

# growth



2005 Annual Report

# The Road

2005 was  
another year  
of records  
for CDW.

# ahead

We achieved  
record revenue  
of \$6.3 billion.





# CEO Letter

Dear Coworkers, Customers, Partners and Shareholders:

The pursuit of growth at CDW is constant. To drive growth, we respond to our customers' technology needs with a sense of urgency and consistently achieve operational excellence. And nobody does this better than our coworkers. Thanks to their outstanding efforts, 2005 was another year of records at CDW.

Record revenue of \$6.3 billion grew 9.7 percent; record net income of \$272 million rose 12.7 percent; and record diluted earnings per share of \$3.26 increased 16.8 percent. In addition to delivering a record year, our coworkers' dedication and spirit was recognized once again, as we made the FORTUNE® "100 Best Companies to Work For" list. At No. 34 this year, we are part of an elite group of five companies to achieve a position of No. 40 or better for eight years in a row.

The enduring philosophy at CDW is to never let up and never be satisfied. While 2005 was a good year, we did not consider it a great year. We set lofty goals for ourselves that we did not fully reach. Although we exceeded the market rate of growth by more than two times (based on our estimates), we wanted to grow revenue even faster. While we invested in our business and grew operating income by 6.8 percent, we did not achieve operating leverage, as operating income growth was less than revenue growth. And part of the growth in our record EPS came from non-operating benefits, such as lower tax rates and fewer shares outstanding.

Our operational excellence is among the best in our industry, and we will remain focused on improving productivity and efficiency. However, we understand that our investors always expect more from us as a market leader. Clearly, our primary opportunity to achieve earnings growth is through revenue growth and continuing to take market share. No matter how big we become, we will challenge ourselves to do better.

In 2005, we demonstrated continued strength in several key financial metrics. Cash flow from operations was a robust \$304 million, return on capital was 22.4% and return on invested capital was 43.5%. Using our cash, we returned \$293 million to shareholders through share repurchases and dividends.

The road ahead for CDW focuses on growth by continuing to better serve our customers. In the fall of 2005, we laid the foundation for growth in 2006 and beyond with the internal announcement of our CDW Roadmap. Important components include:

**Our vision:** to be the world's biggest — and best — direct technology provider for business, government and education.

**Our purpose:** to help our customers achieve their goals by providing them with the technology advice and products they need — when they need them.

**Our value proposition:** we respond with a sense of urgency to customers' technology needs by understanding each customer's needs and buying requirements, providing fast, accurate answers to product questions, and shipping quickly from the industry's largest in-stock inventories.

Because we are never satisfied, we constantly challenge ourselves and set new goals. Our latest short-term objective is to reach \$10 billion in revenue by the end of 2008. We will work to achieve this goal through a combination of organic growth and acquisition activity.

To realize our vision, we need to invest in our infrastructure to be able to grow revenue. During December 2005, we opened our new state-of-the-art distribution center in North Las Vegas, Nevada. The Western Distribution Center (WDC) team performed miracles. After breaking ground in June, we began operations in mid-December. In six months, start to finish, the team oversaw the construction and initial build out of the new 513,000 square foot facility. A total of 11 acres under roof, it can hold nine football fields and has 190 miles of wiring for seven miles of conveyors. Most important, when fully outfitted, it will be able to ship twice the number of boxes per hour of our 450,000 square foot Vernon Hills, Illinois, distribution center. The WDC team did an exceptional job at great personal sacrifice to accomplish this incredible feat in only six months.

In addition to investing in the new Western Distribution Center, we need to expand our office space to accommodate more coworkers in sales and support functions. We made commitments to lease additional office space next to our headquarters in Vernon Hills and consolidate and add to our space in downtown Chicago.



During 2005, we continued to implement ways to better serve our customers by realigning our sales teams. Within our public sector, we completed the realignment of the education sales teams to correspond with the geographic organization of our state and local sales team. We said last year that we would focus more on industry verticals. In July 2005, we launched our healthcare vertical by combining approximately 10,000 healthcare accounts and the sales teams from both the corporate and public sector segments. This new dedicated team will address the unique IT needs of a range of customers within the burgeoning field of healthcare.

In 2006, we will further refine our customer segmentation. Following the successful geographic alignment of our public sector, we are initiating a similar strategy for the corporate sector. Launched on March 1, 2006, this next level of segmentation involves aligning approximately 60,000 medium and large customer accounts based on a similar geographic organization as the public sector. With this change, we expect to improve customer service, maximize coverage of our customer accounts, drive new business and better align our sales force with our vendor partners.

We continued to develop our Canadian subsidiary in 2005. We increased the number of account managers by a third and nearly doubled our revenue. Our Canadian team exudes great optimism about our growth prospects in Canada – which is our first international market.

Change is constant in our industry. Whether we respond to changes with our partners or initiate change internally, we must continually adapt in order to win our customers' business and take market share.

In 2005, two of our major partners underwent significant change that is enhancing our ability to serve our customers. First, HP chose a new leader who is committed to driving better execution and profitability across the organization, thus enabling us to offer customers an improved experience and more competitive prices when buying HP products. Second, IBM sold its personal computer division to Lenovo, the leading Chinese personal computer company. Lenovo's recent introduction of innovative new products in a range of price points will improve our ability to offer our customers even more choices.

We continue to work closely with our many vendor partners. Our customers count on us to provide the best the industry has to offer, and maintaining strong win-win vendor partnerships is key to fulfilling this expectation. We know that one thing does not change: for nearly every one of our major vendor partners – we remain their No. 1 DIRECT MARKETER.

In January 2006, we restructured our executive team to better position ourselves to achieve our goals. We consolidated our sales groups, teamed our purchasing and marketing departments together, and combined our service efforts into a single organization. Leading these groups will be Jim Shanks, Harry Harczak and Doug Eckrote, respectively. In addition to Jim, Harry and Doug, the other members of our senior leadership team are Dennis Berger, Barbara Klein, Chris Leahy and Jon Stevens. This leadership team has no peer in the industry, and I could not be more pleased with each and every one of them. They are exceptional leaders and great team members. I feel privileged to work with them and all the coworkers of CDW.

Finally, our senior leadership team and I want to thank all our coworkers for their hard work and positive attitude as they go about their jobs every day. In addition to their focus on serving our customers, they demonstrate a concern for those less fortunate. In 2005, they voted to cancel our annual holiday party and donate the party's budget for Gulf Coast hurricane relief. We also sent nine coworker volunteers to Thailand for two weeks to help Habitat for Humanity build homes for tsunami victims.

Nobody does it better than our CDW coworkers!

Thank you for your confidence and support.

John A. Edwardson  
Chairman and Chief Executive Officer  
March 3, 2006

# Highlights

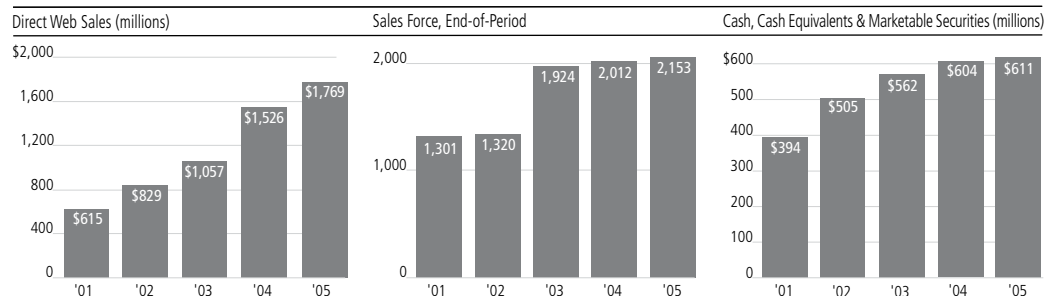
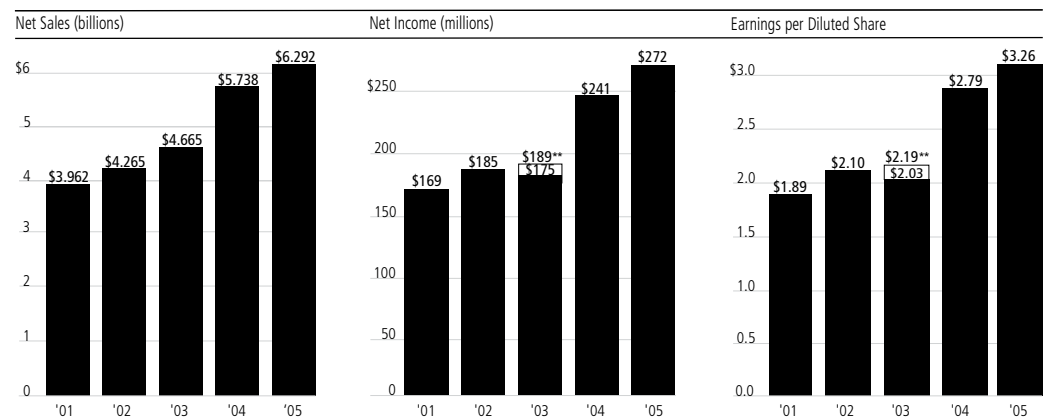
## 2005 Recognition

- No. 347 on the FORTUNE® 500
- NASDAQ-100 Index
- No. 34 – 100 Best Companies to Work For (FORTUNE® magazine)
- No. 1 – America's Most Admired Company for Wholesalers: Electronics and Office Equipment (FORTUNE® magazine)

## Financial Summary

For the years ended December 31, 2005, 2004 and 2003 (in millions, except per share data)

Operating Results	2005 GAAP*	2004 GAAP*	2003 GAAP*	2003 Non-GAAP**
Net sales	\$6,292	\$5,738	\$4,665	N/A***
Income from operations	\$420	\$393	\$284	\$306
Net income	\$272	\$241	\$175	\$189
Earnings per share (diluted)	\$3.26	\$2.79	\$2.03	\$2.19
Cash, cash equivalents & marketable securities	\$611	\$604	\$562	N/A***
Shareholders' equity	\$1,265	\$1,241	\$1,061	N/A***



\*U.S. Generally Accepted Accounting Principles

\*\*2003 non-GAAP results exclude \$22.3 million of total transition and transaction expenses associated with the purchase of selected U.S. assets and the Canadian operations of Micro Warehouse in September 2003. The impact on 2003 results was \$22.0 million on income from operations, \$13.5 million on net income and \$0.16 per diluted share. These non-GAAP measurements are included to provide a meaningful comparison to current and prior periods.

\*\*\*Not applicable

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2005

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 Corporation**

(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)

Registrant's telephone number, including area code: **(847) 465-6000**

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

Securities registered pursuant to Section 12(g) of the Act: **Common Stock**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

**Yes [ X ] No [ ]**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

**Yes [ ] No [ X ]**

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 [ X ] No [ ]**

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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. **[ ]**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

**Large accelerated filer [ X ]**

**Accelerated filer [ ]**

**Non-accelerated filer [ ]**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) **Yes [ ] No [ X ]**

As of June 30, 2005, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates was approximately \$3.545 billion, based upon the closing market price per share of \$56.95.

As of February 24, 2006, the registrant had 80,307,715 shares of common stock, \$0.01 par value, outstanding.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on May 17, 2006 are incorporated by reference into Part III.

**CDW CORPORATION**  
**FORM 10-K ANNUAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**  
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## **PART I**

### **Item 1. Business.**

#### **General**

CDW Corporation (collectively with its subsidiaries, “CDW” or the “Company”) is a leading direct marketer of multi-brand information technology products and services in the United States. The Company was founded in 1984 and reincorporated in 1995 in Illinois. Our extensive offering of products, including hardware and peripherals, software, accessories and other products, combined with our service offerings, provide comprehensive solutions for our customers’ technology needs. We offer customers a broad range of technology products from leading brands such as Adobe, APC, Apple, Cisco, Hewlett-Packard, IBM, Lenovo, Microsoft, Sony, Symantec, Toshiba and ViewSonic, among others. Our dedicated, well-trained coworkers and high volume, cost-efficient operations, supported by our proprietary information technology systems, enable us to offer these products at competitive prices combined with a high level of customer service. We provide a variety of value-added services and web-based tools to our customers, including the ability to custom configure multi-branded solutions, manage software licenses through our Software License Tracker tool, track tagged assets through our IT Asset Management Tracking Database and generate online quotes. We also offer technical support and customer service 24 hours a day, 7 days a week to our customers.

