

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999 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 **0-21796**

CDW Computer Centers, Inc.

(Exact name of registrant as specified in its charter)

Illinois

(State or other jurisdiction of incorporation or organization)

36-3310735

(I.R.S. Employer Identification No.)

200 N. Milwaukee Ave.
Vernon Hills, Illinois

(Address of principal executive offices)

60061

(Zip Code)

(847) 465-6000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such 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 _____ No _____

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes _____ No _____

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of April 28, 1999, 21,602,789 common shares were issued and 21,552,789 were outstanding.

CDW COMPUTER CENTERS, INC.

TABLE OF CONTENTS

	<u>Page No.</u>
PART I. Financial Information	
Item 1. Financial Statements (unaudited):	
Condensed Consolidated Balance Sheets - March 31, 1999 and December 31, 1998	1
Condensed Consolidated Statements of Income - Three months ended March 31, 1999 and 1998	2
Condensed Consolidated Statement of Shareholders' Equity - Three months ended March 31, 1999	3
Condensed Consolidated Statements of Cash Flows - Three months ended March 31, 1999 and 1998	4
Notes to Condensed Consolidated Financial Statements	5 – 8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9 – 14
PART II. Other Information	
Item 1. Legal Proceedings	15
Item 6. Exhibits and Reports on Form 8-K	15
Signatures	16

Part 1. Financial Information
Item 1. Financial Statements

CDW COMPUTER CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands)
(unaudited)

	<u>March 31,</u> <u>1999</u>	<u>December 31,</u> <u>1998</u>
Assets		
Current assets :		
Cash and cash equivalents	\$ 8,545	\$ 4,230
Marketable securities	59,445	66,458
Accounts receivable, net of allowance for doubtful accounts of \$3,485 and \$3,185, respectively	187,468	152,308
Miscellaneous receivables	6,401	5,896
Merchandise inventory	80,463	64,392
Prepaid expenses and other assets	1,357	1,423
Deferred income taxes	<u>5,081</u>	<u>5,081</u>
Total current assets	348,760	299,788
Property and equipment, net	38,203	37,056
Deferred income taxes and other assets	<u>4,869</u>	<u>4,977</u>
Total assets	<u>\$ 391,832</u>	<u>\$ 341,821</u>
Liabilities and Shareholders' Equity		
Current liabilities :		
Accounts payable	\$ 63,669	\$ 41,358
Accrued expenses :		
Compensation	14,871	16,279
Income taxes	9,816	5,146
Exit costs	2,600	2,715
Other	<u>5,912</u>	<u>5,560</u>
Total current liabilities	<u>96,868</u>	<u>71,058</u>
Commitments and contingencies		
Shareholders' equity :		
Preferred shares, \$1.00 par value; 5,000 shares authorized; none issued	-	-
Common shares, \$.01 par value; 75,000 shares authorized; 21,591 and 21,571 shares issued, respectively	216	216
Paid-in capital	85,700	81,352
Retained earnings	211,957	192,259
Unearned compensation	<u>(820)</u>	<u>(975)</u>
Total shareholders' equity	<u>297,053</u>	<u>272,852</u>
Less cost of common shares in treasury, 50 shares	<u>(2,089)</u>	<u>(2,089)</u>
Total shareholders' equity	<u>294,964</u>	<u>270,763</u>
Total liabilities and shareholders' equity	<u>\$ 391,832</u>	<u>\$ 341,821</u>

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

CDW COMPUTER CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

	Three Months	
	Ended March 31	
	1999	1998
Net sales	\$ 539,406	\$ 384,591
Cost of sales	<u>471,500</u>	<u>335,444</u>
Gross profit	67,906	49,147
Selling and administrative expenses	<u>36,221</u>	<u>25,792</u>
Income from operations	31,685	23,355
Interest income	1,042	1,169
Other expense	<u>(113)</u>	<u>(71)</u>
Income before income taxes	32,614	24,453
Income tax provision	<u>12,916</u>	<u>9,683</u>
Net income	<u>\$ 19,698</u>	<u>\$ 14,770</u>
Earnings per share		
Basic	<u>\$ 0.91</u>	<u>\$ 0.69</u>
Diluted	<u>\$ 0.90</u>	<u>\$ 0.68</u>
Weighted average number of common shares outstanding		
Basic	<u>21,535</u>	<u>21,546</u>
Diluted	<u>21,941</u>	<u>21,753</u>

