance sheet and classified as cash flows from operating activities on the consolidated statement of cash flows. As discussed below under “Inventory Financing Arrangements,” in June 2011 we entered into a new inventory financing agreement with a financial intermediary to facilitate the purchase of inventory from a certain vendor. Inventory purchases from this vendor under the June 2011 inventory financing agreement are included in accounts payable-inventory financing and reported as cash flows from financing activities. The net impact of our debt transactions resulted in cash outflows of $310.6 million during 2012 and $346.5 million during 2011 as cash

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was used in each period to reduce our total long-term debt. Each debt transaction is described below under "Long-Term Debt and Financing Arrangements".

Net cash used in financing activities decreased $254.7 million in 2011 compared to 2010, primarily driven by higher cash inflows of $247.3 million from accounts payable-inventory financing. As discussed below under “Inventory Financing Arrangements,” in June 2011 we entered into a new inventory financing agreement with a financial intermediary to facilitate the purchase of inventory from a certain vendor. Inventory purchases from this vendor under the new agreement are included in accounts payable-inventory financing and reported as cash flows from financing activities. A combination of the increase in overall purchase volume under inventory financing agreements to support higher net sales in 2011 along with more favorable payment terms under the new inventory financing agreement drove the majority of the increase in cash flows from financing activities during 2011 compared to 2010. The net impact of our debt transactions resulted in cash outflows of $346.5 million during 2011 compared to cash outflows of $352.7 million during 2010 as cash was used in each period to reduce our total long-term debt. Each debt transaction is described below under "Long-Term Debt and Financing Arrangements".

Long-Term Debt and Financing Arrangements

Long-term debt was as follows:

(dollars in millions)	Interest rate (1)	December 31, 2012	2011
Senior secured asset-based revolving credit facility	— %	$—	$—
Senior secured term loan facility	3.9 %	1,339.5	1,540.5
Senior secured notes due 2018	8.0 %	500.0	500.0
Senior notes due 2019	8.5 %	1,305.0	1,175.0
Unamortized premium on senior notes due 2019		5.0	—
Senior subordinated notes due 2017	12.535 %	621.5	721.5
Senior notes due 2015	— %	—	129.0
Total long-term debt		3,771.0	4,066.0
Less current maturities of long-term debt		(40.0)	(201.0)
Long-term debt, excluding current maturities		$3,731.0	$3,865.0

(1) Weighted-average interest rate as of December 31, 2012.

As of December 31, 2012, we were in compliance with the covenants under our various credit agreements as described below.

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

At December 31, 2012, we had no outstanding borrowings under the Revolving Loan, $1.7 million of undrawn letters of credit and $275.9 million reserved related to the floorplan sub-facility.

On June 24, 2011, we entered into the Revolving Loan, a new five-year $900.0 million senior secured asset-based revolving credit facility, with the facility being available to us for borrowings, issuance of letters of credit and floorplan financing for certain vendor products. The Revolving Loan matures on June 24, 2016, subject to an acceleration provision discussed below. The Revolving Loan replaced our previous revolving loan credit facility that was to mature on October 12, 2012. The Revolving Loan (i) increased the overall revolving credit facility capacity available to us from $800.0 million to $900.0 million, (ii) increased the maximum aggregate amount of increases that may be made to the revolving credit facility from $100.0 million to $200.0 million, (iii) added a maturity acceleration provision based upon excess cash availability whereby the Revolving Loan may mature 45 days prior to the maturity of the non-extended portion of our senior secured term loan facility, if excess cash availability does not exceed the outstanding borrowings of the subject maturing debt at the time of the test plus $150.0 million, (iv) increased the fee on the unused portion of the revolving credit facility from 25 basis points to either 37.5 or 50 basis points, depending on the amount of utilization, (v) increased the applicable interest rate margin, and (vi) incorporated a $300.0 million floorplan sub-facility, which was increased to $400.0 million on August 2, 2011. In connection with the termination of the previous facility, we recorded a loss on extinguishment of long-term debt of $1.6 million in the consolidated statement of operations for the year ended December 31, 2011, representing a write-off of a portion of unamortized deferred financing costs. Fees of $7.2 million related to the Revolving Loan were capitalized as deferred financing costs and are being amortized over the term of the facility on a straight-line basis.

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As described in Note 5 to the consolidated financial statements, we have entered into agreements with certain financial intermediaries to facilitate the purchase of inventory from various suppliers. In connection with the floorplan sub-facility, we entered into the Revolving Loan inventory financing agreement. Amounts outstanding under the Revolving Loan inventory financing agreement are unsecured and noninterest bearing. We will either pay the outstanding Revolving Loan inventory financing agreement amounts when they become due, or the Revolving Loan's administrative agent will automatically initiate an advance on the Revolving Loan and use the proceeds to pay the balance on the due date. As of December 31, 2012, the financial intermediary reported an outstanding balance of $267.9 million under the Revolving Loan inventory financing agreement, which did not reflect payments we made on December 31, 2012. The total amount reported on the consolidated balance sheet as accounts payable-inventory financing related to the Revolving Loan inventory financing agreement is $19.6 million less than the $267.9 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 $8.0 million in reserves for open orders that reduce the availability under the Revolving Loan. Changes in cash flows from the Revolving Loan inventory financing agreement are reported in financing activities on the consolidated statement of cash flows.

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 greatest of (a) the prime rate, (b) the federal funds effective rate plus 50 basis points or (c) the one-month LIBOR plus 1.00%. The applicable margin varies (2.00% to 2.50% for LIBOR borrowings and 1.00% to 1.50% for ABR borrowings) depending upon our average daily excess cash availability under the agreement and is subject to a reduction of 0.25% if, and for as long as, the senior secured leverage ratio is less than 3.0. The senior secured leverage ratio is defined as the ratio of senior secured debt (including amounts owed under certain inventory floorplan arrangements and capital leases) less cash and cash equivalents, to Adjusted EBITDA, a non-GAAP measure, for the four most recently ended fiscal quarters. For the four quarters ended December 31, 2012, the senior secured leverage ratio was 2.4.

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. The borrowing base is (a) the sum of the products of the applicable advance rates on eligible accounts receivable and on eligible inventory as defined in the agreement less (b) any reserves. At December 31, 2012, the borrowing base was $1,018.2 million as supported by eligible inventory and accounts receivable balances as of November 30, 2012. We could have borrowed up to an additional $622.4 million under the Revolving Loan at December 31, 2012.

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, 100% owned, domestic subsidiaries. Borrowings under the Revolving Loan are collateralized by a first priority interest in inventory (excluding inventory collateralized under the inventory floorplan arrangements as described in Note 5 to the consolidated financial statements), 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 each of CDW LLC's direct and indirect, 100% owned, domestic 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 we fall below the minimum average daily excess cash availability requirement for five consecutive business days, we become 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 December 31, 2012, the outstanding principal amount of the Term Loan was $1,339.5 million, with $421.3 million of non-extended loans due October 10, 2014 and $918.2 million of extended loans due July 15, 2017. The effective weighted-average interest rate on Term Loan principal amounts outstanding on December 31, 2012 was 3.9% per annum.

Borrowings under the Term Loan bear interest at either (a) the ABR plus a margin; or (b) LIBOR plus a margin. The margin is based on our senior secured leverage ratio as defined in the amended agreement evidencing the Term Loan. Effective with the March 2011 amendment discussed below, the margins were reduced on extended loans. For ABR borrowings, the applicable margin 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 margin varies within a range of 3.50% to 4.00% for non-extended loans and 2.75% to 3.25% for extended loans.

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On March 11, 2011, we entered into an amendment to the Term Loan, which became effective on March 14, 2011. This amendment, among other things: (i) reduced the margins with respect to extended loans, (ii) established a LIBOR floor of 1.25% and an ABR floor of 2.25% with respect to extended loans, (iii) reset the start date for accumulating restricted payments that count against the general limit of $25.0 million and (iv) provided a 1% prepayment premium for certain repayments or re-pricings of any extended loans for the six-month period following the effective date of the amendment. In connection with this amendment, we recorded a loss on extinguishment of long-term debt of $3.2 million in the consolidated statement of operations for the year ended December 31, 2011. This loss represented a write-off of a portion of the unamortized deferred financing costs related to the Term Loan.
The Term Loan requires us to make certain mandatory prepayments of principal amounts under certain circumstances, including (i) a prepayment in an amount equal to 50% of our 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 us or our subsidiaries. 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. A mandatory prepayment of approximately $40.0 million will be due in 2013 under the excess cash flow provision with respect to the year ended December 31, 2012. The payment is due within ten business days of filing this report with the SEC. On January 30, 2013, we made an optional prepayment of $40.0 million aggregate principal amount. The prepayment was allocated on a pro rata basis between the extended and non-extended loans. The optional prepayment satisfied the excess cash flow payment requirement. We were required to make a mandatory prepayment of $201.0 million under the excess cash flow provision with respect to the year ended December 31, 2011. The requirement was satisfied through $180.0 million of optional prepayments in February 2012 and $21.0 million of mandatory prepayments in March 2012. The prepayments were allocated on a pro rata basis between the extended and non-extended loans. On March 16, 2011, we made a mandatory prepayment of $132.0 million with respect to the year ended December 31, 2010, under the excess cash flow provision.
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, 100% owned, domestic subsidiaries. The Term Loan is collateralized by a second priority interest in substantially all inventory (excluding inventory collateralized under the inventory floorplan arrangements as described in Note 5 to the consolidated financial statements), 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 each of CDW LLC's direct and indirect, 100% owned, domestic 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 certain inventory floorplan arrangements) less cash and cash equivalents, to Adjusted EBITDA, a non-GAAP financial measure, for the most recently ended four fiscal quarters. 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 December 31, 2012 was required to be at or below 6.75. For the four quarters ended December 31, 2012, the senior secured leverage ratio was 2.4. The senior secured leverage ratio requirement is a material component of the Term Loan. Non-compliance with the senior secured leverage ratio requirement would result in a default under the credit agreement governing the Term Loan and could prevent us from borrowing under our Revolving Loan. If there were an event of default under the credit agreement governing the Term Loan that was not cured or waived, the lenders under the Term Loan could cause all amounts outstanding under the Term Loan to be due and payable immediately, which would have a material adverse effect on our financial position and cash flows. For a discussion of net cash provided by (used in) operating activities, investing activities and financing activities, see “Cash Flows” above. For a reconciliation of Adjusted EBITDA to net cash provided by (used in) operating activities, see “Selected Financial Data.”