In September 2003, we purchased selected U.S. assets and the Canadian operations of Micro Warehouse, a reseller of computers, software and peripheral products. Building on the Micro Warehouse transactions, we expanded our customer base, increased our penetration in the public sector, and extended our growth platform into Canada.

For financial reporting purposes, we have two operating segments, corporate sector and public sector. Our corporate sector customers are concentrated in the small to medium business (SMB) category, which is generally comprised of businesses that have less than 500 employees at a single location. Our public sector customers are comprised of federal, state and local government entities, educational institutions and healthcare customers. (See Note 15 to the Consolidated Financial Statements for certain financial information regarding our two operating segments.)

In July 2005, we announced the creation of a dedicated healthcare sales team. In creating this team, we consolidated healthcare accounts from across our entire sales organization and transferred these accounts to the new team in the public sector group. This new team focuses on IT solutions addressing the unique needs of a range of customers within the healthcare field.

For the year ended December 31, 2005, 99% of our net sales were to commercial customers, defined as public sector and corporate sector customers excluding consumers. We create a high degree of customer loyalty through our relationship-focused account managers and value-added services. These account managers become knowledgeable about customer needs and assist customers by providing advice on the selection and configuration of multi-branded technology solutions. We focus on generating repeat sales from existing customers while also generating sales from new customers.

We market to current and prospective customers through our catalogs, other direct mail programs, product advertisements in newspapers, computer trade magazines and other publications, our Web sites and various Web advertising vehicles. Additionally, we promote the CDW brand on a national basis through our branding campaign, which includes television, print media and other activities. Our marketing efforts are integrated with a proactive outbound calling program by our account managers. We also focus significant efforts on developing and expanding our E-commerce initiatives. These initiatives include [CDW.com](http://CDW.com), [CDWG.com](http://CDWG.com), [macwarehouse.com](http://macwarehouse.com) and [CDW.ca](http://CDW.ca) (our Web sites), and [CDW@work](mailto:CDW@work) and [CDWG@work](mailto:CDWG@work) (our extranets), which are customized Web sites for our commercial customers.

We adhere to a core philosophy known as the CDW CIRCLE OF SERVICE™, which places the customer at the center of all of the Company's actions. The fundamental element of the CDW CIRCLE OF SERVICE™ is our coworkers, who are highly motivated to share in the Company's success. The CDW CIRCLE OF SERVICE™ philosophy is based on the premise that "People Do Business With People They Like." The CDW CIRCLE OF SERVICE™ is a graphic reminder to our coworkers that good service leads to good experiences and increased sales.

Electronic versions of CDW's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports are available free of charge through our Web site, [CDW.com](http://CDW.com), as soon as reasonably practicable after we electronically file these reports with the Securities and Exchange Commission.

## **Business Strategy**

The Company's business strategy is to be a high volume, cost-efficient direct marketer of multi-brand, competitively-priced information technology products and services, while providing a high level of support to our customers. We believe that the following factors are of principal importance in our ability to implement this business strategy:

*Multi-Branded Solutions.* We offer more than 100,000 products, which include a wide range of products from leading brands including Adobe, APC, Apple, Cisco, Hewlett-Packard, IBM, Lenovo, Microsoft, Sony, Symantec, Toshiba, ViewSonic and others. With this broad selection of products, we can provide our customers with fully-integrated, multi-branded technology solutions and the convenience of one-stop shopping. We also continuously review and enhance our product mix based on new product introductions and the needs of our customers.

*Customer Focus.* We focus our sales and marketing efforts on attracting and serving commercial customers. We believe commercial customers typically have ongoing requirements to purchase sophisticated products and systems and value our relationship-based approach and high level of service. Our field sales force actively calls on selected commercial customers and prospects in person to augment our inside sales force. We also reach our customers through our customized Web sites, [CDW@work](mailto:CDW@work) and [CDWG@work](mailto:CDWG@work).

*Competitive Pricing.* We are able to offer our customers competitive prices due to our low cost structure, efficient distribution methods, ability to purchase products both directly from manufacturers as well as through distributors and economies of scale in purchasing products. Our size, financial strength and ability to successfully serve our customers allow us to negotiate advantageous purchasing terms and earn vendor incentives.

*Marketing.* We use a marketing mix of direct response activities, including our catalogs and trade magazine advertising, combined with a multifaceted branding campaign, including national television and print advertising. These activities are intended to promote a high level of awareness of CDW and generate customer response. Our marketing activities are directed to commercial customers and the decision makers in commercial organizations.

*Customer Service.* Our sales force consists of more than 2,100 account managers, field sales representatives and product category specialists who are highly trained in the Company's systems and philosophies, and in the products we sell, enabling them to provide a high level of customer service. We assign an account manager to each customer. Account managers obtain an understanding of their customers' businesses and technology systems and are able to recommend integrated product solutions based on customer needs, past purchases and technological developments. Our account managers provide a high level of customer service utilizing CDW's proprietary customer relationship management system. Customers also benefit from specialty sales support teams that have in-depth knowledge of and experience with complex technology products and applications in multiple product categories, such as networking solutions, storage applications and software licenses.

*Custom Configuration.* We offer custom configuration services such as the installation of accessories and expansion products, loading of software, imaging for custom applications and configuration of network operating systems. These services are performed in specialized configuration centers within our distribution centers. Our custom configuration services benefit our customers by reducing the cost and time necessary to deploy new products into their existing technology environment.

*Technical Support.* Our technical staff is well-trained and maintains high levels of professional certification from product manufacturers. We employ a technical staff of more than 170 coworkers with over 425 manufacturer certifications to assist our customers with technical questions and issues during regular business hours. We offer technical support services by telephone 24 hours a day, 7 days a week. We believe that our commitment to service at the time of sale and after the purchase maximizes sales opportunities and encourages repeat customers.

*Proprietary Information Technology Systems.* We use proprietary, real-time information technology systems which centralize the management of key functions and generate daily operating reports enabling management to identify and respond quickly to internal changes and to provide high levels of customer satisfaction. We also monitor trends in the information technology industry. We integrate our systems with our Web sites, [CDW.com](http://CDW.com), [CDWG.com](http://CDWG.com), [macwarehouse.com](http://macwarehouse.com) and [CDW.ca](http://CDW.ca), providing real-time information for our customers.

*Effective Inventory Control.* Our inventory tracking system, purchasing system, cycle counting system and use of vendor stock balancing programs allow us to minimize our investment in inventory and to reduce inventory discrepancies and the risk of obsolescence while meeting customer needs by shipping orders generally on a same-day basis.

*High Quality Coworkers.* We strive to attract, retain and motivate high quality coworkers and provide our coworkers with competitive compensation and incentives designed to maximize performance and productivity. Our objective is, whenever possible, to promote coworkers from within the Company to positions of increased responsibility. Examples of rewards and motivations for our coworkers include short-term incentive programs, profit-sharing and stock-based compensation for coworkers at the manager level and above.

## **Purchasing and Vendor Relationships**

We purchase products for resale from manufacturers, distributors and other sources, all of whom we consider our vendors. During 2005, we purchased approximately 52% of the products we sold directly from manufacturers and the remaining amount from distributors and other sources. We believe that effective purchasing from a diverse vendor base is a key element of our business strategy. For the year ended December 31, 2005, purchases from distributors Tech Data and Ingram Micro represented approximately 17% and 15%, respectively, of our total purchases. Additionally, in 2005, sales of products manufactured by Hewlett-Packard comprised approximately 28% of our total sales.

Our marketing and purchasing staffs work together to identify reliable, high-quality suppliers of products and then actively negotiate to achieve the lowest possible cost and expand vendor incentive programs. We seek to establish strong relationships with our vendors. Several of our leading vendors, such as Hewlett-Packard, IBM, Lenovo and Microsoft, have full-time product specialists on-site at our facilities.

We are authorized by manufacturers to sell via direct marketing all or selected products offered by the manufacturer. Our authorization with each manufacturer provides for certain 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. Vendors also periodically offer us opportunities to purchase a large amount of product at reduced prices. Vendor incentive programs are at the discretion of the vendors and usually require the achievement of a specified sales volume or growth rate within a specified period of time to qualify for all, or some, of the incentive programs.

## **Inventory Management/Distribution**

We utilize our proprietary information technology systems to manage our inventory in an aggressive, cost-efficient manner, resulting in a rapid-turn inventory model. Our information technology systems provide information on each item of inventory from the time it is ordered until it is shipped to a customer. We generally only stock items that have attained a minimum sales volume and use vendor stock balancing programs to minimize our investment in inventory.

Our distribution process is highly automated. Once a customer order is received, by phone, online or by fax, it is processed for credit approval. After credit approval, orders are automatically routed to one of our distribution centers for picking and shipping.

We operate two distribution centers: a 450,000 square foot facility in Vernon Hills, Illinois, and our new 513,000 square foot facility in North Las Vegas, Nevada. We believe that these distribution centers are ideally located for purposes of shipping products throughout the United States and provide timely access to our principal distributors. Our locations enable us to obtain non-stocked items for same-day shipping. We believe that competitive sources of supply are available in substantially all of the merchandise categories we carry.

Our second distribution center in North Las Vegas, Nevada became operational in late 2005 and will support the Company's growth beyond 2005. This new facility is targeted to handle 30% of our total shipping volume by the end of the first quarter of 2006 and will predominantly serve customers located in the Western United States.

## **Marketing and Advertising Activities**

We market to our current and prospective customers using catalogs, direct mail programs, advertising and an outbound calling program. In addition, we promote the CDW brand through a national branding campaign, which includes print media, television advertisements and other activities.

Catalogs are one of our main advertising vehicles and our catalog strategy has evolved to include specialty catalogs for products such as networking communications and software. Our main catalog also includes articles about noteworthy technology developments and interviews with industry executives. We also hold a Customer Technology Seminar Series, hosting representatives from industry manufacturers and influential persons in the technology field who discuss the latest information technology issues with our customers. Customers who are unable to attend the series can access the presentations on the Company's Web sites.

As a result of our relationships with our vendors, a substantial portion of our advertising and marketing expenses are reimbursed through cooperative advertising reimbursement programs. These cooperative advertising programs are at the discretion of our vendors and are typically tied to sales or purchasing volumes or other commitments required to be met by the Company within a specified period of time. To measure the effectiveness of our various marketing activities, we track customer responses to our efforts by a variety of means. We use this information to further refine our marketing strategy and to develop more effective programs.

## **E-commerce**

We utilize our Web sites and extranets to implement our business strategy. Our objective is to make it easy for our customers to transact business with the Company and ultimately to enhance our customer relationships. Our Web sites include many advanced features to attract new customers and produce sales, including more than 100,000 computer products to search and order online, advanced search capabilities, product specifications, and information on product availability and pricing. During 2005 and 2004, we generated \$1.769 billion and \$1.526 billion, respectively, of direct online sales over our Web sites, representing approximately 28% and 27% of total sales, respectively.

We continue to enhance our customized Web sites, marketed as [CDW@work](mailto:CDW@work) and [CDWG@work](mailto:CDWG@work) extranets. These sites give customers online access to information such as order and shipping status, payment details, purchase history and details about their dedicated account team. Customers may also use their sites to automate technology purchasing procedures, manage software licenses, inventory asset-tagged items, reprint invoices and retrieve quotes prepared by their account managers. Many customers use the extranets to gather product information, including pricing and availability, and then follow up with their account managers to access the account managers' knowledge regarding product compatibility and other information.

### **Sales Activities and Order Fulfillment**

Our success is due in part to the strength of the relationships our account managers develop with our customers by calling existing and potential new customers, providing advice on products, and responding to customer inquiries. Our account managers are trained in Company philosophies and systems, have in-depth product knowledge and are motivated to maximize gross profit and provide high levels of customer service. New account managers are immersed in CDW Academy, our proprietary sales training program, and complete an intensive sales consulting, product training, systems and customer service curriculum. We seek to build customer relationships by generally assigning each customer to the account manager who first serves the customer. Upon subsequent calls to CDW, the customer is directed to its account manager for assistance. In the spirit of teamwork, account managers are encouraged to cooperate and work together to maximize customer satisfaction and gross profit.