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

CDW COMPUTER CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands)
(unaudited)

	<u>Common Shares</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Unearned Compensation</u>	<u>Treasury Shares</u>		<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				<u>Shares</u>	<u>Amount</u>	
Balance at December 31, 1998	21,571	\$ 216	\$ 81,352	\$ 192,259	\$ (975)	50	\$ (2,089)	\$ 270,763
MPK Restricted Stock Plan forfeitures			(44)					(44)
Amortization of unearned compensation					155			155
Exercise of stock options	20		501					501
Tax benefit from stock option transactions			3,891					3,891
Net income				19,698				19,698
Balance at March 31, 1999	21,591	\$ 216	\$ 85,700	\$ 211,957	\$ (820)	50	\$ (2,089)	\$ 294,964

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

CDW COMPUTER CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	Three Months Ended March 31,	
	1999	1998
Cash flows from operating activities:		
Net income	\$ 19,698	\$ 14,770
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1,500	1,059
Accretion of marketable securities, net	(762)	(746)
Allowance for doubtful accounts	300	225
Stock-based compensation expense	111	119
Legal fees assumed by majority shareholder, net of tax	-	65
Deferred income taxes	112	-
Tax benefit from stock option exercises	3,891	351
Changes in assets and liabilities:		
Accounts receivable	(35,460)	(10,926)
Miscellaneous receivables	(505)	(1,472)
Merchandise inventory	(16,071)	(8,221)
Prepaid expenses and other assets	63	(186)
Accounts payable	22,311	(4,892)
Accrued compensation	(1,408)	(2,697)
Accrued income taxes and other expenses	5,021	6,035
Accrued exit costs	(115)	(178)
Net cash used in operating activities	(1,314)	(6,694)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(32,244)	(6,000)
Redemptions of available-for-sale securities	13,090	7,250
Purchases of held-to-maturity securities	-	(20,843)
Redemptions of held-to-maturity securities	26,929	23,055
Purchase of property and equipment	(2,647)	(5,961)
Net cash provided by / (used in) investing activities	5,128	(2,499)
Cash flows from financing activities:		
Proceeds from exercise of stock options	501	440
Net cash provided by financing activities	501	440
Net increase / (decrease) in cash	4,315	(8,753)
Cash and cash equivalents - beginning of period	4,230	18,233
Cash and cash equivalents - end of period	\$ 8,545	\$ 9,480

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

CDW COMPUTER CENTERS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Description of Business

CDW Computer Centers, Inc. and its subsidiaries (collectively the "Company") are engaged in the distribution of brand name personal computers and related products primarily through direct marketing to end users within the United States. The Company's primary business is conducted from a combined telemarketing, corporate office, warehouse and showroom facility located in Vernon Hills, Illinois. The Company also operates a telemarketing facility in Buffalo Grove, Illinois, a retail showroom in Chicago, Illinois and a government sales office in Chantilly, Virginia.

The Company extends credit to business, government and institutional customers under certain circumstances based upon the financial strength of the customer. Such customers are typically granted net 30 day credit terms. The balance of the Company's sales are made primarily through third-party credit cards and for cash-on-delivery.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles. Such principles were applied on a basis consistent with those reflected in the 1998 Annual Report on Form 10-K and documents incorporated therein as filed with the Securities and Exchange Commission. The accompanying financial data should be read in conjunction with the notes to consolidated financial statements contained in the 1998 Annual Report on Form 10-K and documents incorporated therein. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting solely of normal recurring accruals) necessary to present fairly the financial position of the Company as of March 31, 1999 and December 31, 1998, the results of operations for the three months ended March 31, 1999 and 1998, the cash flows for the three months ended March 31, 1999 and 1998, and the changes in shareholders' equity for the three months ended March 31, 1999. The unaudited condensed consolidated statements of income for such interim periods are not necessarily indicative of results for the full year.

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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. Additionally, such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Earnings Per Share

A reconciliation of basic and diluted earnings per-share computations in accordance with Financial Accounting Standards No. 128 "Earnings Per Share" (SFAS 128) is included in Note 6 to the financial statements.