We are required to maintain interest rate derivative arrangements 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 in effect at December 31, 2012 as described in Note 8 to the consolidated financial statements, we have satisfied this requirement through January 14, 2015.

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

The Senior Secured Notes were issued on December 17, 2010 and will mature on December 15, 2018. At December 31, 2012, the outstanding principal amount of the Senior Secured Notes was $500.0 million.

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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, 100% owned, domestic subsidiaries. The Senior Secured 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 inventory floorplan arrangements as described in Note 5 to the consolidated financial statements), 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 each of CDW LLC's direct and indirect, 100% owned, domestic 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 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 December 31, 2012, there were no outstanding Senior Notes due 2015.

On April 13, 2011, we completed a cash tender offer (the “Initial Senior Notes due 2015 Tender Offer”) and purchased $665.1 million aggregate principal amount of Senior Notes due 2015 comprised of $519.2 million of the Senior Exchange Notes and $145.9 million of the PIK Election Notes. We concurrently issued $725.0 million aggregate principal amount of Senior Notes (as defined below). The proceeds from this offering, together with cash on hand and borrowings under the then-outstanding revolving loan credit facility, were used to fund the purchase of the tendered Senior Notes due 2015, including $665.1 million aggregate principal amount of Senior Notes due 2015, $59.9 million in tender offer premium and $36.5 million of accrued and unpaid interest, along with transaction fees and expenses.

On May 20, 2011, we completed a follow-on cash tender offer (the “Follow-on Senior Notes due 2015 Tender Offer,” and together with the Initial Senior Notes due 2015 Tender Offer, the “Senior Notes due 2015 Tender Offers”) and purchased an additional $412.8 million aggregate principal amount of Senior Notes due 2015 comprised of $321.4 million of the Senior Exchange Notes and $91.4 million of the PIK Election Notes. We concurrently issued $450.0 million in aggregate principal amount of additional Senior Notes. The proceeds from this offering, together with cash on hand and borrowings under the then-outstanding revolving loan credit facility, were used to fund the purchase of the tendered Senior Notes due 2015, including $412.8 million aggregate principal amount of Senior Notes due 2015, $37.2 million in tender offer premium and $4.5 million of accrued and unpaid interest, along with transaction fees and expenses.

In connection with the Senior Notes due 2015 Tender Offers, we recorded a loss on extinguishment of long-term debt of $114.1 million in the consolidated statement of operations for the year ended December 31, 2011. This loss represented $97.0 million in tender offer premiums and $17.1 million for the write-off of a portion of the unamortized deferred financing costs related to the Senior Notes due 2015. In connection with the issuance of Senior Notes, fees of $19.1 million were capitalized as deferred financing costs and are being amortized over the term of the notes using the effective interest method.

On February 2, 2012, we commenced a tender offer to purchase any and all of the remaining $129.0 million aggregate principal amount of Senior Notes due 2015. On February 17, 2012, we accepted for purchase $120.6 million principal amount of the outstanding Senior Notes due 2015 that were tendered. On March 5, 2012, we accepted for purchase an additional $0.1 million aggregate principal amount of the outstanding Senior Notes due 2015 that were tendered prior to the expiration of the tender offer on March 2, 2012. On March 19, 2012, we redeemed the remaining $8.3 million aggregate principal amount that was not tendered.

We funded the purchases and redemptions of the Senior Notes due 2015 with the issuance of $130.0 million aggregate principal amount of additional Senior Notes on February 17, 2012. The proceeds from this issuance, together with cash on hand and borrowings under the Revolving Loan, funded the payment of $129.0 million aggregate principal amount of Senior Notes due 2015, $7.9 million in tender and redemption premiums and $5.0 million of accrued and unpaid interest, along with transaction fees and expenses.

In connection with these transactions, we recorded a loss on extinguishment of long-term debt of $9.4 million in the consolidated statement of operations for the year ended December 31, 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.

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

As discussed above, on April 13, 2011, we issued $725.0 million principal amount of Senior Notes and on May 20, 2011, we issued an additional $450.0 million principal amount of Senior Notes. The proceeds from these issuances together with cash on hand and borrowings under the then-outstanding revolving loan credit facility were used to fund the Senior Notes due 2015 Tender Offers.

On February 17, 2012, we 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 sheet as an addition to the face amount of the Senior Notes and is being amortized as a reduction of interest expense over the term of the related debt. At December 31, 2012, the outstanding principal amount of Senior Notes was $1,305.0 million, excluding $5.0 million in unamortized premium. The Senior Notes mature on April 1, 2019.

CDW LLC and CDW Finance Corporation are the co-issuers of the Senior Notes. Obligations under the Senior Notes are guaranteed on an unsecured senior basis by Parent and each of CDW LLC's direct and indirect, 100% owned, domestic subsidiaries. The Senior Notes contain negative covenants that, among other things, place restrictions and limitations on the ability of Parent and each of CDW LLC's direct and indirect, 100% owned, domestic 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 do not contain any financial covenants.

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

At December 31, 2012, the outstanding principal amount of the Senior Subordinated Notes was $621.5 million. The Senior Subordinated Notes have a maturity date of October 12, 2017.

On December 21, 2012, we redeemed $100.0 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 $100.0 million aggregate principal amount, $6.3 million of redemption premium and $2.3 million in accrued and unpaid interest. In connection with this redemption, we recorded a loss on extinguishment of long-term debt of $7.8 million in the consolidated statement of operations for the year ended December 31, 2012. This loss represented $6.3 million in redemption premium and $1.5 million for the write-off of a portion of the unamortized deferred financing costs related to the Senior Subordinated Notes.

On March 10, 2010, one of our 100% owned subsidiaries purchased $28.5 million of principal amount of Senior Subordinated Notes for a purchase price of $18.6 million. We recorded a gain on the extinguishment of long-term debt of $9.2 million in the consolidated statement of operations for the year ended December 31, 2010 related to this repurchase. In May 2010, the $28.5 million in principal amount of senior subordinated debt 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 Subordinated Notes. Obligations under the Senior Subordinated Notes are guaranteed on an unsecured senior basis by Parent and each of CDW LLC's direct and indirect, 100% owned, domestic subsidiaries. The Senior Subordinated Notes contain negative covenants that, among other things, place restrictions and limitations on the ability of Parent and each of CDW LLC's direct and indirect, 100% owned, domestic 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 Subordinated Notes do not contain any financial covenants.

Inventory Financing Agreements

We have 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 consolidated balance sheets. We do not incur any interest expense associated with these agreements as balances are paid when they are due.

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

(in millions)	December 31,	
	2012	2011
Revolving Loan inventory financing agreement	$248.3	$240.7
Other inventory financing agreements	0.9	38.0
Accounts payable-inventory financing	$249.2	$278.7

We maintain a senior secured asset-based revolving credit facility as described in Note 7 to our consolidated financial statements, 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, we maintain 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. At December 31, 2012 and 2011, we reported $248.3 million $240.7 million, respectively, for this agreement within accounts payable-inventory financing in the consolidated balance sheets.

We also maintain other inventory financing agreements with financial intermediaries to facilitate the purchase of inventory from certain vendors. During the first quarter of 2012, we terminated one of these agreements; amounts owed for subsequent purchases of this product line are included in accounts payable-trade on the consolidated balance sheet. At December 31, 2011, $30.3 million owed under this agreement was reported within accounts payable-inventory financing on the consolidated balance sheet.

Of the total amounts owed under other inventory financing agreements at December 31, 2012 and 2011, $0.9 million and $7.7 million, respectively, were collateralized by the inventory purchased under these financing agreements and a second lien on the related accounts receivable. The remaining amounts owed under other inventory financing agreements were not collateralized.

Contractual Obligations

We have future obligations under various contracts relating to debt and interest payments, operating leases and asset retirement obligations. The following table presents our estimated future payments under contractual obligations that existed as of December 31, 2012, based on undiscounted amounts.

(in millions)	Payments Due by Period				
	Total	< 1 year	1-3 years	4-5 years	> 5 years
Revolving Loan (1)	$—	$—	$—	$—	$—
Term Loan (2)	1,533.4	91.7	493.6	948.1	—
Senior Secured Notes (3)	740.0	40.0	80.0	80.0	540.0
Senior Notes (3)	2,026.1	110.9	221.9	221.9	1,471.4
Senior Subordinated Notes (3)	1,010.4	77.9	155.8	776.7	—
Operating leases (4)	106.2	18.3	35.9	23.7	28.3
Asset retirement obligations (5)	0.5	—	—	0.5	—
Total	$5,416.6	$338.8	$987.2	$2,050.9	$2,039.7

(1) Includes only principal payments. Excludes interest payments and fees related to this facility because of variability with respect to the timing of advances and repayments.

(2) Includes future principal and cash interest payments on long-term borrowings through scheduled maturity dates. Interest payments for the variable rate debt were calculated using interest rates as of December 31, 2012. Excluded from these amounts are the amortization of debt issuance and other costs related to indebtedness.

(3) Includes future principal and cash interest payments on long-term borrowings through scheduled maturity dates. Interest on the Senior Secured Notes, Senior Notes and Senior Subordinated Notes is calculated using the stated interest rate. Excluded from these amounts are the amortization of debt issuance and other costs related to indebtedness. See "Subsequent Events" for a description of refinancing transactions entered into in 2013.

(4) Includes the minimum lease payments for non-cancelable leases for properties and equipment used in our operations.

(5) Represent commitments to return property subject to operating leases to original condition upon lease termination.

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Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Commitments and Contingencies

We are party to various legal proceedings that arise in the ordinary course of our business, which include commercial, intellectual property, employment, tort and other litigation matters. We are 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, we are subject to indemnification claims under various contracts. From time to time, certain of our customers file voluntary petitions for reorganization or liquidation under the U.S. bankruptcy laws. In such cases, certain pre-petition payments received by us could be considered preference items and subject to return to the bankruptcy administrator.

As of December 31, 2012, we do 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, our 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.

Critical Accounting Policies and Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reported periods. We base our estimates on historical experience and on various other assumptions that we believe 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.

In Note 1 to our consolidated financial statements, we include a discussion of the significant accounting policies used in the preparation of our consolidated financial statements. We believe the following are the most critical accounting policies and estimates that include significant judgments used in the preparation of our financial statements. We consider an accounting policy or estimate to be critical if it requires assumptions to be made that were uncertain at the time they were made, and if changes in these assumptions could have a material impact on our financial condition or results of operations.