Each catalog and advertisement distributed by the Company bears a toll-free number and Web site address to be used by customers in contacting CDW to place a product order. Telephone calls are answered by account managers who utilize proprietary on-line computer systems to retrieve information regarding product characteristics, cost and availability and to enter customer orders. Account managers enter orders on-line into an order fulfillment system which updates our customer purchase history. Computer processing of orders is performed immediately following the placement of the order and credit approval. We ship most credit approved orders on the day the order is received. We generally ship products to customers by AIT, DHL, Eagle, FedEx, United Parcel Service and other commercial delivery services and invoice customers for delivery charges.

### **Customers**

We are not dependent on any one customer. For the year ended December 31, 2005, our largest customer comprised approximately 0.4% of net sales and our top five customers comprised approximately 1.3% of net sales. Our corporate customers are primarily small and medium size businesses that generally have less than 500 employees at a single location. We also serve larger corporate customers, including FORTUNE 1000 companies, as either a primary or secondary vendor. Our public sector segment focuses on meeting the technology needs of federal, state and local governments, educational institutions and healthcare customers.

Our customers are located almost entirely in the United States. Approximately 2% of our sales in 2005 were to customers outside of the continental United States, primarily in Canada.

### **Custom Configuration and Technical Support**

We offer custom configuration services such as the installation of accessories and expansion products, loading of software, imaging for custom applications and configuration of network operating systems. Custom configurations provide additional value to our customers because they reduce the cost and time necessary to deploy new products into their existing technology environments. The ability to configure products to customer specifications enables CDW to generate incremental sales. In order to meet growing demand for configuration services, we have 24,000 square feet devoted to configuration services in our Vernon Hills, Illinois distribution center, including an 8,000 square foot enterprise configuration center for specialized configuration services. In addition, we have 25,000 square feet of configuration space in our North Las Vegas, Nevada distribution center to be used in performing standard and specialized configuration services.

Our technical support staff is well trained and maintains high levels of professional certification from manufacturers relating to the products we sell. Our technical support staff is motivated to obtain high certification levels, as they are compensated, in part, on the levels of those certifications. Technical support is available by telephone 24 hours a day, 7 days a week to assist customers with technical problems or answer questions in order to increase customer satisfaction and reduce product returns. We have developed a proprietary customer service tracking system to ensure that customer-initiated service requests are responded to rapidly. As a result, substantially all customer service calls are answered in one minute or less.

### **Information Technology Systems**

Our information technology systems are a key element in our ability to maintain what we believe is the lowest cost structure among multi-brand direct marketers of information technology products and services in the United States. Our customized information technology and telephony systems allow for centralized management of key functions, including inventory management, collection of accounts receivable, purchasing, sales and distribution. Additionally, our systems enable the preparation of daily operating reports which provide thorough, detailed and timely information regarding key aspects of our business. Our proprietary information technology systems enable us to enhance productivity, ship customer orders on a same-day basis, respond quickly to industry changes and provide high levels of customer service. Historical customer orders are tracked within our system so that we can provide our customers with updates regarding product upgrades and other information relating to the products they purchase from the Company.

Our success is dependent on the accuracy and proper utilization of our information technology and telephony systems. We anticipate that we will continue to upgrade the software and hardware for our information technology systems. In addition, our ability to adapt our systems to changes in the competitive environment or to take advantage of additional automation is dependent on our ability to recruit and retain qualified information technology professionals.

### **Coworkers, Training and Culture**

At December 31, 2005, we employed approximately 4,300 coworkers. We consider our coworker relations to be excellent. No coworkers are covered by collective bargaining agreements.

We emphasize the recruiting, training and development of high quality coworkers throughout our organization. Our objective is to promote coworkers from within the Company to positions of increased responsibility, whenever possible. We help our coworkers develop through CDW University, our company-wide training program. CDW University provides specialized training in sales and relationship-building techniques, technical certifications, leadership development skills and interpersonal and professional skills.

We strive to create a supportive and rewarding work environment. In 2006, we were named by FORTUNE magazine as one of the “100 Best Companies to Work For” for the eighth consecutive year. CDW coworkers are encouraged to provide their thoughts and concerns regarding the Company directly to management, including through our whistleblower hotline.

### **Incentive and Regular Compensation Arrangements**

*Compensation Arrangements.* Our coworkers are compensated on a basis that rewards performance and the achievement of identified goals. For example, account managers generally receive compensation pursuant to a monthly commission schedule which is based on the gross profit they generate. Account managers have the authority to negotiate and adjust prices for products, provided that the product is sold at a price which meets established management guidelines and pursuant to various contracted prices, where applicable. Account managers have the opportunity to achieve relatively high compensation levels and have historically shown increased productivity as training and experience levels increase.

*Stock Incentive Plans.* In addition to regular compensation, we provide coworkers at the manager level and above with additional long-term incentives designed to maximize performance and productivity. To this end,

we have adopted various stock-based compensation plans which enable these coworkers to share in the Company's success through appreciation in the value of the Company's stock.

### **Trademarks and Trade Names**

We conduct business under a number of trademarks, trade names and service marks including "CDW®," "CDW. THE RIGHT TECHNOLOGY. RIGHT AWAY.®," "CDW@WORK®," "CDW-G®," "CDW-G@WORK®," and "CDW SOLUTIONEDGE®." We have taken steps to protect these marks, some of which are registered, and believe they have significant value and are important factors in our marketing programs.

### **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.

*Our sales and profitability may be affected by changes in the economic environment and other factors.* There are many factors which could affect our business, including:

- the capital and technology spending patterns of existing and prospective customers;
- general economic trends;
- the addition of new customers and further penetration of our existing customer base;
- the productivity and retention of our sales force;
- the optimization of our product mix and pricing strategies;
- the availability of products from our vendors;
- the successful development of new technology and products by equipment manufacturers and software developers; and
- new competitors and new forms of competition.

*Our business depends on our vendor relationships and the availability of products.* We purchase products for resale from manufacturers, distributors and other sources, all of whom we consider our vendors. During 2005, we purchased approximately 52% of the products we sold directly from manufacturers and the remaining amount from distributors and other sources. We are authorized by manufacturers to sell all or some of their products via direct marketing activities. Our authorization with each manufacturer is subject to specific terms and conditions regarding such things as product return privileges, price protection policies, purchase discounts and vendor incentive programs, including purchase rebates, sales volume rebates and cooperative advertising reimbursements.

From time to time, vendors may terminate our right to sell some or all of their products or change these terms and conditions or reduce or discontinue the incentives that they offer us. Any such termination or the implementation of such changes could have a negative impact on our operating income. Additionally, some products are subject to manufacturer allocation, which limits the number of units of those products that are available to resellers, including us.

Sales of Cisco, Hewlett-Packard, IBM, Lenovo, Microsoft, Sony and Toshiba products comprise a substantial portion of our sales. In 2005, sales of products manufactured by Hewlett-Packard represented approximately 28% of our total sales and, therefore, we are dependent on the economic condition and product competitiveness of, and our business relationship with, this manufacturer in particular. In addition, although we purchase from a diverse vendor base, in 2005, products we purchased from distributors Tech Data and Ingram Micro represented approximately 17% and 15%, respectively, of our total purchases. The loss of, or change in business relationship with, any of these or any other key vendors, or the diminished availability of their products, 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 adversely impact our results of operations. Although to date mergers among manufacturers have not had an

adverse impact on our business and results of operations, further consolidation could adversely impact us.

*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 application systems, Web servers and telephony system. The quality and our utilization 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 products efficiently and on a timely basis; and
- maintain our cost-efficient operating model.

The integrity of our information technology systems is vulnerable to certain forms of disaster including, but not limited to, natural disasters such as tornadoes. 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 application 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.

*Our sales are dependent on the continued development of new technologies and products.* The market for information technology products and services has evolved as a result of the development of new technologies that are transformed by manufacturers into new products and applications. We have been and will continue to be dependent on the development of new technologies and products by manufacturers, as well as the acceptance of those technologies and products by customers. A decrease in the rate of development of new technologies and new products by manufacturers, or the lack of acceptance of those technologies and products by customers, could have an adverse effect on our business and results of operations.

*We would be adversely affected if we are not able to expand or retain our sales force or if we are not able to maintain or increase their productivity.* Our statistics show that the level of sales achieved by our account managers increases with the number of years of experience they have with us. Our rate of sales growth and our operating results would be negatively affected if we are unable to expand the size of our sales force, if the turnover rate of account managers increases from relatively constant historical levels or if the sales volumes achieved by our account managers do not increase with experience.

*Substantial competition could reduce our market share and significantly harm our financial performance.* The market for information technology products and accessories is highly competitive. Our competition includes:

- national direct marketers, such as Insight Enterprises, PC Connection, PC Mall and Zones;
- value-added resellers;
- manufacturers, such as Dell, who sell directly to customers;
- computer superstores, such as CompUSA;
- government resellers, such as GTSI;
- consumer electronic and office supply superstores, such as Best Buy, Circuit City, Office Depot, Office Max and Staples;
- corporate resellers; and
- Web resellers, such as Amazon.com, Buy.com and Newegg.com.

Some of our hardware and software vendors, such as Apple, Hewlett-Packard, IBM, and Lenovo, have sold, and could intensify their efforts to sell, their products directly to customers. In addition, some software manufacturers have developed, and may continue to develop, sales methods that directly provide customers

with subscription-based software programs and packages. If either of these trends becomes more prevalent, it could adversely affect our sales growth and profitability.

We believe that competition may increase in the future, which could require us to reduce prices, increase advertising expenditures or take other actions which may have an adverse effect on our operating results. Some of our competitors have reduced their prices in an attempt to stimulate sales. Decreasing prices of information technology products and accessories resulting from competition and technological changes require us to sell a greater number of products to achieve the same level of net sales and gross profit. If this trend continues and we are unable to attract new customers and sell increased quantities of products, our sales growth and profitability could be adversely affected.

*We are exposed to inventory risks.* We are 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 vendors were to change their terms and conditions, our inventory risks could increase. We also periodically take advantage of cost savings associated with certain opportunistic bulk inventory purchases offered by our vendors. These bulk purchases could increase our exposure to inventory obsolescence.

*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 information technology industry in general, shifts in demand and pricing for hardware and software products 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. These factors include:

- our pricing strategies;
- changes in product costs from vendors;
- the availability of price protection, purchase discounts and incentive programs from vendors;
- the availability of cooperative advertising funds from vendors, which are classified as a reduction of cost of sales;
- the risk of some of the items in our inventory becoming obsolete;
- the relative mix of products sold, and customers sold to, during the period;
- general market and competitive conditions; and
- increases in delivery costs that we cannot pass on to customers.

*A natural disaster or other adverse occurrence at our primary facility could damage our business.* We operate our business from a primary facility in Vernon Hills, Illinois. Although we have multiple sales office locations and a second distribution center in North Las Vegas, Nevada, substantially all of our corporate, warehouse and distribution functions are located at our Vernon Hills facility. If the warehouse and distribution equipment at our Vernon Hills facility were to be seriously damaged by a natural disaster or other adverse occurrence, we could utilize 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. Additionally, this would cause us to incur incremental operating costs. As a result, a natural disaster or other adverse occurrence at our primary facility in Vernon Hills could negatively impact our business and profitability.

*We are heavily dependent on commercial delivery services.* We generally ship our products to customers by AIT, DHL, Eagle, 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.

*Our earnings and growth rate could be adversely affected by changes in general economic conditions and uncertain geopolitical conditions.* Weak general economic conditions, along with uncertainties in geopolitical conditions, could adversely impact our revenue and growth rate. In addition, our revenue, gross margin and earnings could deteriorate in the future as a result of unfavorable economic or political conditions.

*We could be exposed to additional risks if we make acquisitions or alliances.* We may pursue transactions, including acquisitions or alliances, to extend or complement our existing business. These types of transactions involve numerous risks, including investor acceptance, finding suitable transaction partners and negotiating terms that are acceptable to us, the diversion of management's attention from other business concerns, entering product or geographic markets in which we have limited experience, the potential loss of key coworkers or business relationships and successfully integrating acquired businesses, any of which could adversely affect our operations or the price of our stock.