On April 20, 1999, the Board of Directors of the Company approved a two-for-one stock split to be effected in the form of a stock dividend payable on May 19, 1999 to all common shareholders of record at the close of business on May 5, 1999. Footnote 6 presents the number of basic and diluted shares outstanding as of March 31, 1999 and 1998, and earnings per share for the three months ended March 31, 1999 and 1998 adjusted for the impact of the stock split.

3. Marketable Securities

The amortized cost and estimated fair values of the Company's investments in marketable securities at March 31, 1999, were (in thousands):

Security Type	Estimated Fair Value	Gross Unrealized Holding		Amortized Cost
		Gains	(Losses)	
Available-for-sale:				
U.S. Government and Government Agency Securities	\$ 21,279	\$ -	\$ (25)	\$ 21,304
Total available-for-sale	21,279	-	(25)	21,304
Held to maturity:				
Bonds of states, municipalities, and political subdivisions	457	1	-	456
U.S. Government and Government Agency Securities	37,650	1	(36)	37,685
Total held-to-maturity	38,107	2	(36)	38,141
Total marketable securities	\$ 59,386	\$ 2	\$ (61)	\$ 59,445

The Company's investments in securities held-to-maturity at March 31, 1999 were all due in one year or less by contractual maturity. Estimated fair values of marketable securities are based on quoted market prices.

4. Facilities & Exit Accrual

In July 1997, the Company relocated to its current facility in Vernon Hills and vacated its Buffalo Grove facility. The Company recorded a pre-tax non-recurring charge to operating results for exit costs in the first quarter of 1996. The exit costs consist primarily of the estimated cost to the Company of subleasing the vacated facility, including holding costs, the estimated costs of restoring the building to its original condition and certain asset write-offs resulting from the relocation. During the three months ended March 31, 1999 and 1998 the Company charged approximately \$115,000 and \$178,000, respectively, against the exit accrual in cash payments for rent, real estate taxes and maintenance of the facility.

The Company reopened the office portion of the Buffalo Grove facility during the fourth quarter of 1998 as a telemarketing facility. Accordingly, the Company records a proportionate share of the rent and other operating costs to selling and administrative expenses. The Company plans to occupy the Buffalo Grove office facility while it finalizes future long term growth plans for its Vernon Hills campus and is continuing its effort to sublease the warehouse portion of the Buffalo Grove facility. There is no assurance that the remaining exit liability of \$2.6 million at March 31, 1999 will be adequate to cover actual costs should the Company's actual experience in subleasing the facility differ from the assumptions used in calculating the exit charge.

5. Financing Arrangements

The Company has an aggregate \$50 million available pursuant to unsecured lines of credit with two financial institutions expiring in June 1999, at which time the Company intends to renew the lines. Borrowings under one of the credit facilities bear interest at the prime rate less 2 1/2%, LIBOR plus 1/2% or the federal funds rate plus 1/2%, as determined by the Company. Borrowings under the second credit facility bear interest at the prime rate less 2 1/2%, LIBOR plus .45% or the federal funds rate plus .45%, as determined by the Company. At March 31, 1999, there were no borrowings against either of the credit facilities.

In October 1998, the Company established an unsecured stand-by letter of credit for approximately \$160,000 related to improvements to the Vernon Hills facility which expires in June 1999.

6. Earnings Per Share

The Company had approximately 21,591,000 shares outstanding at March 31, 1999. The Company has also granted options to purchase common shares to the directors and coworkers of the Company under several stock option plans. These options have a dilutive effect on the calculation of earnings per share. The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations as required by SFAS 128.

	Three Months Ended March 31,			
	As Presented on Consolidated Statements of Income		Adjusted for 2-for-1 Stock Split	
	1999	1998	1999	1998
Basic earnings per share:				
Income available to common shareholders (numerator)	\$ 19,698	\$ 14,770	\$ 19,698	\$ 14,770
Weighted average common shares outstanding (denominator)	21,535	21,546	43,070	43,092
Basic earnings per share	<u>\$ 0.91</u>	<u>\$ 0.69</u>	<u>\$ 0.46</u>	<u>\$ 0.34</u>
Diluted earnings per share:				
Income available to common shareholders (numerator)	\$ 19,698	\$ 14,770	\$ 19,698	\$ 14,770
Weighted average common shares outstanding	21,535	21,546	43,070	43,092
Effect of dilutive securities:				
Options on common stock	406	207	812	414
Total common shares and dilutive securities (denominator)	21,941	21,753	43,882	43,506
Diluted earnings per share	<u>\$ 0.90</u>	<u>\$ 0.68</u>	<u>\$ 0.45</u>	<u>\$ 0.34</u>