Revenue Recognition

We are a primary distribution channel for a large group of vendors and suppliers, including OEMs, software publishers and wholesale distributors. We record revenue from sales transactions when title and risk of loss are passed to our customer, there is persuasive evidence of an arrangement for sale, delivery has occurred and/or services have been rendered, the sales price is fixed or determinable, and collectability is reasonably assured. Our shipping terms typically specify F.O.B. destination, at which time title and risk of loss have passed to the customer.

Revenues from the sales of hardware products or software products and licenses are generally recognized on a gross basis with the selling price to the customer recorded as sales and the acquisition cost of the product recorded as cost of sales. These items can be delivered to customers in a variety of ways, including (i) as physical product shipped from our warehouse, (ii) via drop-shipment by the vendor or supplier, or (iii) via electronic delivery for software licenses. At the time of sale, we record an estimate for sales returns and allowances based on historical experience. Our vendor partners warrant most of the products we sell.

We leverage drop-shipment arrangements with many of our vendors and suppliers to deliver products to our customers without having to physically hold the inventory at our warehouses, thereby increasing efficiency and reducing costs. We recognize revenue for drop-shipment arrangements on a gross basis upon delivery to the customer with contract terms that typically specify F.O.B. destination. We recognize revenue on a gross basis as the principal in the transaction because we are the primary obligor in the arrangement, we assume inventory risk if the product is returned by the customer, we set the price of the product charged to the customer, we assume credit risk for the amounts invoiced, and we work closely with our customers to determine their hardware and software specifications.

These arrangements generally represent approximately 40% to 50% of total net sales, including approximately 10% to 15% related to electronic delivery for software licenses.
Revenue from professional services is either recognized as incurred for services billed at an hourly rate or recognized using a proportional performance model for services provided at a fixed fee. Revenue from Software as a Service

arrangements, Infrastructure as a Service arrangements, and data center services, including internet connectivity, web hosting, server co-location and managed services, is recognized over the period service is provided.

We also sell certain products for which we act as an agent. Products in this category include the sale of third-party services, warranties, software assurance ("SA") or third-party hosted Software as a Service and Infrastructure as a Service arrangements. SA is a product that allows customers to upgrade, at no additional cost, to the latest technology if new applications are introduced during the period that the SA is in effect. These sales do not meet the criteria for gross sales recognition, and thus are recognized on a net basis at the time of sale. Under net sales recognition, the cost paid to the vendor or third-party service provider is recorded as a reduction to sales, resulting in net sales being equal to the gross profit on the transaction.

Our larger customers are offered the opportunity by certain of our vendors to purchase software licenses and SA under enterprise agreements ("EAs"). Under EAs, customers are considered to be compliant with applicable license requirements for the ensuing year, regardless of changes to their employee base. Customers are charged an annual true-up fee for changes in the number of users over the year. With most EAs, our vendors will transfer the license and bill the customer directly, paying resellers such as us an agency fee or commission on these sales. We record these fees as a component of net sales as earned and there is no corresponding cost of sales amount. In certain instances, we bill the customer directly under an EA and account for the individual items sold based on the nature of the item. Our vendors typically dictate how the EA will be sold to the customer.

From time to time, we sell some of our products and services as part of bundled contract arrangements containing multiple deliverables, which may include a combination of the products and services. For each deliverable that represents a separate unit of accounting, revenue is allocated based upon the relative selling prices of each element as determined by our selling price for the deliverable when it is sold on a stand-alone basis.

We record freight billed to our customers as net sales and the related freight costs as a cost of sales.

Deferred revenue includes (1) payments received from customers in advance of providing the product or performing services, and (2) amounts deferred if other conditions of revenue recognition have not been met.

We perform an analysis of the estimated number of days of sales in-transit to customers at the end of each period based on a weighted-average analysis of commercial delivery terms that includes drop-shipment arrangements. This analysis is the basis upon which we estimate the amount of sales in-transit at the end of the period and adjust revenue and the related costs to reflect only what has been received by the customer. Changes in delivery patterns may result in a different number of business days used in making this adjustment and could have a material impact on our revenue recognition for the period.

Inventory Valuation

Inventory is valued at the lower of cost or market value. Cost is determined using a weighted-average cost method. Price protection is recorded when earned as a reduction to the cost of inventory. We decrease the value of inventory for estimated obsolescence equal to the difference between the cost of inventory and the estimated market value, based upon an aging analysis of the inventory on hand, specifically known inventory-related risks, and assumptions about future demand and market conditions. If future demand or actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Vendor Programs

We receive incentives from certain of our vendors related to cooperative advertising allowances, volume rebates, bid programs, price protection and other programs. These incentives generally relate to written agreements with specified performance requirements with the vendors and are recorded as adjustments to cost of sales or inventory, depending on the nature of the incentive. Vendors may change the terms of some or all of these programs, which could have an impact on our results of operations.

We record receivables from vendors related to these programs when the amounts are probable and reasonably estimable. Some programs are based on the achievement of specific targets, and we base our estimates on information provided by our vendors and internal information to assess our progress toward achieving those targets. If actual performance does not match our estimates, we may be required to adjust our receivables. We record reserves for vendor receivables for estimated losses due to vendors' inability to pay or rejections by vendors of claims; however, if actual collections differ from our estimates, we may incur additional losses that could have a material impact on gross margin and operating income.

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Goodwill and Other Intangible Assets

Goodwill is not amortized but is subject to periodic testing for impairment at the reporting unit level. Our reporting units used to assess potential goodwill impairment are the same as our operating segments. We are required to perform an evaluation of goodwill on an annual basis or more frequently if circumstances indicate a potential impairment. The annual test for impairment is conducted as of December 1. We have the option of performing a qualitative assessment of a reporting unit's fair value from the last quantitative assessment or performing a quantitative assessment by comparing a reporting unit's estimated fair value to its carrying amount. Under the quantitative assessment, testing for impairment of goodwill is a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill to determine the amount of impairment loss. Fair value of a reporting unit is determined by using a weighted combination of an income approach and a market approach, as this combination is considered the most indicative of the reporting units' fair value in an orderly transaction between market participants. Under the income approach, we determine fair value based on estimated future cash flows of a reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Under the market approach, we utilize valuation multiples derived from publicly available information for peer group companies to provide an indication of how much a knowledgeable investor in the marketplace would be willing to pay for a company. We have weighted the income approach and the market approach at 75% and 25%, respectively. Determining the fair value of a reporting unit (and the allocation of that fair value to individual assets and liabilities within the reporting unit to determine the implied fair value of goodwill in the event a step two analysis is required) is judgmental in nature and requires the use of significant estimates and assumptions. These estimates and assumptions include primarily, but are not limited to, discount rate, terminal growth rate, selection of appropriate peer group companies and control premium applied, and forecasts of revenue growth rates, gross margins, operating margins, and working capital requirements. The allocation requires analysis to determine the fair value of assets and liabilities including, among others, customer relationships, trade names, and property and equipment. Any changes in the judgments, estimates, or assumptions used could produce significantly different results. Although we believe our assumptions are reasonable, actual results may vary significantly and may expose us to material impairment charges in the future.

Intangible assets include customer relationships, trade names, internally developed software and other intangibles. Intangible assets with determinable lives are amortized on a straight-line basis over the estimated useful lives of the assets. The cost of software developed or obtained for internal use is capitalized and amortized on a straight-line basis over the estimated useful life of the software. These intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset's carrying amount over its fair value.

Allowance for Doubtful Accounts

We record an allowance for doubtful accounts related to trade accounts receivable for estimated losses resulting from the inability of our customers to make required payments. We take into consideration historical loss experience, the overall quality of the receivable portfolio and specifically identified customer risks. If actual collections of customer receivables differ from our estimates, additional allowances may be required which could have an impact on our results of operations.

Income Taxes

Deferred income taxes are provided to reflect the differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements using enacted tax rates in effect for the year in which the differences are expected to reverse. We perform an evaluation of the realizability of our deferred tax assets on a quarterly basis. This evaluation requires us to use estimates and make assumptions and considers all positive and negative evidence and factors, such as the scheduled reversal of temporary differences, the mix of earnings in the jurisdictions in which we operate, and prudent and feasible tax planning strategies.

We account for unrecognized tax benefits based upon our assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. We report a liability for unrecognized tax benefits resulting from unrecognized tax benefits taken or expected to be taken in a tax return and recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

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Recent Accounting Pronouncements

Testing Goodwill for Impairment

In September 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-08 which was intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. If an entity concludes that it is more likely than not that a reporting unit's fair value is equal to or greater than its carrying amount using the qualitative assessment, the entity would not be required to perform the two-step goodwill impairment test for that reporting unit. This update was effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations, or cash flows.

Presentation of Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, which amended guidance on the presentation of comprehensive income. The new guidance eliminated the option to present the components of other comprehensive income as part of the statement of shareholders’ equity. It required an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Subsequently, the FASB issued ASU 2011-12 in December 2011, which deferred changes in ASU 2011-05 that relate to the presentation of reclassification adjustments between other comprehensive income and net income. The guidance did not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. These updates were to be applied retrospectively and were effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted ASU 2011-05 and ASU 2011-12 as of January 1, 2012. As this guidance impacts presentation only, the adoption did not have an impact on our consolidated financial position, results of operations or cash flows.

Fair Value Measurements

In May 2011, the FASB issued ASU 2011-04. The new guidance resulted in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards (“IFRS”). The new guidance did not extend the use of fair value accounting, but provided guidance on how it should be applied where its use is already required or permitted by other standards within GAAP or IFRS. This update was effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance on January 1, 2012 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Subsequent Events

On January 30, 2013, we made an optional prepayment of $40.0 million aggregate principal amount of the Term Loan. The prepayment was allocated on a pro rata basis between the extended and non-extended loans. The optional prepayment satisfied the excess cash flow payment provision of the Term Loan with respect to the year ended December 31, 2012.

On February 6, 2013, we called for redemption $50.0 million aggregate principal amount of our outstanding Senior Subordinated Notes. The redemption price of the Senior Subordinated Notes was 106.268% of the principal amount redeemed, plus accrued and unpaid interest to the date of redemption, which was March 8, 2013. In connection with this redemption, we expect to record a loss on extinguishment of long-term debt of $3.9 million in our consolidated statement of operations in the first quarter of 2013. This loss represents the redemption premium and the write-off of a portion of the unamortized deferred financing costs related to the Senior Subordinated Notes.