*The failure to comply with our public sector contracts could result in, among other things, fines or other liabilities.* Revenues from the public sector segment are derived from sales to federal, state and local governmental departments and agencies, as well as to educational institutions and healthcare customers, through various contracts and open market sales. Government contracting is a highly regulated area. Noncompliance with government procurement regulations or contract provisions could result in civil, criminal, and administrative liability, including substantial monetary fines or damages, termination of government contracts, and suspension, debarment or ineligibility from doing business with the government. The effect of any of these possible actions by any governmental department or agency could adversely affect our business and results of operations.

*We are exposed to the risks of a global market.* Many of our products are either produced, or have major components produced, in the Asia Pacific region. We engage in U.S. dollar denominated transactions with U.S. divisions and subsidiaries of companies located in this region. As a result, we may be indirectly affected by risks associated with international events, including economic and labor conditions, political instability, tariffs and taxes, availability of products and currency fluctuations in the U.S. dollar versus the regional currencies. In the past, countries in the Asia Pacific region have experienced volatility in their currency, banking and equity markets. Future volatility could adversely affect the supply and price of products and components and ultimately, our results of operations.

*We are exposed to litigation risk.* CDW is party to legal proceedings that arise from time to time, both with respect to specific transactions, such as our acquisition of selected U.S. assets of Micro Warehouse, and in the ordinary course of our business. We do not believe that any currently pending or threatened litigation will have a material adverse effect on our financial condition. Litigation, however, involves uncertainties and it is possible that the eventual outcome of litigation could adversely affect our results of operations for a particular period.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

The locations of our various facilities across the United States and in Canada are listed below. For more information on lease obligations, see Note 8 to the Consolidated Financial Statements.

<u>Location</u>	<u>Square Footage</u>	<u>Owned / Leased</u>	<u>Purpose</u>
10 S. Riverside, Chicago, Illinois	72,000	Leased	Sales Office
120 S. Riverside, Chicago, Illinois	180,000	Leased	Sales Office
Eatontown, New Jersey	35,000	Leased	Sales Office
Etobicoke, Ontario, Canada	18,000	Leased	Corporate Office / Sales Office
Herndon, Virginia	19,000	Leased	Sales Office
Mettawa, Illinois	156,000	Leased	Sales Office
North Las Vegas, Nevada	513,000	Leased (1)	Distribution Center
Shelton, Connecticut	18,000	Leased	Sales Office
200 N. Milwaukee, Vernon Hills, Illinois	550,000	Owned	Corporate Office / Distribution Center / Business Technology Center
300 N. Milwaukee, Vernon Hills, Illinois	75,000	Leased	Corporate Office
Voorhees, New Jersey	18,000	Leased	Sales Office

- (1) The Company has an option to purchase the building and the real property on which the building is located for a purchase price of \$29.5 million at any time during the first two years of the lease.

**Item 3. Legal Proceedings.**

On September 9, 2003, CDW completed the purchase of certain assets of Bridgeport Holdings, Inc., Micro Warehouse, Inc., Micro Warehouse, Inc. of Ohio, and Micro Warehouse Gov/Ed, Inc. (collectively, "Micro Warehouse"). On September 10, 2003, Micro Warehouse filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (Case No. 03-12825). On January 20, 2004, the Official Committee of Unsecured Creditors (the "Committee") appointed in the Micro Warehouse bankruptcy proceedings filed a motion with the court seeking the production of certain documents for review and certain representatives of CDW for depositions. On February 12, 2004, the Bankruptcy Court entered an order approving a stipulation between the Committee and CDW whereby CDW consented to the Committee's production requests. Pursuant to the stipulation, CDW produced the requested documents and certain CDW representatives were deposed. In a subsequent filing with the Bankruptcy Court, the Committee stated its belief that the Micro Warehouse estate has a claim against CDW for a transfer of assets for less than reasonably equivalent value arising from the sale of such assets to CDW. The Bankruptcy Court confirmed a plan of distribution with respect to Micro Warehouse which became effective on October 14, 2004. In connection therewith, any such claim that the estate had against CDW was transferred to the Bridgeport Holdings, Inc. Liquidating Trust (the "Liquidating Trust"). On March 3, 2005, the Liquidating Trust filed a civil claim against CDW in the United States Bankruptcy Court for the District of Delaware. The Liquidating Trust alleges that CDW did not pay reasonably equivalent value for the assets it acquired from Micro Warehouse and seeks to have CDW's "purchase of Micro

Warehouse” set aside and an amount of damages, to be determined at trial, paid to it. CDW believes that it paid reasonably equivalent value for the assets it acquired from Micro Warehouse and believes that the outcome of this claim will not have a material adverse effect on CDW’s financial condition.

From time to time, customers of CDW file voluntary petitions for reorganization under the United States bankruptcy laws. In such cases, certain pre-petition payments received by CDW could be considered preference items and subject to return to the bankruptcy administrator. CDW believes that the final resolution of these preference items will not have a material adverse effect on its financial condition.

In addition, CDW is party to legal proceedings that arise from time to time, both with respect to specific transactions, such as the purchase of certain assets from Micro Warehouse described above, and in the ordinary course of our business. We do not believe that any currently pending or threatened litigation will have a material adverse effect on our financial condition. Litigation, however, involves uncertainties and it is possible that the eventual outcome of litigation could adversely affect our results of operations for a particular period.

**Item 4. Submission of Matters to a Vote of Security Holders.**

There were no matters submitted during the fourth quarter of 2005 to a vote of security holders.

**PART II**

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

The following table sets forth for the periods indicated the high and low sales prices for the Company’s common stock, which is traded on The Nasdaq Stock Market® under the symbol “CDWC”. As of January 13, 2006, there were approximately 20,436 beneficial owners of the Company’s common stock.

Quarter Ended	2005		2004	
	Low	High	Low	High
March 31	\$ 55.46	\$ 66.97	\$ 58.06	\$ 74.45
June 30	\$ 51.86	\$ 60.58	\$ 61.30	\$ 70.93
September 30	\$ 56.00	\$ 64.15	\$ 56.07	\$ 65.20
December 31	\$ 53.51	\$ 61.00	\$ 56.61	\$ 68.26

The following table presents information on cash dividends paid during the past two years:

Date Paid	Dividend Per Share	Total Dividend (in thousands)
June 30, 2005	\$ 0.43	\$ 35,114
June 30, 2004	\$ 0.36	\$ 30,027

Although in future years we plan to announce any dividend following the annual shareholders meeting, typically held in May, the timing and amount of any future dividends will depend upon the earnings, cash requirements and financial condition of the Company and other factors deemed relevant by our Board of Directors.

Issuer Purchases of Equity Securities (1)

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs
October 1, 2005 through October 31, 2005	694,000	\$ 55.18	694,000	2,226,600
November 1, 2005 through November 30, 2005	10,000	\$ 55.34	10,000	2,216,600
December 1, 2005 through December 31, 2005	-	-	-	2,216,600
Total	<u>704,000</u> (2)	<u>\$ 55.18</u>	<u>704,000</u>	

- (1) In July 2004, our Board of Directors authorized a new share repurchase program of 3,988,200 shares of our common stock, comprised of 1,488,200 shares previously authorized for repurchase under a July 2003 program and authorization to repurchase an additional 2,500,000 shares.

In April 2005, our Board of Directors authorized a share repurchase program of 4,529,600 shares of our common stock, comprised of 1,529,600 shares previously authorized for repurchase under the July 2004 program and authorization to purchase an additional 3,000,000 shares. These purchases may be made from time to time in both open market and private transactions, as conditions warrant. This new repurchase program is expected to remain in effect through April 2007, unless earlier terminated by the Board or completed.

- (2) All shares were purchased pursuant to the publicly announced programs.

**Item 6. Selected Financial Data**

**CDW Corporation and Subsidiaries**  
**Selected Financial Data**  
(in thousands, except per share amounts)

	<b>Year Ended December 31,</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Income Statement Data:</b>					
Net sales	\$ 6,291,845	\$ 5,737,774	\$ 4,664,616	\$ 4,264,579	\$ 3,961,545
Income from operations	\$ 419,634	\$ 392,759	\$ 284,458	\$ 298,178	\$ 268,198
Net income	\$ 272,092	\$ 241,445	\$ 175,186 (1)	\$ 185,249	\$ 168,686
Earnings per share:					
Basic	\$ 3.35	\$ 2.90	\$ 2.10 (1)	\$ 2.18	\$ 1.97
Diluted	\$ 3.26	\$ 2.79	\$ 2.03 (1)	\$ 2.10	\$ 1.89
Dividends per share	\$ 0.43	\$ 0.36	\$ 0.30	\$ 0.00	\$ 0.00
	<b>December 31,</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Financial Position:</b>					
Cash, cash equivalents and marketable securities	\$ 610,926	\$ 603,623	\$ 562,360	\$ 504,614	\$ 394,381
Total assets	\$ 1,649,056	\$ 1,520,935	\$ 1,311,632	\$ 1,095,664	\$ 937,029
Total debt and capitalized lease obligations	\$ -	\$ -	\$ -	\$ -	\$ -

(1) Includes \$22.3 million (\$13.5 million after tax) of transaction and integration expenses recorded in connection with the Micro Warehouse transactions. These expenses impacted basic and diluted earnings per share by \$0.16 per share.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the Notes thereto.*

### **Overview**

We are a leading direct marketer of multi-brand information technology products and services in the United States. Our primary business is conducted from a combined corporate office and distribution center located in Vernon Hills, Illinois, sales offices in Illinois, Virginia, Connecticut, New Jersey, and Toronto, Canada, and a distribution center in North Las Vegas, Nevada. Additionally, we market and sell products through [CDW.com](http://CDW.com), [CDWG.com](http://CDWG.com), [macwarehouse.com](http://macwarehouse.com) and [CDW.ca](http://CDW.ca), our Web sites.

For financial reporting purposes, we have two operating segments: corporate sector, which is primarily comprised of business customers, but also includes consumers (which generated approximately 1% and 2% of net sales in 2005 and 2004, respectively); and public sector, which is comprised of federal, state and local government entities, educational institutions and healthcare customers. In the first quarter of 2005, we revised our operating segments, which reflect the basis for making operating decisions and assessing performance. In July 2005, the Company announced the creation of a dedicated healthcare sales team. For financial reporting purposes, results of operations and assets related to healthcare customers are reported as part of the public sector segment. See Note 15 to the Consolidated Financial Statements for more information on our operating segments.

CDW management monitors a number of financial and non-financial measures and ratios on a daily, weekly, and monthly basis in order to track the progress of the business and make adjustments as necessary. We believe that the most important of these measures and ratios include daily sales, by business segment and total company, gross margin, number of orders shipped per day, number of orders shipped complete per day, inventory balance and turnover, cash, cash equivalents and marketable securities balance, accounts receivable balance and aging, accounts receivable days sales outstanding, operating expenses and operating margin. The 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.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 as of the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. We base our estimates on historical experience and on various other assumptions that are believed to be 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, and revisions to estimates are included in our results for the period in which the actual amounts become known. The estimates and assumptions used in accounting for revenue recognition, inventory valuation and vendor transactions have the most significant impact on our consolidated financial statements, and therefore, are considered to be our critical accounting policies. The following discussion details the estimates and assumptions associated with these policies.

*Revenue recognition.* We record revenues from sales transactions when both risk of loss and title to products sold pass to the customer. Our shipping terms dictate that the passage of title occurs upon receipt of products by the customer. The majority of our revenues relate to physical products and are recognized on a gross basis with the selling price to the customer recorded as net sales and the acquisition cost of the product recorded as cost of sales. Software assurance products, third party services and extended warranties that we sell (for which we are not the primary obligor) are recognized on a net basis in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" and Emerging Issues Task Force 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." Accordingly, such revenues are recognized in net sales either at the time of sale or over the contract period, based on the nature of the contract, at the net amount retained by us, with no cost of sales.

In accordance with this revenue recognition policy, we estimate the value of products that have shipped but that have not been received by the customer and record an adjustment to reverse the impact of these sales out of our results for the current period and into our results for the subsequent period. In doing so, we perform an analysis to determine the estimated number of days that product is in transit, using data from commercial delivery services and other sources. 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 current period.