7. Leasing Joint Venture

In April 1999, CDW Capital Corporation, a wholly-owned subsidiary of CDW, and First Portland Corporation ("FIRSTCORP") formed CDW Leasing, L.L.C. ("CDW-L"), a 50/50 joint venture. CDW-L will provide captive leasing services to CDW customers. FIRSTCORP is a full-service leasing organization that

has provided third party leasing solutions to CDW customers for more than three years. Under the terms of an operating agreement, FIRSTCORP will provide leasing management services to CDW-L, with net earnings of the venture allocated 50% to CDW and 50% to FIRSTCORP. CDW Capital Corporation has committed to loan up to \$10 million to CDW-L on a secured basis to fund new leases initiated by CDW-L. The investment in CDW-L will be accounted for using the equity method.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's unaudited condensed consolidated financial statements and the notes thereto included elsewhere herein.

Results Of Operations

The following table sets forth financial information derived from the Company's statements of income expressed as a percentage of net sales, and certain operating statistics.

Financial Information	Percentage of Net Sales Three Months Ended March 31,	
	1999	1998
Net sales	100.0 %	100.0 %
Cost of sales	87.4	87.2
Gross profit	12.6	12.8
Selling and administrative expenses	6.7	6.7
Income from operations	5.9	6.1
Other income, net	0.2	0.3
Income before income taxes	6.1	6.4
Income tax provision	2.4	2.6
Net income	3.7 %	3.8 %

Operating Statistics	Three Months Ended March 31,	
	1999	1998
Number of orders shipped	624,152	578,249
Average order size	\$864	\$665
Number of account managers, end of period	630	476
Customers serviced – commercial	117,000	100,000
Customers serviced – consumer	107,000	129,000
Annualized inventory turns	26	20

The following table presents net sales by product line as a percentage of total net sales. Product classifications are based upon internal product code classifications and are retroactively adjusted for the addition of new categories but not for changes in individual product categorization.

<u>Product Mix</u>	Three Months Ended March 31,	
	<u>1999</u>	<u>1998</u>
Notebooks & Laptops	19.0 %	20.2 %
Desktop Computers & Servers	15.8	15.6
Software	13.0	12.8
Printers	12.1	13.4
Data Storage Devices	10.0	11.2
Network & Communication Products	9.4	8.5
Monitors and Video Products	7.3	8.3
Add-On Boards & Memory	4.7	4.5
Supplies	3.7	N/A
Input Devices	2.4	2.9
Multi-Media Devices	1.6	2.1
Other Accessories	1.0	0.5
Total	100.0 %	100.0 %

Three months ended March 31, 1999 compared to three months ended March 31, 1998

Net sales in the first quarter of 1999 increased 40.3% to a record \$539.4 million compared to \$384.6 million in the first quarter of 1998. The Company's average order size increased 29.9% to \$864 from \$665 in the prior year quarter. The growth in net sales is primarily attributable to a higher concentration of commercial accounts, a higher level of sales per active account and an increase in the number of orders processed. Sales to commercial accounts, including business, government, educational and institutional customers, increased to 90% of net sales in the first quarter of 1999 from approximately 83% in the first quarter of 1998. The number of active commercial customers increased 17% to 117,000 in the first quarter of 1999 from 100,000 in the first quarter of 1998. For the three months ended March 31, 1999 the number of orders shipped increased 7.9% to over 624,000. Notebook computers continue to represent the largest portion of the Company's sales at 19.0%, with dollar volume increasing more than 32% from the first quarter of 1998.

The average selling price of desktop and server CPU's increased 10.0% and the average selling price of notebook CPU's declined 4.6% from the first quarter of 1998. The Company believes there may be future decreases in prices for personal computers and related products. Such decreases require the Company to sell more units in order to maintain or increase the level of sales. The Company's sales growth rate and operating results could be adversely affected if future manufacturer price reductions or the Company's sales and marketing efforts fail to increase the level of unit sales. Sales of Compaq, Hewlett Packard, IBM, Microsoft and Toshiba products comprise a substantial portion of the Company's sales. The loss of any of these, or any other key vendors, could have an adverse effect on the Company's results from operations. The statement concerning future prices, sales and results from operations are forward looking statements that involve certain risks and uncertainties such as stated above.