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Item 7A. Quantitative and Qualitative Disclosures of Market Risks

Our market risks relate primarily to changes in interest rates. The interest rates on borrowings under our senior secured asset-based revolving credit facility and our senior secured term loan facility are floating and, therefore, are subject to fluctuations. In order to manage the risk associated with changes in interest rates on borrowings under our senior secured term loan facility, we have entered into interest rate derivative agreements to economically hedge a portion of the cash flows associated with the facility. Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate fluctuations.

We utilize interest rate caps for the purpose of limiting current and future exposure to interest rate risk on our floating-rate debt under the senior secured term loan facility.

In November 2012, the Company entered into six interest rate cap agreements with a combined $650.0 million notional amount. Under these agreements, the Company made premium payments totaling $0.3 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 1.5% during the agreement period. The cap agreements are effective from January 14, 2013 through January 14, 2015.

During 2011, the Company entered into four interest rate cap agreements with a combined $500.0 million notional amount. Under the agreements, the Company made premium payments totaling $3.7 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, 2013 through January 14, 2015.

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.

These interest rate cap agreements have not been designated as cash flow hedges of interest rate risk for accounting purposes. Instead, these 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 in the Company's consolidated statements of operations each period.

See “Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Contractual Obligations” for information on cash flows, interest rates and maturity dates of our debt obligations.

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Item 8. Financial Statements and Supplementary Data
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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
CDW Corporation
We have audited the accompanying consolidated balance sheets of CDW Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity (deficit) and cash flows for the years ended December 31, 2012 and December 31, 2011. Our audit also includes the financial statement schedule listed in the Index at Item 15(a)(2) for the information presented for the years ended December 31, 2012 and December 31, 2011. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CDW Corporation and subsidiaries at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CDW Corporation and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
March 8, 2013

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
and Shareholders of CDW Corporation:

In our opinion, the consolidated statements of operations, comprehensive income (loss), shareholders' equity (deficit) and cash flows for the year ended December 31, 2010 present fairly, in all material respects, the results of operations and cash flows of CDW Corporation for the year ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the year ended December 31, 2010 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Chicago, IL
March 4, 2011, except for the effects of the revision discussed in Note 1 (not presented herein) and Note 5 (not presented herein) to the consolidated financial statements appearing under Item 8 of the Company's 2011 annual report on Form 10-K, as to which the date is September 23, 2011

CDW CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share-related amounts)

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$37.9	$99.9
Accounts receivable, net of allowance for doubtful accounts of $5.4 and $5.4, respectively	1,265.1	1,254.9
Merchandise inventory	314.6	321.7
Miscellaneous receivables	148.5	143.6
Deferred income taxes	14.1	24.6
Prepaid expenses and other	34.6	34.7
Total current assets	1,814.8	1,879.4
Property and equipment, net	142.7	154.3
Goodwill	2,209.3	2,208.4
Other intangible assets, net	1,478.5	1,636.0
Deferred financing costs, net	53.2	68.5
Other assets	1.6	3.0
Total assets	$5,700.1	$5,949.6
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable-trade	$518.6	$517.8
Accounts payable-inventory financing	249.2	278.7
Current maturities of long-term debt	40.0	201.0
Deferred revenue	37.9	27.8
Accrued expenses:		
Compensation	99.4	106.6
Interest	50.7	54.9
Sales taxes	22.6	23.1
Advertising	33.9	38.8
Other	96.0	92.6
Total current liabilities	1,148.3	1,341.3
Long-term liabilities:		
Debt	3,731.0	3,865.0
Deferred income taxes	624.3	692.0
Accrued interest	8.0	13.0
Other liabilities	52.0	45.6
Total long-term liabilities	4,415.3	4,615.6
Commitments and contingencies		
Shareholders' equity (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; 914,935 and 913,063 shares issued, respectively; 914,259 and 912,706 shares outstanding, respectively	—	—
Paid-in capital	2,209.1	2,186.1
Accumulated deficit	(2,073.0)	(2,191.3)
Accumulated other comprehensive income (loss)	0.4	(2.1)
Total shareholders' equity (deficit)	136.5	(7.3)

Total liabilities and shareholders' equity (deficit)	$5,700.1	$5,949.6

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)

	Years Ended December 31,		
	2012	2011	2010
Net sales	$10,128.2	$9,602.4	$8,801.2
Cost of sales	8,458.6	8,018.9	7,410.4
Gross profit	1,669.6	1,583.5	1,390.8
Selling and administrative expenses	1,029.5	990.1	932.1
Advertising expense	129.5	122.7	106.0
Income from operations	510.6	470.7	352.7
Interest expense, net	(307.4)	(324.2)	(391.9)
Net (loss) gain on extinguishments of long-term debt	(17.2)	(118.9)	2.0
Other income, net	0.1	0.7	0.2
Income (loss) before income taxes	186.1	28.3	(37.0)
Income tax (expense) benefit	(67.1)	(11.2)	7.8
Net income (loss)	$119.0	$17.1	$(29.2)

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

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

	Years Ended December 31,		
	2012	2011	2010
Net income (loss)	$119.0	$17.1	$(29.2)
Change in unrealized loss on interest rate swap agreements, net of tax	—	—	(32.1)
Reclassification of realized loss on interest rate swap agreements from accumulated other comprehensive loss to net income (loss), net of tax	—	1.9	47.3
Foreign currency translation adjustment	2.5	(1.8)	3.9
Other comprehensive income, net of tax	2.5	0.1	19.1
Comprehensive income (loss)	$121.5	$17.2	$(10.1)

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

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CDW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(in millions)

	Total Shareholders' Equity (Deficit)	Class A Common Shares	Class B Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2009	$(44.7)	$—	$—	$2,155.4	$(2,178.8)	$(21.3)
Equity-based compensation expense	11.5	—	—	11.5	—	—
Accrued charitable contribution related to the MPK Coworker Incentive Plan II, net of tax	(0.2)	—	—	(0.2)	—	—
Net loss	(29.2)	—	—	—	(29.2)	—
Change in unrealized loss on interest rate swap agreements, net of tax	(32.1)	—	—	—	—	(32.1)
Reclassification of realized loss on interest rate swap agreements from accumulated other comprehensive loss to net loss, net of tax	47.3	—	—	—	—	47.3
Foreign currency translation adjustment	3.9	—	—	—	—	3.9
Balance at December 31, 2010	$(43.5)	$—	$—	$2,166.7	$(2,208.0)	$(2.2)
Equity-based compensation expense	19.5	—	—	19.5	—	—
Investment from CDW Holdings LLC	1.0	—	—	1.0	—	—
Repurchase of Class B Common Shares	(0.4)	—	—	—	(0.4)	—
Accrued charitable contribution related to the MPK Coworker Incentive Plan II, net of tax	(1.1)	—	—	(1.1)	—	—
Net income	17.1	—	—	—	17.1	—
Reclassification of realized loss on interest rate swap agreements from accumulated other comprehensive loss to net income, net of tax	1.9	—	—	—	—	1.9

Foreign currency translation adjustment	(1.8)	—	—	—	—	(1.8)
Balance at December 31, 2011	$(7.3)	$—	$—	$2,186.1	$(2,191.3)	$(2.1)
Equity-based compensation expense	22.1	—	—	22.1	—	—
Investment from CDW Holdings LLC	2.8	—	—	2.8	—	—
Repurchase of Class B Common Shares	(0.7)	—	—	—	(0.7)	—
Accrued charitable contribution related to the MPK Coworker Incentive Plan II, net of tax	(1.4)	—	—	(1.4)	—	—
Incentive compensation plan units withheld for taxes	(0.5)	—	—	(0.5)	—	—
Net income	119.0	—	—	—	119.0	—
Foreign currency translation adjustment	2.5	—	—	—	—	2.5
Balance at December 31, 2012	$136.5	$—	$—	$2,209.1	$(2,073.0)	$0.4

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)

	Years Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income (loss)	$119.0	$17.1	$(29.2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	210.2	204.9	209.4
Equity-based compensation expense	22.1	19.5	11.5
Deferred income taxes	(56.3)	(10.2)	(4.3)
Allowance for doubtful accounts	—	0.4	(1.3)
Amortization of deferred financing costs and debt premium	13.6	15.7	18.0
Net loss (gain) on extinguishments of long-term debt	17.2	118.9	(2.0)
Realized loss on interest rate swap agreements	—	2.8	51.5
Mark to market loss on interest rate derivatives	0.9	4.2	4.7
Net loss on sale and disposals of assets	0.1	0.3	0.7
Other	—	(0.6)	(0.6)
Changes in assets and liabilities:			
Accounts receivable	(8.6)	(165.3)	(81.5)
Merchandise inventory	7.1	(29.0)	(34.9)
Other assets	(3.8)	50.3	(61.9)
Accounts payable-trade	0.8	(19.8)	269.3
Other current liabilities	(3.9)	21.5	77.8
Long-term liabilities	(1.0)	(16.0)	(3.5)
Net cash provided by operating activities	317.4	214.7	423.7
Cash flows from investing activities:			
Capital expenditures	(41.4)	(45.7)	(41.5)
Cash settlements on interest rate swap agreements	—	(6.6)	(78.2)
Premium payments on interest rate cap agreements	(0.3)	(3.7)	(5.9)
Proceeds from sale of assets and other	—	—	0.2
Net cash used in investing activities	(41.7)	(56.0)	(125.4)
Cash flows from financing activities:			
Proceeds from borrowings under revolving credit facility	289.0	1,295.0	770.8
Repayments of borrowings under revolving credit facility	(289.0)	(1,483.2)	(1,074.1)
Repayments of long-term debt	(201.0)	(132.0)	(16.5)
Proceeds from issuance of long-term debt	135.7	1,175.0	500.0
Payments to extinguish long-term debt	(243.2)	(1,175.0)	(518.6)
Payments of debt financing costs	(2.1)	(26.3)	(14.3)
Investment from CDW Holdings LLC, net	2.8	1.0	—
Net change in accounts payable-inventory financing	(29.5)	250.5	3.2
Repurchase of Class B common shares	(0.7)	(0.4)	—
Principal payments under capital lease obligations	—	—	(0.6)
Net cash used in financing activities	(338.0)	(95.4)	(350.1)
Effect of exchange rate changes on cash and cash equivalents	0.3	—	0.4

Net (decrease) increase in cash and cash equivalents	(62.0)	63.3	(51.4)
Cash and cash equivalents – beginning of period	99.9	36.6	88.0
Cash and cash equivalents – end of period	$37.9	$99.9	$36.6
Supplementary disclosure of cash flow information:			
Interest paid, including cash settlements on interest rate swap agreements	$(302.7)	$(332.9)	$(377.0)
Taxes (paid) refunded, net	$(123.2)	$20.9	$(48.0)
Non-cash investing and financing activities:			
Capital expenditures accrued in accounts payable-trade	$0.5	$1.1	$—

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

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 consolidated financial statements 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”).