*Inventory valuation.* Inventory is valued at the lower of cost or market value. 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 transactions.* We receive incentives from 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 net advertising expense, as appropriate. Vendors may change the terms of some or all of these programs which could have an impact on our results of operations. The inability to collect receivables related to these vendor transactions could have a material impact on gross margin and operating income.

In September 2003, we purchased selected U.S. assets and the Canadian operations of Micro Warehouse, a reseller of computers, software and peripheral products. The U.S. transaction, completed on September 9, 2003, was accounted for as a purchase of assets, with the \$20.0 million purchase price allocated to the assets purchased, including inventory, fixed assets, and customer lists, based upon their fair values at the date of purchase. Subsequent to the completion of the U.S. transaction, sales made by former members of the Micro Warehouse U.S. sales force who joined CDW in conjunction with this transaction, along with the associated costs, are included in the accompanying consolidated financial statements. The Canadian transaction, completed on September 23, 2003, was accounted for as the purchase of a business and, accordingly, the results of operations of the acquired business subsequent to the date of purchase are included in the accompanying consolidated financial statements, and the assumed assets and liabilities were recorded based upon their fair values at the date of purchase. The Canadian operations were purchased for \$2.7 million.

### **Recently Issued or Newly Adopted Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 123R, “Share-Based Payment” (“SFAS 123R”), which requires the Company to measure all share-based payments to coworkers under our stock-based compensation plans using a fair-value-based method and record compensation expense related to these payments in our consolidated financial statements. SFAS 123R is effective for the first annual period beginning after June 15, 2005; therefore, we are required to adopt SFAS 123R for the year beginning January 1, 2006. The pro forma disclosures previously required under Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” will no longer be an alternative to financial statement recognition. We intend to use the modified prospective application transition method upon adopting SFAS 123R, which allows for prospective recognition of compensation expense without restatement of prior periods in the year of adoption.

As discussed in Note 2 to the Consolidated Financial Statements, we have accounted for our stock-based compensation programs according to the provisions of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”). Accordingly, compensation expense is recognized to the extent of employee or director services rendered based on the intrinsic value of compensatory options or shares granted under the plans.

Historically, stock options have been granted annually to all CDW coworkers as part of the Company's overall compensation plan. As announced on April 29, 2005, after studying the potential impact of SFAS 123R and taking into consideration the results of coworker surveys and focus groups, the Compensation and Stock Option Committee (the "Committee") of the Company's Board of Directors approved certain modifications to the Company's compensation structure. As modified, the Company's compensation structure for coworkers includes the following features:

- CDW officers, directors and managers will participate in the Company's employee stock option plan on an annual basis. Except as noted below, these grants will be determined in a manner consistent with how prior grants have been determined.
- Coworkers below manager level will no longer be granted options on an annual basis. There may be minor, discrete grants made to specific coworkers below manager level in recognition of outstanding performance or significant contribution to the Company.
- All coworkers will be eligible for an additional discretionary profit-sharing contribution from the Company to the CDW Corporation Employees' Profit Sharing Plan (the "Plan"). The amount of the discretionary contribution, if any, will be determined annually by the Committee. The Committee approved a \$1,000 profit sharing contribution with respect to each coworker who was eligible to participate in the Plan and was employed on December 31, 2005. The cost of this 2005 contribution was approximately \$4 million (pre-tax) and was recognized equally over the months of April through December 2005. In 2005, CDW officers, directors and managers have, as an offset to the increased contribution, received slightly fewer options than they otherwise would have received.
- All unvested options granted prior to January 1, 2005 held by coworkers at the manager level and below who were employed on December 31, 2005 became fully vested effective December 31, 2005. In connection with the acceleration of vesting, the Company recorded a charge of \$3.7 million (pre-tax) in the fourth quarter of 2005.

The acceleration of vesting was undertaken primarily so that compensation expense for the accelerated options will not be recognized in the Company's income statement in future periods upon adoption of SFAS 123R. It is estimated that the compensation expense for stock options will be approximately \$16 to \$17 million (pre-tax) in 2006. This estimate is based on an assumption regarding the number of stock options that would be forfeited and an assumption of the number of options that would be granted in 2006 and the valuation of such stock options at the time of grant. The estimated stock-based compensation expense for 2006 does not include the expense for any additional discretionary profit-sharing contribution the Company may make to the Plan for 2006 similar to the contribution to be made for 2005, as described above.

In addition, after studying the potential impact of SFAS 123R, certain modifications to the Company's Employee Stock Purchase Plan ("ESPP") were approved. The ESPP provided that eligible coworkers may contribute up to 15% of their eligible compensation towards the quarterly purchase of our common stock. Historically, the coworkers' purchase price was 85% of the lesser of the fair market value of the stock on the first business day or the last business day of the quarterly offering period. Effective January 1, 2006, the coworkers' purchase price will be 95% of the fair market value of the stock on the last business day of the quarterly offering period.

See Note 3 to our Consolidated Financial Statements for information on other recently issued or newly adopted accounting pronouncements.

## Results of Operations

The following table sets forth for the periods indicated information derived from our consolidated statements of income expressed as a percentage of net sales:

Financial Results	Percentage of Net Sales Years Ended December 31,		
	2005	2004	2003
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	84.6	84.8	85.6
Gross profit	15.4	15.2	14.4
Selling and administrative expenses	6.9	6.7	7.0
Net advertising expenses	1.8	1.6	1.3
Income from operations	6.7	6.9	6.1
Interest and other income	0.2	0.1	0.1
Income before income taxes	6.9	7.0	6.2
Income tax provision	2.6	2.8	2.4
Net income	4.3 %	4.2 %	3.8 %

The following table sets forth for the periods indicated a summary of certain of our consolidated operating statistics:

Operating Statistics	Years Ended December 31,		
	2005	2004	2003
% of sales to commercial customers (1)	98.9%	98.1%	97.9%
Sales force, end of period	2,153	2,012	1,924
Annualized inventory turnover (2)	24	24	24
Accounts receivable - days sales outstanding	37	37	35
Direct web sales (000's)	\$1,769,032	\$1,525,712	\$1,056,761
Net sales per coworker (000's)	\$1,545	\$1,504	\$1,402
Return on shareholders' equity	22.4%	21.1%	17.8%

- (1) Commercial customers is defined as public sector and corporate sector customers excluding consumers.
- (2) Starting in 2004, annualized inventory turnover is computed on an average daily basis. Annualized inventory turnover for 2003 has been restated using the new method.

The following table presents net sales of products by product category as a percentage of total net sales of products. Net sales of products do not include items such as commission revenue or delivery charges to customers and were approximately 97% of total net sales in the years ended December 31, 2005, 2004 and 2003. Net sales of products for the calculations in this table and the table of product category growth immediately following reflect an adjustment we make in our consolidated financial statements for the value of products that have shipped but that have not been received by the customer. We record an adjustment to reverse the estimated impact of these sales out of our results for the current period and into our results for the subsequent period.

Product lines are based upon internal product code classifications. Product mix for the years ended December 31, 2004 and 2003 have been retroactively adjusted for certain changes in individual product classifications and to reflect the adjustment for products shipped but not received by the customer as described above.

Analysis of Product Mix	Years Ended December 31,		
	2005	2004	2003
Notebook computers and accessories	12.7 %	13.7 %	12.9 %
Desktop computers and servers	14.1	13.7	13.1
Subtotal computer products	26.8	27.4	26.0
Software	17.3	16.8	16.8
Data storage devices	13.8	13.4	14.1
Printers	12.2	12.7	13.8
NetComm products	10.1	9.7	10.0
Video	9.2	9.4	9.0
Add-on boards/memory	4.5	4.6	4.4
Input devices	3.3	3.3	3.4
Other	2.8	2.7	2.5
Total	100.0 %	100.0 %	100.0 %

The following table represents the change in year-over-year net sales of products by product category for each of the periods indicated. Product lines are based upon internal product code classifications. The rates of change for the years ended December 31, 2004 and 2003 have been retroactively adjusted for certain changes in individual product classifications and to reflect the adjustment for products shipped but not received by the customer as described above.

Analysis of Product Category Growth	Years Ended December 31,		
	2005	2004	2003
Notebook computers and accessories	1.2 %	32.6 %	8.9 %
Desktop computers and servers	12.6	30.3	6.7
Subtotal computer products	6.9	31.5	7.8
Software	13.2	24.5	1.5
Data storage devices	13.4	17.8	7.2
Printers	5.2	14.7	12.4
NetComm products	14.5	20.7	6.7
Video	7.8	29.6	10.0
Add-on boards/memory	8.0	29.2	12.5
Input devices	7.9	23.2	16.3
Other	18.0	26.8	25.8

### *Year Ended December 31, 2005 Compared to Year Ended December 31, 2004*

Net sales in 2005 increased 9.7% to a record \$6.292 billion, compared to \$5.738 billion in 2004. Sales of desktop computers and servers, software, data storage devices and netcomm products each increased over 10% in 2005 over 2004. Corporate sector segment sales increased 7.4%, to \$4.411 billion in 2005 from \$4.105 billion in 2004, and comprised 70% of our total net sales for 2005. Public sector segment sales (including sales to healthcare customers) increased 15.2%, to \$1.881 billion in 2005 from \$1.633 billion in 2004, and comprised 30% of our total sales for 2005.

Gross profit increased 11.2% to \$967.6 million in 2005, compared to \$870.1 million in 2004. As a percentage of net sales, gross profit was 15.4% in 2005, compared to 15.2% in 2004. The increase in the gross profit percentage was primarily due to a larger amount of cooperative advertising funds classified as a reduction of cost of sales and improved product margins, partially offset by reduced customer charges for delivery and a lower level of vendor incentives. In 2005, 100% of cooperative advertising funds were classified as a reduction of cost of sales rather than a reduction of advertising expense, compared to 91% in 2004.

Our objective for gross profit as a percentage of net sales is between 14.75% and 15.50%. The gross profit margin depends on various factors, including vendor incentive and inventory price protection programs, cooperative advertising funds classified as a reduction of cost of sales, product mix, including third party services, pricing strategies, market conditions, and other factors, any of which could result in changes in gross margins from recent experience.

Selling and administrative expenses increased 12.1% to \$433.5 million in 2005, compared to \$386.6 million in 2004, while increasing as a percentage of net sales to 6.9% versus 6.7% in 2004. Included in selling and administrative expenses in 2004 were \$3.9 million of transaction and integration expenses related to the Micro Warehouse transactions. The primary drivers of the increase in selling and administrative expenses are discussed below.

- Payroll costs increased \$38.3 million, primarily due to our continued investment in our sales force and increases in administrative areas to support a larger and growing business. Our sales force increased to 2,153 at December 31, 2005, from 2,012 at December 31, 2004. Our sales force consists of account managers (including field sales representatives) as well as product category specialists who provide consultation in areas requiring technical or specialized product expertise such as networking, security, data storage, and volume software licensing. In addition, payroll costs for 2005 include \$3.7 million of compensation expense in connection with the acceleration of vesting of stock options for coworkers through the manager level. Payroll costs for 2004 included \$1.5 million of expenses for former Micro Warehouse employees performing transition services.
- Employee-related costs (which include items such as profit sharing, incentive awards, and insurance) increased \$2.8 million, primarily due to \$4.0 million of additional profit sharing expense (discussed in Note 3 to the Consolidated Financial Statements) related to the additional contribution to the 401(k) plan in conjunction with a modification to the Company's stock option program and increased expenses to support a larger number of coworkers. These expenses were partially offset by a reduction of \$5.3 million in an accrual for a company-wide incentive bonus program. The accrual was adjusted based on certain program modifications which provided for specific payout levels for partial achievement of full year financial objectives.
- Occupancy costs increased \$1.7 million. This increase was primarily due to increased depreciation related to asset additions for new sales offices and new financial systems, partially offset by reduced rent. Occupancy costs for 2004 included \$0.8 million of facility expenses related to the Micro Warehouse transactions.
- Other selling and administrative costs increased \$4.1 million. The increase was primarily due to increased administrative expenses required to support a larger business, such as professional fees and

travel and entertainment expenses. Other selling and administrative costs for 2004 included \$1.6 million of costs related to the Micro Warehouse transactions.