The fastest growing product categories in terms of sales dollars during the first quarter of 1999 were network and communication products at 55.7%, memory at 45.2%, software at 43.3%, desktop computers and servers at 42.5%, and notebook computers at 31.6%. Demand for certain products offered by the Company, and the growth of certain product categories, are driven by advances in technology and the development of new products and applications by the industry manufacturers, and acceptance of these new technologies and

products by end-users. Any slowdown in the rate of technological advancement and new product development by industry manufacturers could have a material adverse effect on the Company's future sales growth.

Gross profit decreased as a percentage of net sales to 12.6% for the three months ended March 31, 1999, compared to 12.8% in the first quarter of 1998. The decrease in gross profit as a percentage of net sales is primarily the result of lower selling margins achieved on certain product lines. On a forward-looking basis, it is likely that the gross profit margin achieved will fluctuate from quarter to quarter and could be less than the 12.6% achieved in the first quarter of 1999. The statement concerning future gross profit is a forward looking statement that involves certain risks and uncertainties such as the continued participation by vendors in inventory price protection and rebate programs, pricing strategies, product mix, market conditions and other factors which could result in a fluctuation of gross margins below recent experience. Certain manufacturers may make additional changes that limit the amount of price protection for which the Company is eligible. Such changes could have a negative impact on gross margin in future periods. Vendor rebate programs are at the discretion of the vendor and many of these programs are dependent on achieving certain goals and objectives. Accordingly, there is no certainty that such programs will continue at their current levels or that the established goals and objectives will be attained.

Selling and administrative expenses, which include net advertising expense, other selling administrative expenses and the executive incentive bonus pool remained flat at 6.7% of net sales in the three months ended March 31, 1999 and 1998.

Net advertising expense increased as a percentage of net sales to 0.79% from 0.75% for the three months ended March 31, 1999 and 1998, respectively. Gross advertising expense decreased to 2.8% of net sales in the first quarter of 1999 versus 3.3% in the first quarter of 1998. The Company decreased catalog circulation and the number of national advertising pages versus the prior year, while expanding its spending on branding. Based upon the Company's planned marketing initiatives, future levels of gross advertising expense as a percentage of net sales are likely to be relatively consistent with or higher than the level achieved in the first quarter of 1999. Cooperative advertising reimbursements as a percentage of net sales declined to 2.0% of net sales from 2.5% in the first quarter of 1998. The decline in cooperative advertising as a percentage of sales is partially due to fixed fund market development fund programs, as well as normal variation in programs offered by vendors. The cooperative advertising reimbursement rate may fluctuate in future quarters depending on the level of vendor participation achieved, changes in vendor programs and collection experience. The statements concerning future advertising expense and cooperative advertising reimbursements are forward looking statements that involve certain risks and uncertainties including the ability to identify and implement cost effective incremental advertising and marketing programs as well as the continued participation of vendors in the cooperative advertising reimbursement program.

Other selling and administrative costs decreased to 5.7% of net sales in 1999 from 5.8% in the prior year. Increases in coworker productivity offset increased payroll and associated costs related to our sales force expansion. As of March 31, 1999 there were 630 account managers, an increase of 32.4% from 476 account managers as of March 31, 1998. Of the 630 account managers, approximately 74% had fewer than 24 months experience and 55% had fewer than 12 months, as compared to 86% and 62% at March 31, 1998.

The executive incentive bonus pool increased to \$1.4 million in the first quarter of 1999 from \$546,000 in the first quarter of 1998. For 1999, the Compensation and Stock Option Committee established the bonus pool at 15% of the increase in operating income over the prior year.

Interest income, net of other expenses, decreased to \$929,000 in the first quarter of 1999 compared to \$1.1 million in the first quarter of 1998, due to both lower levels of available cash and reduced interest rates.

The effective income tax rate, expressed as a percentage of income before income taxes, was 39.6% for the three months ended March 31, 1999 and 1998.