On October 12, 2007, CDW Corporation, an Illinois corporation, was acquired through a merger transaction by an entity controlled by investment funds affiliated with Madison Dearborn Partners, LLC and Providence Equity Partners L.L.C. (the “Acquisition”). CDW Corporation continued as the surviving corporation and same legal entity after the Acquisition, but became a wholly owned subsidiary of VH Holdings, Inc., a Delaware corporation.

On December 31, 2009, CDW Corporation merged into CDWC LLC, an Illinois limited liability company owned by VH Holdings, Inc., with CDWC LLC as the surviving entity. This change had no impact on the operations or management of the Company. On December 31, 2009, CDWC LLC was renamed CDW LLC (“CDW LLC”). On August 17, 2010, VH Holdings, Inc. was renamed CDW Corporation (“Parent”).

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

On August 6, 2010, CDW Finance Corporation, a Delaware corporation, was formed for the sole purpose of acting as a co-issuer of certain debt obligations as described in Note 7. CDW Finance Corporation is 100% owned by Parent and does not hold any material assets or engage in any business activities or operations.

Throughout this report, 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.

Reclassifications

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

Cash and Cash Equivalents

Cash and cash equivalents include all deposits in banks and short-term (original maturities of three months or less), highly liquid investments that are readily convertible to known amounts of cash and are so near maturity that there is insignificant risk of changes in value due to interest rate changes.

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable
Trade accounts receivable are recorded at the invoiced amount and typically do not bear interest. The Company provides allowances for doubtful accounts related to accounts receivable for estimated losses resulting from the inability of its customers to make required payments. The Company takes into consideration the overall quality of the receivable portfolio along with specifically identified customer risks.
Merchandise Inventory
Inventory is valued at the lower of cost or market value. Cost is determined using a weighted-average cost method. Price protection is recorded when earned as a reduction to the cost of inventory. The Company decreases the value of inventory for estimated obsolescence equal to the difference between the cost of inventory and the estimated market value, based upon an aging analysis of the inventory on hand, specifically known inventory-related risks, and assumptions about future demand and market conditions.
Miscellaneous Receivables
Miscellaneous receivables generally consist of amounts due from vendors. The Company receives incentives from vendors related to cooperative advertising allowances, volume rebates, bid programs, price protection and other programs. These incentives generally relate to written vendor agreements with specified performance requirements and are recorded as adjustments to cost of sales or inventory, depending on the nature of the incentive.
Property and Equipment
Property and equipment are stated at cost. The Company calculates depreciation expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of their useful lives or the initial lease term. Expenditures for major renewals and improvements that extend the useful life of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.
The following table shows estimated useful lives of property and equipment:

Classification	Estimated Useful Lives
Machinery and equipment	5 to 10 years
Building and leasehold improvements	5 to 25 years
Computer and data processing equipment	3 to 5 years
Computer software	3 to 5 years
Furniture and fixtures	5 to 10 years

The Company has asset retirement obligations associated with commitments to return property subject to operating leases to original condition upon lease termination. The Company’s asset retirement liability was $0.5 million as of December 31, 2012 and 2011.
Goodwill and Other Intangible Assets
The Company is required to perform an evaluation of goodwill on an annual basis or more frequently if circumstances indicate a potential impairment. The annual test for impairment is conducted as of December 1. The Company’s reporting units used to assess potential goodwill impairment are the same as its operating segments. The Company has the option of performing a qualitative assessment of a reporting unit's fair value from the last quantitative assessment or performing a quantitative assessment by comparing a reporting unit's estimated fair value to its carrying amount. Under the quantitative assessment, testing for impairment of goodwill is a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill to determine the amount of impairment loss. Fair value of a reporting unit is determined by using a weighted combination of an income approach and a market approach, as this combination is considered the most indicative of the Company’s fair value in an orderly transaction between market participants. This assessment uses significant accounting judgments, estimates and assumptions. Any changes in the judgments, estimates or assumptions used could produce significantly different results. During the years ended December 31, 2012, 2011 and 2010, the Company recorded no goodwill impairment charges. See Note 4 for more information on the Company’s

evaluations of goodwill for impairment.

Intangible assets with determinable lives are amortized on a straight-line basis over their respective estimated useful lives. The cost of computer software developed or obtained for internal use is capitalized and amortized on a straight-line basis over the estimated useful life of the software. These intangible assets are reviewed for impairment when indicators are present using undiscounted cash flows. The Company uses the undiscounted cash flows, excluding interest charges, to assess the recoverability of the carrying value of such assets. To the extent carrying value exceeds the undiscounted cash flows, an impairment loss is recorded based upon the excess of the carrying value over fair value. In addition, each quarter the Company evaluates whether events and circumstances warrant a revision to the remaining estimated useful life of each of these intangible assets. If the Company were to determine that a change to the remaining estimated useful life of an intangible asset was necessary, then the remaining carrying amount of the intangible asset would be amortized prospectively over that revised remaining useful life. During the years ended December 31, 2012, 2011 and 2010, no impairment existed with respect to the Company's intangible assets with determinable lives and no significant changes to the remaining useful lives were necessary. The following table shows estimated useful lives of definite-lived intangible assets:

Classification	Estimated Useful Lives
Customer relationships	11 to 14 years
Trade name	20 years
Internally developed software	3 to 5 years
Other	1 to 10 years

Deferred Financing Costs

Deferred financing costs, such as underwriting, financial advisory, professional fees and other similar fees are capitalized and recognized in interest expense over the estimated life of the related debt instrument using the effective interest method or straight-line method, as applicable.

Derivatives

The Company has entered into interest rate cap and swap agreements for the purpose of economically hedging its exposure to fluctuations in interest rates. These derivatives are recorded at fair value in the Company's consolidated balance sheets.

For the Company's interest rate swap agreements designated as cash flow hedges of interest rate risk, the effective portion of the changes in fair value of the swaps is initially recorded as a component of accumulated other comprehensive loss in the Company's consolidated balance sheets and is subsequently reclassified into interest expense, net in the Company's consolidated statements of operations in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the swaps is recognized directly in earnings. In the Company's consolidated statements of cash flows, hedge activities are classified according to the nature of the derivative.

For the Company's interest rate swap and cap agreements not designated as cash flow hedges of interest rate risk, changes in fair value of the derivatives are recorded directly to interest expense, net in the Company's consolidated statements of operations.

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 – observable inputs such as 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.

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Accumulated Other Comprehensive Income (Loss)

Unrealized gains or losses on derivatives designated as cash flow hedges and foreign currency translation adjustments are included in shareholders' equity (deficit) under accumulated other comprehensive income (loss).

The components of accumulated other comprehensive income (loss) are as follows:

(in millions)	December 31, 2012	2011	2010
Unrealized loss on interest rate swap agreements, net of taxes of $0, $0 and $0.9, respectively	$—	$—	$(1.9)
Foreign currency translation adjustment	0.4	(2.1)	(0.3)
Accumulated other comprehensive income (loss)	$0.4	$(2.1)	$(2.2)

Revenue Recognition

The Company is a primary distribution channel for a large group of vendors and suppliers, including original equipment manufacturers ("OEMs"), software publishers and wholesale distributors. The Company records revenue from sales transactions when title and risk of loss are passed to the customer, there is persuasive evidence of an arrangement for sale, delivery has occurred and/or services have been rendered, the sales price is fixed or determinable, and collectability is reasonably assured. The Company's shipping terms typically specify F.O.B. destination, at which time title and risk of loss have passed to the customer.

Revenues from the sales of hardware products or software products and licenses are generally recognized on a gross basis with the selling price to the customer recorded as sales and the acquisition cost of the product recorded as cost of sales. These items can be delivered to customers in a variety of ways, including (i) as physical product shipped from the Company's warehouse, (ii) via drop-shipment by the vendor or supplier, or (iii) via electronic delivery for software licenses. At the time of sale, the Company records an estimate for sales returns and allowances based on historical experience. The Company's vendor partners warrant most of the products the Company sells.

The Company leverages drop-shipment arrangements with many of its vendors and suppliers to deliver products to its customers without having to physically hold the inventory at its warehouses, thereby increasing efficiency and reducing costs. The Company recognizes revenue for drop-shipment arrangements on a gross basis upon delivery to the customer with contract terms that typically specify F.O.B. destination.

Revenue from professional services is either recognized as incurred for services billed at an hourly rate or recognized using a proportional performance model for services provided at a fixed fee. Revenue from Software as a Service arrangements, Infrastructure as a Service arrangements, and data center services, including internet connectivity, web hosting, server co-location and managed services, is recognized over the period service is provided.

The Company also sells certain products for which it acts as an agent. Products in this category include the sale of third-party services, warranties, software assurance ("SA") or third-party hosted Software as a Service and Infrastructure as a Service arrangements. SA is a product that allows customers to upgrade, at no additional cost, to the latest technology if new applications are introduced during the period that the SA is in effect. These sales do not meet the criteria for gross sales recognition, and thus are recognized on a net basis at the time of sale. Under net sales recognition, the cost paid to the vendor or third-party service provider is recorded as a reduction to sales, resulting in net sales being equal to the gross profit on the transaction.

The Company's larger customers are offered the opportunity by certain of its vendors to purchase software licenses and SA under enterprise agreements ("EAs"). Under EAs, customers are considered to be compliant with applicable license requirements for the ensuing year, regardless of changes to their employee base. Customers are charged an annual true-up fee for changes in the number of users over the year. With most EAs, the Company's vendors will transfer the license and bill the customer directly, paying resellers such as the Company an agency fee or commission on these sales. The Company records these fees as a component of net sales as earned and there is no corresponding cost of sales amount. In certain instances, the Company bills the customer directly under an EA and accounts for the individual items sold based on the nature of the item. The Company's vendors typically dictate how the EA will be sold to the customer.