Net advertising expense increased to \$114.5 million in 2005, compared to \$90.8 million in 2004. This was due to an increase in gross advertising expense and an increase in cooperative advertising funds classified as a reduction of cost of sales rather than as a reduction of advertising expense in 2005 compared to 2004. As a percentage of net sales, net advertising expense increased to 1.8% in 2005, compared to 1.6% in 2004.

Consolidated operating income was \$419.6 million in 2005, a 6.8% increase from \$392.8 million in 2004. Consolidated operating income as a percentage of net sales was 6.7% in 2005, compared to 6.9% in 2004. Corporate sector segment operating income was \$341.8 million in 2005, a 4.4% increase from \$327.5 million in 2004. The increase in corporate sector segment operating income was primarily due to an increase in sales, partially offset by increased expenses related to the ongoing investment in the sales force. Public sector segment operating income was \$110.4 million in 2005, an 18.2% increase from \$93.4 million in 2004. The increase in public sector segment operating income was primarily due to a 15.2% increase in sales during 2005 compared to 2004. Headquarters expenses increased to \$32.6 million in 2005, compared to \$28.2 million in 2004, primarily due to a larger number of coworkers and increased depreciation expense, partially offset by \$3.9 million of integration expenses related to the Micro Warehouse transactions incurred during 2004 that did not repeat. Headquarters expenses also included \$3.7 million of compensation expense in connection with the acceleration of vesting of stock options for coworkers through the manager level and the impact of a \$5.3 million reduction in an accrual for a company-wide incentive bonus program.

Our new distribution center in North Las Vegas, Nevada became operational in December 2005 (discussed in the "Working Capital" section). In addition, we will be adding leased office space, primarily in the Chicago area, for sales and support functions. The new distribution center and additional office space represent infrastructure investments that are necessary to support our future growth. However, these investments will impact selling and administrative expenses and operating income in 2006. Total selling and administrative expenses for these investments are estimated at approximately \$25 million in 2006, which would represent an increase of approximately \$17 million over 2005 expenses.

As a result of the increased expenses related to the infrastructure investments, the expenses related to stock-based compensation under SFAS 123R and anticipated increased payroll tax expense related to stock option exercises (due to stock options for which vesting was accelerated as of December 31, 2005), we have modified our objective for operating income as a percentage of net sales to a range of 5.7% to 6.4% for 2006. We expect to be at the lower end of this range in the first quarter, however, our objective is to be at the higher end of this range in the fourth quarter. Excluding the impact of stock-based compensation expense under SFAS 123R (approximately \$16 to \$17 million pre-tax) and the payroll tax expense applicable to stock option exercises related to options for which vesting was accelerated (approximately \$2.5 to \$3.5 million pre-tax), and therefore, on a non-GAAP basis, this range is 6.1% to 6.6% for 2006. The non-GAAP objective for operating income as a percentage of net sales is included in this discussion because the Company believes it provides a meaningful comparison to reported results of prior periods.

The effective income tax rate, expressed as a percentage of income before income taxes, decreased to 37.2% in 2005 compared to 39.6% in 2004. On April 1, 2005, we voluntarily began collecting sales taxes on sales to all corporate customers in all states that impose sales taxes. Prior to April 1, 2005, we collected sales tax when applicable on sales to corporate customers only in states where the requisite nexus existed. In conjunction with collecting state sales tax, we began filing state income tax returns for all of our legal entities in all states. Due to differences in state income tax laws, including differences in how income is apportioned, we expected our overall effective tax rate to be lower in 2005 than 2004. The change in the effective tax rate increased diluted earnings per share in 2005 by approximately \$0.13 compared to 2004. The effective tax rate for 2006 is estimated at 37.5%. The increase in the effective tax rate is due primarily to increased state income taxes due to rate and law changes.

Net income in 2005 was \$272.1 million, a 12.7% increase from \$241.4 million in 2004. Diluted earnings per share were \$3.26 in 2005, an increase of 16.8% from \$2.79 in 2004.

### ***Year Ended December 31, 2004 Compared to Year Ended December 31, 2003***

Net sales in 2004 increased 23.0% to \$5.738 billion, compared to \$4.665 billion in 2003. The increase in net sales was due to organic growth and the fact that 2004 included a full year of sales made by former members of the Micro Warehouse sales force who joined CDW in September 2003 in conjunction with the Micro Warehouse transactions. We experienced double-digit unit volume growth in most product categories on a year-over-year basis. Sales of notebook computers and accessories, desktop computers and servers, software, netcomm products, video, add-on boards/memory and input devices each increased over 20% in 2004 over 2003. Corporate sector segment sales increased 23.4%, to \$4.105 billion in 2004 from \$3.328 billion in 2003, and comprised 72% of our total sales for 2004. Public sector segment sales (including sales to healthcare customers) increased 22.1%, to \$1.633 billion in 2004 from \$1.337 billion in 2003, and comprised 28% of our total sales for 2004.

Gross profit increased 29.1% to \$870.1 million in 2004, compared to \$673.8 million in 2003. As a percentage of net sales, gross profit was 15.2% in 2004, compared to 14.4% in 2003. The increase in the gross profit percentage was primarily due to an increase in vendor incentives, an increase in cooperative advertising funds classified as a reduction of cost of sales, and an increase in net service contract revenue. Vendor incentives increased due to achieving goals set by our vendor partners. Cooperative advertising funds classified as a reduction of cost of sales increased due to a higher level of cooperative advertising funds received from our vendors and the classification of a higher percentage of these funds as a reduction of cost of sales rather than as a reduction of advertising expense in 2004. The increase in net service contract revenue was due to higher sales of products accounted for on a net basis, such as warranties and software assurance products.

Selling and administrative expenses increased 18.9% to \$386.6 million in 2004, compared to \$325.2 million in 2003, while decreasing as a percentage of net sales to 6.7% versus 7.0% in 2003. Included in selling and administrative expenses in 2004 and 2003 were \$3.9 million and \$20.2 million, respectively, of transaction and integration expenses related to the Micro Warehouse transactions. The primary drivers of the increase in selling and administrative expenses are discussed below.

- Payroll costs increased \$51.1 million, primarily due to our continued investment in our sales force and increases in administrative areas to support a larger and growing business. Our sales force increased from 1,924 at December 31, 2003, to 2,012 at December 31, 2004. Our sales force consists of account managers (including field sales representatives) as well as product category specialists who provide consultation in areas requiring technical or specialized product expertise such as networking, security, data storage, and volume software licensing. Payroll costs for 2004 and 2003 also included \$1.5 million and \$4.9 million, respectively, of expenses for former Micro Warehouse employees performing transition services.
- Employee-related costs (which include items such as profit sharing, incentive awards, and insurance) increased \$5.4 million, primarily due to increased insurance costs resulting from higher insurance rates, higher medical and prescription expenses and coverage for a larger number of coworkers. In 2003, employee-related costs included \$1.6 million of employee benefits related to the Micro Warehouse transactions.
- Occupancy costs increased \$4.7 million, primarily due to additional office facilities for our locations on the East coast. We also incurred expenses, such as duplicate rents, while we transitioned some locations to new office facilities. Occupancy costs for 2004 and 2003 included \$0.8 and \$0.7 million, respectively, of facility expenses related to the Micro Warehouse transactions.
- Other selling and administrative costs increased \$0.3 million. Other selling and administrative costs for 2004 and 2003 included \$1.6 million and \$13.0 million, respectively, of costs related to the Micro Warehouse transactions. Excluding these costs, the increase in other selling and administrative costs is primarily due to increased administrative expenses required to support a larger business, such as professional fees, telephone expenses, and travel and entertainment expenses. The \$1.6 million of

costs related to the Micro Warehouse transactions in 2004 included \$2.0 million for an increase in the reserve for equipment purchased from Micro Warehouse in its Wilmington, Ohio distribution center and \$2.0 million of legal fees, partially offset by \$2.4 million of income from collections of accounts receivable generated by Micro Warehouse prior to the Micro Warehouse transactions.

Net advertising expense increased to \$90.8 million in 2004, compared to \$64.1 million in 2003. This was due to an increase in gross advertising expense and an increase in cooperative advertising funds classified as a reduction of cost of sales rather than as a reduction of advertising expense in 2004 compared to 2003 in accordance with Emerging Issues Task Force Issue No. 02-16, "Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor's Products)" ("EITF 02-16"), adopted on January 1, 2003. Net advertising expense in 2003 included \$1.5 million of customer communication and advertising costs related to the Micro Warehouse transactions. Gross advertising expense increased to \$99.8 million in 2004 compared to \$92.0 million in 2003, while decreasing as a percentage of net sales to 1.7% versus 2.0% in 2003.

Consolidated operating income was \$392.8 million in 2004, a 38.1% increase from \$284.5 million in 2003. Consolidated operating income as a percentage of net sales increased to 6.9% in 2004, compared to 6.1% in 2003. Corporate sector segment operating income was \$327.5 million in 2004, a 23.5% increase from \$265.2 million in 2003. Public sector segment operating income was \$93.4 million in 2004, a 51.0% increase from \$61.9 million in 2003. Headquarters expenses were \$28.2 million in 2004, compared to \$42.6 million in 2003. Headquarters expenses included \$3.9 million and \$22.0 million of expenses related to the Micro Warehouse transactions in 2004 and 2003, respectively.

The effective income tax rate, expressed as a percentage of income before income taxes, was 39.6% in 2004 and 39.5% in 2003.

Net income in 2004 was \$241.4 million, a 37.8% increase from \$175.2 million in 2003. Diluted earnings per share were \$2.79 in 2004, an increase of 37.4% from \$2.03 in 2003. The 2003 results included \$22.3 million (\$13.5 million after tax) of transaction and integration expenses related to the Micro Warehouse transactions, or a \$0.16 per share impact on basic and diluted earnings per share.

### **Seasonality**

Sales in our corporate sector segment, which primarily serves business customers, have not historically experienced significant seasonality throughout the year. In contrast, sales in our public sector segment have historically been higher in the third quarter than in other quarters due to the buying patterns of federal government and education customers. If sales to federal government and education customers increase as a percentage of overall sales, the Company as a whole may experience increased seasonality in future periods.

### **Legal Proceedings**

For a description of certain legal proceedings, see Item 3 of Part I of this Form 10-K.

### **Liquidity and Capital Resources**

#### ***Working Capital***

We have historically financed our operations and capital expenditures primarily through cash flow from operations. At December 31, 2005, we had cash, cash equivalents, and current marketable securities of \$571.8 million, representing an increase of \$93.6 million in cash, cash equivalents, and current marketable securities from December 31, 2004. Our working capital increased \$87.9 million, to \$1,133.5 million at December 31, 2005 from \$1,045.6 million at December 31, 2004. The increase in working capital was a result of increases in cash, cash equivalents, and current marketable securities, accounts receivable and merchandise inventory, partially offset by increases in accounts payable and accrued expenses.

We have an aggregate \$70.0 million available pursuant to two \$35.0 million unsecured lines of credit with two financial institutions. One line of credit was renewed in June 2005, and now expires in June 2006. The other line does not have a fixed expiration date. Borrowings under the first credit facility 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. The Company does not incur any facility fees associated with either line of credit. At December 31, 2005, there were no borrowings under either of the credit facilities.

We have entered into security agreements with certain financial institutions in order to facilitate the purchase of inventory from various suppliers under certain terms and conditions. The agreements allow for a maximum credit line of \$80.0 million collateralized by inventory purchases financed by the financial institutions. We do not incur any interest expenses associated with these agreements, as we pay the balances when they are due. At December 31, 2005 and 2004, we owed the financial institutions approximately \$43.8 million and \$29.3 million, respectively, which is included in trade accounts payable.

Since 1998, we have repurchased a total of 13,483,400 shares of our common stock at a total cost of \$649.2 million under various share repurchase programs authorized by our Board of Directors. Our current program authorizing the repurchase of 4,529,600 shares was approved by our Board of Directors in April 2005. Share repurchases may be made from time to time in both open market and private transactions, as conditions warrant. The current repurchase program is expected to remain in effect through April 2007, unless earlier terminated by the Board or completed. The following table presents share repurchases for the years ended December 31, 2005, 2004 and 2003:

Year	Shares	Amount (in thousands)
2005	4,570,300	\$ 258,298
2004	1,352,300	\$ 86,010
2003	1,852,424	\$ 76,324

As of December 31, 2005, 2.2 million shares remained available for repurchase under our current program. Repurchased shares are held in treasury pending use for general corporate purposes, including issuances under various stock plans.