Net income for the three months ended March 31, 1999, was \$19.7 million, a 33.4% increase over \$14.8

million for the three months ended March 31, 1998. Diluted earnings per share was \$0.90 and \$0.68 for the three months ended March 31, 1999 and 1998, respectively, an increase of 32.4%.

Liquidity and Capital Resources

Working Capital

The Company has historically financed its operations and capital expenditures primarily through cash flow from operations, short-term borrowings and public offerings of common stock.

At March 31, 1999, the Company had cash, cash equivalents and marketable securities of \$68.0 million and working capital of \$251.9 million, representing a decrease of \$2.7 million in cash, cash equivalents and marketable securities and an increase of \$23.2 million in working capital from December 31, 1998.

As of March 31, 1999, the Company had an aggregate \$50.0 million available pursuant to unsecured credit facilities with two financial institutions expiring in June 1999. Borrowings under one of the lines bear interest at the prime rate less 2.5%, LIBOR plus 0.5% or the federal funds rate plus 0.5%, as determined by the Company. Borrowings under the second credit facility bear interest at the prime rate less 2.5%, LIBOR plus 0.45% or the federal funds rate plus 0.45%, as determined by the Company. At March 31, 1999, there were no borrowings against either of the credit facilities. The Company intends to renew the credit facilities upon expiration in June 1999. In October 1998, the Company established an unsecured stand-by letter of credit for approximately \$160,000 related to improvements to the Vernon Hills facility which expires in June 1999.

The Company's current primary and anticipated use of cash is to fund the growth in working capital and capital expenditures. The Company believes that the funds held in cash, cash equivalents and marketable securities, and funds available under the credit facilities will be sufficient to fund the Company's working capital and cash requirements at least through March 31, 2000.

Cash flows for the three months ended March 31, 1999

Net cash used in operating activities for the three months ended March 31, 1999, was \$1.3 million. The primary factors which historically affect the Company's cash flows from operations are accounts receivable, merchandise inventory and accounts payable. The increase in accounts receivable resulted from increased sales volume, an increase in the percentage of net sales generated from commercial accounts with open credit terms to 67.3% and changes in the timing of payments by certain customers. Annualized inventory turnover increased to approximately 26 times for the three months ended March 31, 1999. Inventory turnover in 1999 has been positively impacted by a reduction in inventory levels resulting from the implementation of build to order programs by the major hardware manufacturers. The increase in accounts payable reflects timing of payments to vendors at the end of the respective periods.

Cash provided by operating activities for the three months ended March 31, 1999, was positively impacted by a \$3.9 million tax benefit recorded to paid-in-capital, relating to the exercise of shares pursuant to the MPK Stock Option Plan.

Net cash provided by investing activities for the three months ended March 31, 1999, was \$5.1 million, including approximately \$2.6 million used for capital expenditures. The capital expenditures made by the Company were primarily related to the purchase of machinery and equipment for the Vernon Hills facility.

Leasing Joint Venture

In April 1999, CDW Capital Corporation, a wholly-owned subsidiary of CDW, and First Portland Corporation (“FIRSTCORP”) formed CDW Leasing, L.L.C. (“CDW-L”), a 50/50 joint venture. CDW-L will provide captive leasing services to CDW customers. FIRSTCORP is a full-service leasing organization that has provided third party leasing solutions to CDW customers for more than three years. Under the terms of an operating agreement, FIRSTCORP will provide leasing management services to CDW-L, with net earnings of the venture allocated 50% to CDW and 50% to FIRSTCORP. CDW Capital Corporation has committed to loan up to \$10 million to CDW-L on a secured basis to fund new leases initiated by CDW-L. The investment in CDW-L will be accounted for using the equity method.

Year 2000 Readiness Disclosure

General

The Year 2000 Issue (“Y2K”) is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company’s computer programs that have date-sensitive software may recognize a date using “00” as the year 1900 rather than 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, receive or ship products, send invoices, or engage in similar normal business activities.

The Company has established a Y2K project designed to make all its hardware and software systems Y2K compliant by December 31, 1999. The Company intends to contract an outside organization to review its project methodology and status to ensure all aspects of the Y2K issue have been addressed.