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. For each deliverable that represents a separate unit of accounting, revenue is allocated based upon the relative selling prices of each element as determined by the Company's selling price for the deliverable when it is sold on a stand-alone basis.

The Company records freight billed to its customers as net sales and the related freight costs as a cost of sales.

Deferred revenue includes (1) payments received from customers in advance of providing the product or performing services, and (2) amounts deferred if other conditions of revenue recognition have not been met.

The Company performs an analysis of the estimated number of days of sales in-transit to customers at the end of each period based on a weighted-average analysis of commercial delivery terms that includes drop-shipment arrangements. This analysis is the basis upon which the Company estimates the amount of sales in-transit at the end of the period and adjusts revenue and the related costs to reflect only what has been received by the customer. Changes in delivery patterns may result in a different number of business days used in making this adjustment and could have a material impact on the Company's revenue recognition for the period.

Sales Taxes

Sales tax amounts collected from customers for remittance to governmental authorities are presented on a net basis in the Company’s consolidated statements of operations.

Advertising

Advertising costs are generally charged to expense in the period incurred. Cooperative reimbursements from vendors are recorded in the period the related advertising expenditure is incurred. The Company classifies vendor consideration as a reduction of cost of sales.

Equity-Based Compensation

The Company measures all equity-based payments using a fair-value-based method and records compensation expense over the requisite service period in its consolidated financial statements. Forfeiture rates have been developed based upon historical experience.

Interest Expense

Interest expense is typically recognized in the period incurred at the applicable interest rate in effect. For increasing-rate debt, the Company determines the periodic interest cost using the effective interest method over the estimated outstanding term of the debt. The difference between interest expense recorded and cash interest paid is reflected as short-term or long-term accrued interest in the Company’s consolidated balance sheets.

Foreign Currency Translation

The Company’s functional currency is the U.S. dollar. The functional currency of the Company’s Canadian subsidiary is the local currency, the Canadian dollar. Assets and liabilities of this subsidiary are translated at the spot rate in effect at the applicable reporting date and the consolidated results of operations are translated at the average exchange rates in effect during the applicable period. The resulting foreign currency translation adjustment is recorded as accumulated other comprehensive income (loss), which is reflected as a separate component of shareholders’ equity (deficit).

Income Taxes

Deferred income taxes are provided to reflect the differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company performs an evaluation of the realizability of deferred tax assets on a quarterly basis. This evaluation requires its use of estimates and assumptions and considers all positive and negative evidence and factors, such as the scheduled reversal of temporary differences, the mix of earnings in the jurisdictions in which the Company operates, and prudent and feasible tax planning strategies.

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The Company accounts for unrecognized tax benefits based upon its assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. The Company reports a liability for unrecognized tax benefits resulting from unrecognized tax benefits taken or expected to be taken in a tax return and recognizes interest and penalties, if any, related to its unrecognized tax benefits in income tax expense.

2. Recent Accounting Pronouncements

Testing Goodwill for Impairment

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-08 which was intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. If an entity concludes that it is more likely than not that a reporting unit's fair value is equal to or greater than its carrying amount using the qualitative assessment, the entity would not be required to perform the two-step goodwill impairment test for that reporting unit. This update was effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Presentation of Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, which amended guidance on the presentation of comprehensive income. The new guidance eliminated the option to present the components of other comprehensive income as part of the statement of shareholders' equity. It required an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Subsequently, the FASB issued ASU 2011-12 in December 2011, which deferred changes in ASU 2011-05 that relate to the presentation of reclassification adjustments between other comprehensive income and net income. The guidance did not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. These updates were to be applied retrospectively and were effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted ASU 2011-05 and ASU 2011-12 as of January 1, 2012. As this guidance impacts presentation only, the adoption did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

Fair Value Measurements

In May 2011, the FASB issued ASU 2011-04. The new guidance resulted in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards ("IFRS"). The new guidance did not extend the use of fair value accounting, but provided guidance on how it should be applied where its use is already required or permitted by other standards within GAAP or IFRS. This update was effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance on January 1, 2012 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

3. Property and Equipment

Property and equipment consisted of the following:

(in millions)	December 31,	
	2012	2011
Land	$27.7	$27.7
Machinery and equipment	50.9	48.3
Building and leasehold improvements	104.0	102.1
Computer and data processing equipment	56.4	49.7
Computer software	30.2	29.2
Furniture and fixtures	21.6	20.3
Construction in progress	11.9	17.0
Total property and equipment	302.7	294.3

Less accumulated depreciation	160.0	140.0
Net property and equipment	$142.7	$154.3

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During 2012, 2011 and 2010, the Company recorded disposals of $12.2 million, $10.5 million and $11.4 million, respectively, to remove assets that were no longer in use from property and equipment. The Company recorded a pre-tax loss of $0.1 million, $0.3 million and $0.7 million in 2012, 2011 and 2010, respectively, for certain disposed assets that were not fully depreciated.

Depreciation expense for the years ended December 31, 2012, 2011 and 2010 was $32.0 million, $31.3 million and $38.3 million, respectively.

4. Goodwill and Other Intangible Assets

As described in Note 1, the Company is required to perform an evaluation of goodwill on an annual basis or more frequently if circumstances indicate a potential impairment. The annual test for impairment is conducted as of December 1. The Company’s reporting units used to assess potential goodwill impairment are the same as its operating segments. The Company has two reportable segments: Corporate, which is comprised primarily of business customers, and Public, which is comprised of government entities 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” for segment reporting purposes. The Company has the option of performing a qualitative assessment of a reporting unit's fair value from the last quantitative assessment or performing a quantitative assessment by comparing a reporting unit's estimated fair value to its carrying amount. Under the quantitative assessment, testing for impairment of goodwill is a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill to determine the amount of impairment loss. Fair value of a reporting unit is determined by using a weighted combination of an income approach and a market approach, as this combination is considered the most indicative of the Company’s fair value in an orderly transaction between market participants. Under the income approach, the Company determined fair value based on estimated future cash flows of a reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Under the market approach, the Company utilized valuation multiples derived from publicly available information for guideline companies to provide an indication of how much a knowledgeable investor in the marketplace would be willing to pay for a company. The valuation multiples were applied to the reporting units. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates, gross margins, operating margins, discount rates and future market conditions, among others.

December 1, 2012 Evaluation

The Company performed its annual evaluation of goodwill as of December 1, 2012. All reporting units passed the first step of the goodwill evaluation (with the fair value exceeding the carrying value by 49%, 44%, 104% and 17% for the Corporate, Public, Canada and CDW Advanced Services reporting units, respectively) and, accordingly, the Company was not required to perform the second step of the goodwill evaluation.

To determine the fair value of the reporting units, the Company used a 75%/25% weighting of the income approach and market approach, respectively. Under the income approach, the Company estimated future cash flows of each reporting unit based on internally generated forecasts for the remainder of 2012 and the next six years. The Company used a 3.5% long-term assumed consolidated annual revenue growth rate for periods after the six-year forecast. The estimated future cash flows for the Corporate and Public reporting units were discounted at 11.5%; cash flows for the Canada and CDW Advanced Services reporting units were discounted at 11.8% and 12.0%, respectively, based on the future growth rates assumed in the discounted cash flows.

December 1, 2011 Evaluation

The Company performed its annual evaluation of goodwill as of December 1, 2011. All reporting units passed the first step of the goodwill evaluation (with the fair value exceeding the carrying value by 43%, 27%, 159% and 17% for the Corporate, Public, Canada and CDW Advanced Services reporting units, respectively) and, accordingly, the Company was not required to perform the second step of the goodwill evaluation.

To determine the fair value of the reporting units, the Company used a 75%/25% weighting of the income approach and market approach, respectively. Under the income approach, the Company estimated future cash flows of each reporting unit based on internally generated forecasts for the remainder of 2011 and the next six years. The Company used a 3.5% long-term assumed consolidated annual revenue growth rate for periods after the six-year forecast. The

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estimated future cash flows for the Corporate, Public and CDW Advanced Services reporting units were discounted at 11.5%; cash flows for the Canada reporting unit were discounted at 12.0% based on the future growth rates assumed in the discounted cash flows.

December 1, 2010 Evaluation

The Company performed its annual evaluation of goodwill as of December 1, 2010. All reporting units passed the first step of the goodwill evaluation (with the fair value exceeding the carrying value by 16%, 17%, 55% and 64%, for the Corporate, Public, Canada and CDW Advanced Services reporting units, respectively) and, accordingly, the Company was not required to perform the second step of the goodwill evaluation.

To determine the fair value of the reporting units, the Company used a 75%/25% weighting of the income approach and market approach, respectively. Under the income approach, the Company estimated future cash flows of each reporting unit based on internally generated forecasts for the remainder of 2010 and the next six years. The Company used a 5% long-term assumed consolidated annual revenue growth rate for periods after the six-year forecast. The estimated future cash flows for the Corporate, Public and Canada reporting units were discounted at 12.0%; cash flows for the CDW Advanced Services reporting unit were discounted at 13.0% given inherent differences in the business model and risk profile.

The following table presents the change in goodwill by segment for the years ended December 31, 2012 and 2011:

(in millions)	Corporate	Public	Other [1]	Consolidated
Balances as of December 31, 2010:				
Goodwill	$2,794.4	$1,261.4	$107.1	$4,162.9
Accumulated impairment charges	(1,571.4)	(354.1)	(28.3)	(1,953.8)
	$1,223.0	$907.3	$78.8	$2,209.1
2011 Activity:				
Translation adjustment	$—	$—	$(0.7)	$(0.7)
	$—	$—	$(0.7)	$(0.7)
Balances as of December 31, 2011:				
Goodwill	$2,794.4	$1,261.4	$106.4	$4,162.2
Accumulated impairment charges	(1,571.4)	(354.1)	(28.3)	(1,953.8)
	$1,223.0	$907.3	$78.1	$2,208.4
2012 Activity:				
Translation adjustment	$—	$—	$0.9	$0.9
	$—	$—	$0.9	$0.9
Balances as of December 31, 2012:				
Goodwill	$2,794.4	$1,261.4	$107.3	$4,163.1
Accumulated impairment charges	(1,571.4)	(354.1)	(28.3)	(1,953.8)
	$1,223.0	$907.3	$79.0	$2,209.3

(1)Other is comprised of CDW Advanced Services and Canada reporting units.