The following table presents information on dividends paid during the past three years:

Date Paid	Dividend Per Share	Total Dividend (in thousands)
June 30, 2005	\$ 0.43	\$ 35,114
June 30, 2004	\$ 0.36	\$ 30,027
September 26, 2003	\$ 0.30	\$ 24,867

In future years, we plan to announce any dividend following the annual shareholders meeting, typically held in May. The timing and amount of any future dividends will depend upon the earnings, cash requirements and financial condition of the Company and other factors deemed relevant by our Board of Directors.

In February 2005, we signed a lease for a new distribution center to be constructed in North Las Vegas, Nevada, to support the Company's growth beyond 2005. This new facility became operational in December 2005. Capital expenditures for machinery, equipment and leasehold improvements related to this second distribution center were approximately \$26 million in 2005 and caused capital expenditures in 2005 to be significantly higher than previous years. We anticipate that total capital expenditures for this second distribution center will be \$33 million to \$35 million. Our internally generated cash flow has been sufficient to fund these capital expenditures and we believe this will continue. In addition, we incurred approximately \$3

million of operating and start-up costs related to this facility, primarily in the third and fourth quarters of 2005. These costs are included in selling and administrative expenses in 2005.

Our current and anticipated uses of our cash, cash equivalents and marketable securities are to fund growth in working capital and capital expenditures necessary to support future growth in sales, our stock buyback program, potential dividends and possible expansion through acquisitions. We believe that the funds held in cash, cash equivalents and marketable securities, and funds available under the credit facilities, will be sufficient to fund our working capital and cash requirements for the foreseeable future.

### **Cash Flows**

Net cash provided by operating activities in 2005 was \$303.7 million compared to \$184.2 million in 2004. The primary factors that affected our cash flow from operations were net income and changes in accounts receivable, accounts payable and merchandise inventory. Accounts receivable, accounts payable and merchandise inventory were all impacted by the increase in sales during 2005.

Net cash used in investing activities for the year ended December 31, 2005 was \$4.0 million, including \$467.1 million provided by redemptions, sales and maturities of marketable securities offset by \$422.1 million to purchase marketable securities and \$49.1 million for capital expenditures. Capital expenditures during 2005 consisted primarily of investments in computer hardware and software upgrades and machinery and equipment related to the new North Las Vegas distribution center.

Net cash used in financing activities for the year ended December 31, 2005 was \$247.3 million. This included the payment of cash dividends totaling \$35.1 million and the repurchase of 4,570,300 shares of our common stock at a total cost of \$258.3 million. These items were partially offset by proceeds of \$23.2 million from the exercise of stock options under our various stock option plans, \$6.5 million from the issuance of common stock in connection with the Employee Stock Purchase Plan and a \$16.4 million increase in book overdrafts between December 31, 2004 and December 31, 2005.

### **Aggregate Contractual Obligations**

At December 31, 2005, we were obligated under various operating lease agreements that expire at various dates through 2021. These lease agreements generally provide for minimum rent payments and a proportionate share of operating expenses and property taxes and include certain renewal and expansion options. We expect to fulfill these commitments from our working capital.

During 2005, we signed a lease agreement for our new distribution center in North Las Vegas, Nevada. Also, during 2005, we signed various lease agreements for additional office space, primarily in the Chicago area, for sales and support functions.

For the years ended December 31, 2005, 2004 and 2003, rent expense was \$11.4 million, \$13.8 million and \$11.3 million, respectively. The following table summarizes our contractual commitments under operating lease agreements as of December 31, 2005 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	Over 5 years
Operating leases	<u>\$ 145,131</u>	<u>\$ 9,780</u>	<u>\$ 24,600</u>	<u>\$ 25,801</u>	<u>\$ 84,950</u>

*Any statements in this report that are forward-looking (that is, not historical in nature) are made pursuant to the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, for example, statements concerning the Company's sales growth, cooperative advertising reimbursements, gross profit as a percentage of sales, selling and administrative expenses, advertising expense, operating income as a percentage of sales, and effective tax rate. In addition, words such as "likely," "may," "would," "could," "should," "anticipate," "believe," "estimate," "expect," "intend," "plan," "objective," and similar expressions, may identify forward-looking statements in this report. Forward-looking statements in this report are based on the Company's beliefs and expectations as of the date of this report and are subject to risks and uncertainties, including those outlined in detail in this report in Item 1 - Business under the heading "Certain Factors Affecting CDW's Business" and other factors identified from time to time in the Company's filings with the Securities and Exchange Commission. Such risks and uncertainties may have a significant impact on the Company's business, operating results or financial condition. Investors are cautioned that these forward-looking statements are inherently uncertain. Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein.*

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The Company's investments in marketable securities as of December 31, 2005 all mature before September 15, 2007 and are concentrated in U.S. Government and Government agency securities, municipal bonds and corporate fixed income securities. As such, the risk of significant changes in the value of these securities as a result of a change in market interest rates is minimal.

**Item 8. Financial Statements and Supplementary Data.**

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## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

CDW Corporation  
Vernon Hills, Illinois  
March 3, 2006

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Shareholders of CDW Corporation:

We have completed integrated audits of CDW Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

### Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of CDW Corporation and its subsidiaries at December 31, 2005 and December 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) 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 of financial statements 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.

### Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing on page 28 of the Company's Annual Report on Form 10-K for the year ended December 31, 2005, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes

in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

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PricewaterhouseCoopers LLP

Chicago, Illinois

March 3, 2006

**CDW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands)

	December 31,	
	2005	2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 201,250	\$ 148,804
Marketable securities	370,500	329,393
Accounts receivable, net of allowance for doubtful accounts of \$9,564 and \$9,890, respectively	637,245	580,035
Merchandise inventory	243,564	213,222
Miscellaneous receivables	27,848	24,364
Deferred income taxes	12,562	13,718
Prepaid expenses	8,274	6,901
<b>Total current assets</b>	<b>1,501,243</b>	<b>1,316,437</b>
Marketable securities	39,176	125,426
Property and equipment, net	97,277	68,595
Other assets	11,360	10,477
<b>Total assets</b>	<b>\$ 1,649,056</b>	<b>\$ 1,520,935</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 245,201	\$ 167,877
Accrued expenses:		
Compensation	42,585	41,178
Income taxes	7,409	14,661
Sales taxes	21,473	6,236
Advertising	18,193	17,535
Other	32,900	23,377
<b>Total current liabilities</b>	<b>367,761</b>	<b>270,864</b>
Long-term liabilities	16,730	8,654
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred shares, \$1.00 par value; 5,000 shares authorized; none issued	-	-
Common shares, \$.01 par value; 500,000 shares authorized; 93,447 and 92,197 shares issued, respectively	934	922
Paid-in capital	507,832	462,953
Retained earnings	1,405,263	1,168,285
Unearned compensation	(400)	(17)
Accumulated other comprehensive income	163	203
	1,913,792	1,632,346
Less cost of common shares in treasury; 13,483 shares and 8,913 shares, respectively	(649,227)	(390,929)
<b>Total shareholders' equity</b>	<b>1,264,565</b>	<b>1,241,417</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,649,056</b>	<b>\$ 1,520,935</b>

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

**CDW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share data)

	<b>Years Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Net sales	\$ 6,291,845	\$ 5,737,774	\$ 4,664,616
Cost of sales	<u>5,324,215</u>	<u>4,867,650</u>	<u>3,990,824</u>
Gross profit	967,630	870,124	673,792
Selling and administrative expenses	433,482	386,563	325,205
Net advertising expense	<u>114,514</u>	<u>90,802</u>	<u>64,129</u>
Income from operations	419,634	392,759	284,458
Interest income	15,155	8,968	7,225
Other expense, net	<u>(1,831)</u>	<u>(1,867)</u>	<u>(2,119)</u>
Income before income taxes	432,958	399,860	289,564
Income tax provision	<u>160,866</u>	<u>158,415</u>	<u>114,378</u>
Net income	<u>\$ 272,092</u>	<u>\$ 241,445</u>	<u>\$ 175,186</u>
Earnings per share:			
Basic	<u>\$ 3.35</u>	<u>\$ 2.90</u>	<u>\$ 2.10</u>
Diluted	<u>\$ 3.26</u>	<u>\$ 2.79</u>	<u>\$ 2.03</u>
Weighted-average number of common shares outstanding:			
Basic	<u>81,128</u>	<u>83,391</u>	<u>83,329</u>
Diluted	<u>83,566</u>	<u>86,552</u>	<u>86,175</u>
Dividends per share	<u>\$ 0.43</u>	<u>\$ 0.36</u>	<u>\$ 0.30</u>

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

**CDW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(in thousands)

	Total Shareholders' Equity	Common Shares	Paid-in Capital	Retained Earnings	Unearned Compensation	Treasury Shares	Accumulated Other Comprehensive Income	Comprehensive Income
<b>Balance at December 31, 2002</b>	\$ 924,070	\$ 897	\$ 346,054	\$ 806,548	\$ (837)	\$ (228,595)	\$ 3	
Amortization of unearned compensation	568	-	-	-	568	-	-	
Exercise of stock options	22,878	11	22,867	-	-	-	-	
Issuance of common stock in connection with Employee Stock Purchase Plan	3,014	1	3,013	-	-	-	-	
Tax benefit from stock option and restricted stock transactions	36,479	-	36,479	-	-	-	-	
Purchase of treasury shares	(76,324)	-	-	-	-	(76,324)	-	
Cash dividends	(24,867)	-	-	(24,867)	-	-	-	
Net income	175,186	-	-	175,186	-	-	-	\$ 175,186
Net unrealized losses on marketable securities	(3)	-	-	-	-	-	(3)	(3)
Foreign currency translation adjustment	183	-	-	-	-	-	183	183
Comprehensive income								<u>\$ 175,366</u>
<b>Balance at December 31, 2003</b>	1,061,184	909	408,413	956,867	(269)	(304,919)	183	
Amortization of unearned compensation	252	-	-	-	252	-	-	
Stock-based compensation	62	-	62	-	-	-	-	
Exercise of stock options	30,348	12	30,336	-	-	-	-	
Issuance of common stock in connection with Employee Stock Purchase Plan	4,518	1	4,517	-	-	-	-	
Tax benefit from stock option and restricted stock transactions	19,625	-	19,625	-	-	-	-	
Purchase of treasury shares	(86,010)	-	-	-	-	(86,010)	-	
Cash dividends	(30,027)	-	-	(30,027)	-	-	-	
Net income	241,445	-	-	241,445	-	-	-	\$ 241,445
Net unrealized losses on marketable securities	(237)	-	-	-	-	-	(237)	(237)
Foreign currency translation adjustment	257	-	-	-	-	-	257	257
Comprehensive income								<u>\$ 241,465</u>
<b>Balance at December 31, 2004</b>	1,241,417	922	462,953	1,168,285	(17)	(390,929)	203	
Amortization of unearned compensation	79	-	-	-	79	-	-	
Stock-based compensation	3,794	-	4,256	-	(462)	-	-	
Exercise of stock options	23,158	11	23,147	-	-	-	-	
Issuance of common stock in connection with Employee Stock Purchase Plan	6,525	1	6,524	-	-	-	-	
Tax benefit from stock option and restricted stock transactions	10,952	-	10,952	-	-	-	-	
Purchase of treasury shares	(258,298)	-	-	-	-	(258,298)	-	
Cash dividends	(35,114)	-	-	(35,114)	-	-	-	
Net income	272,092	-	-	272,092	-	-	-	\$ 272,092
Net unrealized losses on marketable securities, net of tax	(155)	-	-	-	-	-	(155)	(155)
Foreign currency translation adjustment	115	-	-	-	-	-	115	115
Comprehensive income								<u>\$ 272,052</u>
<b>Balance at December 31, 2005</b>	\$ 1,264,565	\$ 934	\$ 507,832	\$ 1,405,263	\$ (400)	\$ (649,227)	\$ 163	