Project

CDW’s Y2K project consists of two components, internal and external. The internal section has been divided into five steps which are currently being completed by the Y2K Team:

1. Awareness – Awareness includes evaluating industry best practices, generating management and employee awareness, establishing communications methods and establishing the project team.
2. Assessment – This phase includes hardware and software compliance assessment, establishment of the size and scope of the project, establishment of a project timeline, priorities, budgeting and allocation of resources.
3. Renovation – Renovation consists of establishing a detailed implementation plan, the design of new systems and system corrections, writing of system code and software and hardware testing.
4. Validation – Validation includes testing new systems and system corrections to ensure they will function properly in operation.
5. Implementation – Final certification of the new and corrected systems, implementation of the systems and monitoring to ensure they continue to function.

All phases of the project as they relate to internal systems were completed as of March 31, 1999. The Company plans to focus the majority of its efforts for the remainder of 1999 on the external portion of the project while continuing to validate and test its internal systems to ensure those systems are properly converted.

The external portion of the project focuses on assessing the Y2K readiness of product and service vendors and its potential impact on the Company’s operations. The Company began communications with its vendors in the first quarter of 1999 to assess the status of the vendors’ Y2K projects. The Company will work through issues with its business partners to minimize potential business interruptions during the remainder of 1999.

This portion of the project is expected to be completed prior to December 31, 1999.

Costs

The Company estimates that total costs for the Y2K project, through December 31, 1999, will range between \$750,000 and \$1 million. As of March 31, 1999 the Company has incurred, and recorded as operating expenses, approximately \$370,000 in costs related to the project, of which approximately \$130,000 were incurred during the three months ended March 31, 1999. Essentially all of the Company's expenditures to date are for internal payroll costs related to the assessment and correction of internal systems. Of the estimated remaining costs of \$380,000 to \$630,000, approximately 75% relate to the cost of assessing and communicating with vendors and 25% relate to the correction of internal systems.

Risks

The failure to correct a material Y2K problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's results of operations and financial condition. Due to the general uncertainty inherent in the Y2K problem, resulting in part from the uncertainty of the Y2K readiness of third-party suppliers, the Company is unable to determine at this time whether the consequences of Y2K failures will have a material impact on the Company's results of operations and financial condition. The Company's Y2K project is expected to significantly reduce the Company's level of uncertainty about the Y2K problem and, in particular, about the Y2K compliance and readiness of its material vendors. The Company believes that, with the completion of the project as scheduled, the possibility of significant interruptions of normal operations should be minimized.

The statements concerning future impact of the Y2K issue are forward looking statements that involve certain risks and uncertainties, such as the inability to receive products on a timely basis from vendors, ship products to customers, receive payments from customers and other factors which could have a material impact on the Company's results from operations. Certain vendors may fail to adequately prepare their information systems or the Company's own Y2K project may not correct all Y2K issues. Accordingly, there is no certainty that either the Company or its vendors will complete their Y2K projects prior to December 31, 1999.

Certain statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations concerning the Company's sales growth, gross profit as a percentage of sales, advertising expense, cooperative advertising reimbursements and the potential impact on operations of the Y2K issue are forward-looking statements that involve certain risks and uncertainties, as specified herein.

Part II Other Information

Item 1. Legal Proceedings

The Company is currently not a party to any material legal proceedings.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 10 (uu) 1998 Officer Manager Bonus Agreement
- 10 (vv) Operating agreement of CDW Leasing, L.L.C.
- 10 (ww) Loan and Security Agreement Between CDW Capital Corp. and CDW Leasing, L.L.C.
- 21 Subsidiaries of the Registrant
- 27 (a) Financial Data Schedule (for the three months ended March 31, 1999)

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed for the three months ended March 31, 1999.

SIGNATURES

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

CDW Computer Centers, Inc.
(Registrant)

Date April 30, 1999

/s/ Harry J. Harczak, Jr.
Harry J. Harczak, Jr.
Chief Financial Officer

Date April 30, 1999

/s/ Sandra M. Rouhselang
Sandra M. Rouhselang
Controller

Index to Exhibits

- 10 (uu) CDW 1998 Officer and Manager Bonus Plan
- 10 (vv) Operating Agreement of CDW Leasing, L.L.C.
- 10 (ww) Loan and Security Agreement Between CDW Capital Corp. and CDW Leasing, L.L.C.
- 10 (xx) First Amendment to 1996, 1997 and 1998 Officer and Manager Bonus Plans
- 21 Subsidiaries of the Registrant
- 27 Financial Data Schedule