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The following table presents a summary of intangible assets at December 31, 2012 and 2011:
(in millions)

December 31, 2012	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$1,861.7	$733.3	$1,128.4
Trade name	421.0	109.9	311.1
Internally developed software	97.4	60.1	37.3
Other	3.3	1.6	1.7
Total	$2,383.4	$904.9	$1,478.5
December 31, 2011			
Customer relationships	$1,861.4	$593.2	$1,268.2
Trade name	421.0	88.8	332.2
Internally developed software	77.1	43.3	33.8
Other	3.3	1.5	1.8
Total	$2,362.8	$726.8	$1,636.0

Amortization expense related to intangible assets for the years ended December 31, 2012, 2011 and 2010 was $178.2 million, $173.5 million and $171.1 million, respectively.

Estimated future amortization expense related to intangible assets for the next five years is as follows:
(in millions)

Years ending December 31,	
2013	$177.4
2014	173.6
2015	166.3
2016	162.2
2017	161.6

5. 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)	December 31,	
	2012	2011
Revolving Loan inventory financing agreement	$248.3	$240.7
Other inventory financing agreements	0.9	38.0
Accounts payable-inventory financing	$249.2	$278.7

The Company maintains a senior secured asset-based revolving credit facility as described in Note 7, 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. At December 31, 2012 and 2011, the Company reported $248.3 million and

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$240.7 million, respectively, for this agreement within accounts payable-inventory financing on the consolidated balance sheets.

The Company also maintains other inventory financing agreements with financial intermediaries to facilitate the purchase of inventory from certain vendors. During the first quarter of 2012, the Company terminated one of these agreements; amounts owed for subsequent purchases of this product line are included in accounts payable-trade on the consolidated balance sheet. At December 31, 2011, $30.3 million owed under this agreement was reported within accounts payable-inventory financing on the consolidated balance sheet.

Of the total amounts owed under other inventory financing agreements at December 31, 2012 and 2011, $0.9 million and $7.7 million, respectively, were collateralized by the inventory purchased under these financing agreements and a second lien on the related accounts receivable. The remaining amounts owed under other inventory financing agreements were not collateralized.

6. Lease Commitments

The Company is obligated under various non-cancelable operating lease agreements for office facilities that generally provide for minimum rent payments and a proportionate share of operating expenses and property taxes and include certain renewal and expansion options. For the years ended December 31, 2012, 2011 and 2010, rent expense under these lease arrangements was $22.4 million, $21.6 million and $23.9 million, respectively.

During the year ended December 31, 2011, the Company extinguished its capital lease liability of $0.9 million and recorded a net pre-tax gain of $0.6 million in its consolidated statement of operations.

Future minimum lease payments are as follows:

(in millions)	
Years ending December 31,	
2013	$18.3
2014	18.3
2015	17.6
2016	13.1
2017	10.6
Thereafter	28.3
Total future minimum lease payments	$106.2

7. Long-Term Debt

Long-term debt was as follows:

(dollars in millions)		December 31,	
	Interest Rate (1)	2012	2011
Senior secured asset-based revolving credit facility	— %	$—	$—
Senior secured term loan facility	3.9 %	1,339.5	1,540.5
Senior secured notes due 2018	8.0 %	500.0	500.0
Senior notes due 2019	8.5 %	1,305.0	1,175.0
Unamortized premium on senior notes due 2019		5.0	—
Senior subordinated notes due 2017	12.535 %	621.5	721.5
Senior notes due 2015	— %	—	129.0
Total long-term debt		3,771.0	4,066.0
Less current maturities of long-term debt		(40.0)	(201.0)
Long-term debt, excluding current maturities		$3,731.0	$3,865.0

(1)Weighted-average interest rate as of December 31, 2012.

As of December 31, 2012, 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 December 31, 2012, the Company had no outstanding borrowings under the Revolving Loan, $1.7 million of undrawn letters of credit and $275.9 million reserved related to the floorplan sub-facility.

On June 24, 2011, the Company entered into the Revolving Loan, a new five-year $900.0 million senior secured asset-based revolving credit facility, with the facility being available to the Company for borrowings, issuance of letters of credit and floorplan financing for certain vendor products. The Revolving Loan matures on June 24, 2016, subject to an acceleration provision discussed below. The Revolving Loan replaced the Company's previous revolving loan credit facility that was to mature on October 12, 2012. The Revolving Loan (i) increased the overall revolving credit facility capacity available to the Company from $800.0 million to $900.0 million, (ii) increased the maximum aggregate amount of increases that may be made to the revolving credit facility from $100.0 million to $200.0 million, (iii) added a maturity acceleration provision based upon excess cash availability whereby the Revolving Loan may mature 45 days prior to the maturity of the non-extended portion of the Company's senior secured term loan facility, if excess cash availability does not exceed the outstanding borrowings of the subject maturing debt at the time of the test plus $150.0 million, (iv) increased the fee on the unused portion of the revolving credit facility from 25 basis points to either 37.5 or 50 basis points, depending on the amount of utilization, (v) increased the applicable interest rate margin, and (vi) incorporated a $300.0 million floorplan sub-facility, which was increased to $400.0 million on August 2, 2011. In connection with the termination of the previous facility, the Company recorded a loss on extinguishment of long-term debt of $1.6 million in the Company's consolidated statement of operations for the year ended December 31, 2011, representing a write-off of a portion of unamortized deferred financing costs. Fees of $7.2 million related to the Revolving Loan were capitalized as deferred financing costs and are being amortized over the term of the facility on a straight-line basis.

As described in Note 5, the Company has entered into agreements with certain financial intermediaries to facilitate the purchase of inventory from various suppliers. In connection with the floorplan sub-facility, the Company entered into the Revolving Loan inventory financing agreement. Amounts outstanding under the Revolving Loan inventory financing agreement are unsecured and noninterest bearing. The Company will either pay the outstanding Revolving Loan inventory financing agreement amounts when they become due, or the Revolving Loan's administrative agent will automatically initiate an advance on the Revolving Loan and use the proceeds to pay the balance on the due date. As of December 31, 2012, the financial intermediary reported an outstanding balance of $267.9 million under the Revolving Loan inventory financing agreement, which did not reflect payments the Company made on December 31, 2012. 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 $19.6 million less than the $267.9 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 $8.0 million in reserves for open orders that reduce the availability under the Revolving Loan. Changes in cash flows from the Revolving Loan inventory financing agreement are reported in financing activities on the Company's consolidated statement of cash flows.

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 greatest of (a) the prime rate, (b) the federal funds effective rate plus 50 basis points or (c) the one-month LIBOR plus 1.00%. The applicable margin varies (2.00% to 2.50% for LIBOR borrowings and 1.00% to 1.50% for ABR borrowings) depending upon the Company's average daily excess cash availability under the agreement and is subject to a reduction of 0.25% if, and for as long as, the senior secured leverage ratio is less than 3.0. The senior secured leverage ratio is defined as the ratio of senior secured debt (including amounts owed under certain inventory floorplan arrangements and capital leases) less cash and cash equivalents, to Adjusted EBITDA, a non-GAAP measure, for the four most recently ended fiscal quarters. For the four quarters ended December 31, 2012, the senior secured leverage ratio was 2.4.

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. The borrowing base is (a) the sum of the products of the applicable advance rates on eligible accounts receivable and on eligible inventory as defined in the agreement less (b) any reserves. At December 31, 2012, the borrowing base was $1,018.2 million as supported by eligible inventory and accounts receivable balances as of November 30, 2012. The Company could have borrowed up to an additional $622.4 million under the Revolving Loan at December 31, 2012.

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, 100% owned, domestic subsidiaries. Borrowings under the Revolving Loan are collateralized by a first priority interest in inventory (excluding inventory collateralized under the inventory floorplan arrangements as described in Note 5), 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 each of CDW LLC's direct and indirect, 100% owned, domestic 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 five 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 December 31, 2012, the outstanding principal amount of the Term Loan was $1,339.5 million, with $421.3 million of non-extended loans due October 10, 2014 and $918.2 million of extended loans due July 15, 2017. The effective weighted-average interest rate on Term Loan principal amounts outstanding on December 31, 2012 was 3.9% per annum.

Borrowings under the Term Loan bear interest at either (a) the ABR plus a margin; or (b) LIBOR plus a margin. The margin 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 margins were reduced on extended loans. For ABR borrowings, the applicable margin 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 margin varies within a range of 3.50% to 4.00% for non-extended loans and 2.75% to 3.25% for extended loans.

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 margins with respect to extended loans, (ii) established a LIBOR floor of 1.25% and an ABR floor of 2.25% with respect to extended loans, (iii) reset the start date for accumulating restricted payments that count against the general limit of $25.0 million and (iv) provided a 1% prepayment premium for certain repayments or re-pricings of any extended loans 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 the Company's consolidated statement of operations for the year ended December 31, 2011. This loss represented a write-off of a portion of the unamortized deferred financing costs related to the Term Loan.

The Term Loan 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 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. 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. A mandatory prepayment of approximately $40.0 million will be due in 2013 under the excess cash flow provision with respect to the year ended December 31, 2012. The payment is due within ten business days of filing this report with the SEC. On January 30, 2013, the Company made an optional prepayment of $40.0 million aggregate principal amount. The prepayment was allocated on a pro rata basis between the extended and non-extended loans. The optional prepayment satisfied the excess cash flow payment requirement. The Company was required to make a mandatory prepayment of $201.0 million under the excess cash flow provision with respect to the year ended December 31, 2011. The requirement was satisfied through

$180.0 million of optional prepayments in February 2012 and $21.0 million of mandatory prepayments in March 2012. The prepayments were allocated on a pro rata basis between the extended and non-extended loans. 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.

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, 100% owned, domestic subsidiaries. The Term Loan is collateralized by a

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second priority interest in substantially all inventory (excluding inventory collateralized under the inventory floorplan arrangements as described in Note 5), 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 each of CDW LLC's direct and indirect, 100% owned, domestic 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. 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 December 31, 2012 was required to be at or below 6.75. For the four quarters ended December 31, 2012, the senior secured leverage ratio was 2.4.

The Company is required to maintain interest rate derivative arrangements 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 in effect at December 31, 2012 as described in Note 8, the Company has satisfied this requirement through January 14, 2015.

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

The Senior Secured Notes were issued on December 17, 2010 and will mature on December 15, 2018. At December 31, 2012, the outstanding principal amount 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, 100% owned, domestic subsidiaries. The Senior Secured 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 inventory floorplan arrangements as described in Note 5), 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 each of CDW LLC's direct and indirect, 100% owned, domestic 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 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 December 31, 2012, there were no outstanding Senior Notes due 2015.

On April 13, 2011, the Company completed a cash tender offer (the “Initial Senior Notes due 2015 Tender Offer”) and purchased $665.1 million aggregate principal amount of Senior Notes due 2015 comprised of $519.2 million of the Senior Exchange Notes and $145.9 million of the PIK Election Notes. The Company concurrently issued $725.0 million aggregate principal amount of Senior Notes (as defined below). The proceeds from this offering, together with cash on hand and borrowings under the then-outstanding revolving loan credit facility, were used to fund the purchase of the tendered Senior Notes due 2015, including $665.1 million aggregate principal amount of Senior Notes due 2015, $59.9 million in tender offer premium and $36.5 million of accrued and unpaid interest, along with transaction fees and expenses.

On May 20, 2011, the Company completed a follow-on cash tender offer (the “Follow-on Senior Notes due 2015 Tender Offer,” and together with the Initial Senior Notes due 2015 Tender Offer, the “Senior Notes due 2015 Tender Offers”) and purchased an additional $412.8 million aggregate principal amount of Senior Notes due 2015 comprised of $321.4 million of the Senior Exchange Notes and $91.4 million of the PIK Election Notes. The Company concurrently issued $450.0 million in aggregate principal amount of additional Senior Notes. The proceeds from this offering, together with cash on hand and borrowings under the then-outstanding revolving loan credit facility, were used to fund the purchase of the tendered Senior Notes due 2015, including $412.8 million aggregate principal amount of Senior Notes due 2015, $37.2 million in tender offer premium and $4.5 million of accrued and unpaid interest, along with transaction fees and expenses.

In connection with the Senior Notes due 2015 Tender Offers, the Company recorded a loss on extinguishment of long-term debt of $114.1 million in the Company's consolidated statement of operations for the year ended December 31,

2011. This loss represented $97.0 million in tender offer premiums and $17.1 million for the write-off of a portion of the unamortized deferred financing costs related to the Senior Notes due 2015. In connection with the issuance of Senior Notes, fees of $19.1 million were capitalized as deferred financing costs and are being amortized over the term of the notes using the effective interest method.

On February 2, 2012, the Company commenced a tender offer to purchase any and all of the remaining $129.0 million aggregate principal amount of Senior Notes due 2015. On February 17, 2012, the Company accepted for purchase $120.6 million aggregate principal amount of the outstanding Senior Notes due 2015 that were tendered. On March 5, 2012, the Company accepted for purchase an additional $0.1 million aggregate principal amount of the outstanding Senior Notes due 2015 that were tendered prior to the expiration of the tender offer on March 2, 2012. On March 19, 2012, the Company redeemed the remaining $8.3 million aggregate principal amount that was not tendered.

The Company funded the purchases and redemptions of the Senior Notes due 2015 with the issuance of $130.0 million aggregate principal amount of additional Senior Notes on February 17, 2012. The proceeds from this issuance, together with cash on hand and borrowings under the Revolving Loan, funded the payment of $129.0 million aggregate principal amount of Senior Notes due 2015, $7.9 million in tender and redemption premiums and $5.0 million of accrued and unpaid interest, along with transaction fees and expenses.

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 year ended December 31, 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.

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

As discussed above, on April 13, 2011, the Company issued $725.0 million principal amount of Senior Notes and on May 20, 2011, the Company issued an additional $450.0 million principal amount of Senior Notes. The proceeds from these issuances together with cash on hand and borrowings under the then-outstanding revolving loan credit facility were used to fund the Senior Notes due 2015 Tender Offers.

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 sheet as an addition to the face amount of the Senior Notes and is being amortized as a reduction of interest expense over the term of the related debt. At December 31, 2012, the outstanding principal amount of Senior Notes was $1,305.0 million, excluding $5.0 million in unamortized premium. The Senior Notes mature on April 1, 2019.

CDW LLC and CDW Finance Corporation are the co-issuers of the Senior Notes. Obligations under the Senior Notes are guaranteed on an unsecured senior basis by Parent and each of CDW LLC's direct and indirect, 100% owned, domestic subsidiaries. The Senior Notes contain negative covenants that, among other things, place restrictions and limitations on the ability of Parent and each of CDW LLC's direct and indirect, 100% owned, domestic 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 do not contain any financial covenants.

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

At December 31, 2012, the outstanding principal amount of the Senior Subordinated Notes was $621.5 million. The Senior Subordinated Notes have a maturity date of October 12, 2017.

On December 21, 2012, the Company redeemed $100.0 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 $100.0 million aggregate principal amount, $6.3 million of redemption premium and $2.3 million in accrued and unpaid interest. In connection with this redemption, the Company recorded a loss on extinguishment of long-term debt of $7.8 million in the Company's consolidated statement of operations for the year ended December 31, 2012. This loss represented $6.3 million in redemption premium and $1.5 million for the write-off of a portion of the unamortized deferred financing costs related to the Senior Subordinated Notes.

On March 10, 2010, one of the Company's 100% owned subsidiaries purchased $28.5 million of principal amount of Senior Subordinated Notes for a purchase price of $18.6 million. The Company recorded a gain on the extinguishment

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of long-term debt of $9.2 million in the Company's consolidated statement of operations for the year ended December 31, 2010 related to this repurchase. In May 2010, the $28.5 million in principal amount of senior subordinated debt 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 Subordinated Notes. Obligations under the Senior Subordinated Notes are guaranteed on an unsecured senior basis by Parent and each of CDW LLC's direct and indirect, 100% owned, domestic subsidiaries. The Senior Subordinated Notes contain negative covenants that, among other things, place restrictions and limitations on the ability of Parent and each of CDW LLC's direct and indirect, 100% owned, domestic 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 Subordinated Notes do not contain any financial covenants.

Long-Term Debt Maturities

As of December 31, 2012, the maturities of long-term debt were as follows:

(in millions)	
Years ending December 31,	
2013	$40.0
2014	408.7
2015	—
2016	—
2017	1,512.3
Thereafter	1,805.0
	$3,766.0

See Note 19 for a description of refinancing transactions entered into in 2013.

Fair Value

The fair value of the Company's long-term debt instruments at December 31, 2012 was $3,970.0 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 December 31, 2012, the carrying value of the Company's long-term debt was $3,766.0 million, excluding $5.0 million in unamortized premium.

Deferred Financing Costs

The following table summarizes the deferred financing costs activity for the years ended December 31, 2012 and 2011:

(in millions)	December 31, 2012	2011
Beginning balance	$68.5	$79.7
Additional costs capitalized	2.1	26.3
Recognized in interest expense	(14.4)	(15.7)
Write-off of unamortized deferred financing costs	(3.0)	(21.8)
Ending balance	$53.2	$68.5

As of December 31, 2012 and December 31, 2011, the weighted-average remaining life of unamortized deferred financing costs was 5.1 and 5.9 years, respectively.

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8. 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 economically 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 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 November 2012, the Company entered into six interest rate cap agreements with a combined $650.0 million notional amount. Under these agreements, the Company made premium payments totaling $0.3 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 1.5% during the agreement period. The cap agreements are effective from January 14, 2013 through January 14, 2015.

During 2011, the Company entered into four interest rate cap agreements with a combined $500.0 million notional amount. Under these agreements, the Company made premium payments totaling $3.7 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, 2013 through January 14, 2015.

In 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.

These cap agreements have not been designated as cash flow hedges of interest rate risk for GAAP 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 in the Company's consolidated statements of operations.

Interest Rate Swap Agreements

There were no interest rate swaps outstanding as of December 31, 2012 or 2011. 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 GAAP accounting purposes, the effective portion of the changes in fair value of the swaps was initially recorded as a component of accumulated other comprehensive loss on the Company's consolidated balance sheets and subsequently reclassified into interest expense, net on 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 interest expense, net. 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 an amendment to the Term

Loan. The Company continued to report the net loss related to the discontinued cash flow hedges in accumulated other comprehensive loss, which was reclassified into earnings on a straight-line basis through January 14, 2011.
There was no loss reclassified into earnings during the year ended December 31, 2012. The amount of the loss reclassified into earnings during the years ended December 31, 2011 and 2010 was $2.1 million and $38.2 million, respectively.
The Company utilized the hypothetical derivative method to measure hedge ineffectiveness each period for interest rate swaps designated as cash flow hedges and recorded any ineffectiveness directly in interest expense, net. The Company recognized no gains or losses due to hedge ineffectiveness during the years ended December 31, 2012 and 2011, respectively. The Company recognized a net non-cash gain of $62.2 million due to hedge ineffectiveness during the year ended December 31, 2010.
The following table summarizes the classification and fair value amounts of derivative instruments reported in the consolidated balance sheets as of December 31, 2012 and 2011:

(in millions)	Balance Sheet Location	Derivative Assets December 31,		Derivative Liabilities December 31,	
		2012	2011	2012	2011
Derivatives not designated as hedging instruments					
Interest rate cap agreements	Other assets	$0.1	$0.7	$—	$—

Derivative instruments carried at fair value as of December 31, 2012 were classified in the fair value hierarchy as follows:

(in millions)	Level 1	Level 2	Level 3	Total
Interest rate cap agreements	$—	$0.1	$—	$0.1

The fair value of the Company’s interest rate caps is classified as Level 2 in the hierarchy. The valuation of the interest rate 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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The effect of derivative instruments on the consolidated statements of operations for the years ended December 31, 2012, 2011 and 2010 was as follows:
Derivatives not designated as hedging instruments

(in millions)	Amount of Loss Recognized in Interest Expense, net		
	2012	2011	2010
Interest rate cap agreements	$(0.9)	$(4.2)	$(4.7)
Total	$(0.9)	$(4.2)	$(4.7)

Derivatives designated as hedging instruments

(in millions)	Amount of Loss Recognized in Other Comprehensive Income (Effective Portion)		
	2012	2011	2010
Interest rate swap agreements	$—	$—	