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

**CDW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Years Ended December 31,		
	2005	2004	2003
<b>Cash flows from operating activities:</b>			
Net income	\$ 272,092	\$ 241,445	\$ 175,186
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,493	16,998	15,135
Accretion of marketable securities	(53)	392	1,031
Stock-based compensation expense	3,873	314	568
Allowance for doubtful accounts	(326)	(167)	(789)
Deferred income taxes	1,059	2,217	1,773
Tax benefit from stock option and restricted stock transactions	10,952	19,625	36,479
Minority interest	-	446	-
Gain on sale of investment in CDW Leasing, LLC	-	(287)	-
Changes in assets and liabilities, net of assets acquired:			
Accounts receivable	(56,884)	(135,868)	(105,723)
Miscellaneous receivables and other assets	(5,383)	1,208	(12,180)
Merchandise inventory	(30,342)	(29,332)	(17,025)
Prepaid expenses	(1,373)	(2,907)	218
Accounts payable	60,903	55,899	8,371
Accrued compensation	1,407	1,932	5,476
Accrued income taxes and other expenses	18,166	9,481	15,152
Long-term liabilities	8,076	2,810	1,746
Net cash provided by operating activities	<u>303,660</u>	<u>184,206</u>	<u>125,418</u>
<b>Cash flows from investing activities:</b>			
Purchases of available-for-sale securities	(392,058)	(528,820)	(337,044)
Redemptions and sales of available-for-sale securities	382,099	453,307	331,074
Purchases of held-to-maturity securities	(30,000)	(110,000)	(269,900)
Redemptions of held-to-maturity securities	85,000	70,000	282,375
Purchase of property and equipment	(49,062)	(22,113)	(11,380)
Investment in and advances to joint venture	-	-	(118)
Repayment of advances from joint venture	-	-	3,500
Purchase of selected U.S. assets of Micro Warehouse	-	-	(20,000)
Purchase of Canadian operations of Micro Warehouse	-	-	(2,744)
Consolidation of joint venture	-	-	2,254
Sale of investment in CDW Leasing, LLC, net of cash sold	-	(2,321)	-
Net cash used in investing activities	<u>(4,021)</u>	<u>(139,947)</u>	<u>(21,983)</u>
<b>Cash flows from financing activities:</b>			
Purchase of treasury shares	(258,298)	(86,010)	(76,324)
Proceeds from exercise of stock options	23,158	30,348	22,879
Issuance of common stock in connection with Employee Stock Purchase Plan	6,525	4,518	3,013
Dividends paid	(35,114)	(30,027)	(24,867)
Change in book overdrafts	16,421	(36,966)	36,966
Net cash used in financing activities	<u>(247,308)</u>	<u>(118,137)</u>	<u>(38,333)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>115</u>	<u>257</u>	<u>183</u>
<b>Net increase/(decrease) in cash</b>	52,446	(73,621)	65,285
<b>Cash and cash equivalents – beginning of period</b>	<u>148,804</u>	<u>222,425</u>	<u>157,140</u>
<b>Cash and cash equivalents – end of period</b>	<u>\$ 201,250</u>	<u>\$ 148,804</u>	<u>\$ 222,425</u>
<b>Supplementary disclosure of cash flow information:</b>			
Taxes paid	\$ 155,871	\$ 134,769	\$ 80,614

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

**CDW CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Description of Business

CDW Corporation (collectively with its subsidiaries, “CDW” or the “Company”) is a leading direct marketer of multi-brand information technology products and services in the United States. Our primary business is conducted from a combined corporate office and distribution center located in Vernon Hills, Illinois, sales offices in Illinois, Virginia, Connecticut, New Jersey, and Toronto, Canada, and a distribution center in North Las Vegas, Nevada. Additionally, we market and sell products through [CDW.com](http://CDW.com), [CDWG.com](http://CDWG.com), [macwarehouse.com](http://macwarehouse.com) and [CDW.ca](http://CDW.ca), our Web sites.

2. Summary of Significant Accounting Policies

Presented here is a summary of the most significant accounting policies used in the preparation of our consolidated financial statements. Our most significant accounting policies relate to the sale, purchase, distribution and promotion of our products. Therefore, our accounting policies in the areas of revenue recognition, inventory valuation, vendor purchase and merchandising arrangements and marketing activities, among others, are discussed.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CDW Corporation and our wholly-owned subsidiaries. All intercompany transactions and accounts are eliminated in consolidation. As described in Note 13, one of our wholly-owned subsidiaries, CDW Capital Corporation (“CDWCC”), owned a 50 percent interest in CDW Leasing, LLC (“CDW-L”) until CDWCC sold its interest in CDW-L effective August 1, 2004. In accordance with Financial Accounting Standards Board (“FASB”) Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities, an interpretation of ARB 51,” we consolidated CDW-L, beginning on December 31, 2003, until our interest was sold.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 revenues 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. Significant estimates in these financial statements include allowances for doubtful accounts receivable, sales returns and pricing disputes, net realizable value of inventories, vendor transactions, loss contingencies and intangible assets. Actual results could differ from those estimates.

*Allowance for doubtful accounts receivable.* We provide allowances for doubtful accounts related to accounts receivable for estimated losses resulting from the inability of our customers to make required payments. We take into consideration the overall quality and aging of the receivable portfolio along with specifically identified customer risks. If actual customer payment performance were to deteriorate to an extent not expected, additional allowances may be required.

*Sales returns and pricing disputes.* At the time of sale, we record an estimate for sales returns and pricing disputes based on historical experience. If actual sales returns and pricing disputes are greater than estimated by management, additional expense may be incurred.

*Inventory valuation.* Inventory is valued at the lower of cost or market value. 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 transactions.* We receive incentives from 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 net advertising expense, as appropriate. Vendors may change the terms of some or all of these programs which could have an impact on our results of operations.

*Loss contingencies.* We accrue for contingent obligations when a loss is probable and the amount can be reasonably estimated. As facts concerning contingencies become known, we reassess our position and make appropriate adjustments to the financial statements.

*Intangible assets.* We have purchased intangible assets, such as customer lists, which have finite lives. These intangible assets are amortized over the estimated economic lives, generally seven years.

#### Reclassifications

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

#### Earnings Per Share

We calculate earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). Accordingly, we have disclosed earnings per share calculated using both the basic and diluted methods for all periods presented. A reconciliation of basic and diluted per share computations is included in Note 11.

#### Cash and Cash Equivalents

Cash and cash equivalents include all deposits in banks and short-term, 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.

#### Marketable Securities

We classify securities with a stated maturity, which we intend to hold to maturity, as "held-to-maturity," and record such securities at amortized cost. Securities which do not have stated maturities or which we do not intend to hold to maturity are classified as "available-for-sale" and recorded at fair value, with unrealized holding gains or losses recorded as a separate component of Shareholders' Equity. We do not invest in trading securities. All securities are accounted for on a specific identification basis.

Our marketable securities are concentrated in securities of the U.S. Government, U.S. Government agencies and municipal bonds. Such investments are supported by the financial stability and credit standing of the U.S. Government or applicable U.S. Government agency or municipality.

### Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. As previously discussed in this footnote, the allowance for doubtful accounts is our best estimate of losses resulting from the inability of our customers to make required payments.

### Merchandise Inventory

Inventory is valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

### Property and Equipment

Property and equipment are stated at cost. We calculate depreciation using the straight-line method over the 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:

<u>Classification</u>	<u>Estimated Useful Lives</u>
Machinery and equipment	5 to 15 years
Building and leasehold improvements	5 to 25 years
Computer and data processing equipment	2 to 5 years
Computer software	3 to 5 years
Furniture and fixtures	5 years

### Revenue Recognition

We record revenues from sales transactions when both risk of loss and title to products sold pass to the customer. Our shipping terms dictate that the passage of title occurs upon receipt of products by the customer. The majority of our revenues relate to physical products and are recognized on a gross basis with the selling price to the customer recorded as net sales and the acquisition cost of the product recorded as cost of sales. At the time of sale, we also record an estimate for sales returns based on historical experience. Software assurance products, third party services and extended warranties that we sell (for which we are not the primary obligor) are recognized on a net basis in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" and Emerging Issues Task Force 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." Accordingly, such revenues are recognized in net sales either at the time of sale or over the contract period, based on the nature of the contract, at the net amount retained by us, with no cost of sales. In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," we record freight billed to our customers as net sales and the related freight costs as a cost of sales. Vendor rebates are recorded when earned as a reduction of cost of sales. Price protection is recorded when earned as a reduction to cost of sales or merchandise inventory, as applicable.

### Advertising

Advertising costs are charged to expense in the period incurred. Cooperative reimbursements from vendors are recorded in the period the related advertising expenditure is incurred.

Net advertising expense was \$114.5 million, \$90.8 million and \$64.1 million in 2005, 2004 and 2003, respectively. Net advertising expense has increased, as vendor consideration which would have previously been classified as cooperative reimbursements, is classified as a reduction of cost of sales due to the adoption of Emerging Issues Task Force Issue No. 02-16, "Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor's Products)" ("EITF 02-16") on January 1, 2003. In 2005,

100% of cooperative advertising reimbursements were classified as a reduction of cost of sales rather than a reduction of advertising expense.

### Stock-Based Compensation

At December 31, 2005, we had several stock-based employee compensation plans, which are described more fully in Note 10. We have adopted the disclosure provision of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). As allowed by SFAS 123, we account for our stock-based compensation programs according to the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Accordingly, compensation expense is recognized to the extent of employee or director services rendered based on the intrinsic value of compensatory options or shares granted under the plans.

In preparation for the adoption of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R") on January 1, 2006, the Company changed its option valuation model from the Black-Scholes model to a binomial model effective for options granted after April 1, 2005. The binomial model considers additional variables and assumptions when calculating the fair value of options as compared to the Black-Scholes model. We have also evaluated the variables used in the option valuation models and, as a result, we have refined the manner in which several were calculated. The most significant of the changes was in the calculation of expected stock price volatility, which was based solely on historic stock price volatility, and was changed to include a combination of the historic volatility over the most recent period equal to the expected option life, the long-term mean reversion, and 180 day average implied volatility.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation for the years ended December 31, 2005, 2004 and 2003 (in thousands, except per share amounts):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income, as reported	\$ 272,092	\$ 241,445	\$ 175,186
Add stock-based employee compensation expense included in reported net income, net of related tax effects	2,434	190	344
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(29,614)</u>	<u>(26,795)</u>	<u>(24,709)</u>
Pro forma net income	<u>\$ 244,912</u>	<u>\$ 214,840</u>	<u>\$ 150,821</u>
Basic earnings per share, as reported	\$ 3.35	\$ 2.90	\$ 2.10
Diluted earnings per share, as reported	\$ 3.26	\$ 2.79	\$ 2.03
Pro forma basic earnings per share	\$ 3.02	\$ 2.58	\$ 1.81
Pro forma diluted earnings per share	\$ 2.91	\$ 2.47	\$ 1.75

The effects of applying SFAS 123 in the above pro forma disclosure are likely not representative of the level of expense that will be recognized in future periods under SFAS 123R due to the changes in the stock-based compensation plans that were made in 2005 (as described in Note 3), the potential for future changes to these

plans, the adoption of a binomial option valuation model, changes in how certain variables used in the model are determined, which may be subject to additional refinements in the future, and the fact that the variables, such as the stock price and stock price volatility, can vary from year-to-year, which will impact the option valuation.

#### Fair Value of Financial Instruments

We estimate that the fair market value of all of our financial instruments at December 31, 2005 and 2004 are not materially different from the aggregate carrying value due to the short-term nature of these instruments or the nature of the underlying securities.

#### Treasury Shares

We intend to hold repurchased shares in treasury for general corporate purposes, including issuances under various stock plans. We account for the treasury shares using the cost method.

#### Foreign Currency Translation

Our functional currency is the U.S. dollar. The functional currency of our 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 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, which is reflected as a separate component of shareholders' equity.

### 3. Recently Issued or Newly Adopted Accounting Standards

#### Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R")

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123R, which requires the Company to measure all share-based payments to coworkers under our stock-based compensation plans using a fair-value-based method and record compensation expense related to these payments in our consolidated financial statements. SFAS 123R is effective for the first annual period beginning after June 15, 2005; therefore, we are required to adopt SFAS 123R for the year beginning January 1, 2006. The pro forma disclosures previously required under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" will no longer be an alternative to financial statement recognition. We intend to use the modified prospective application transition method upon adopting SFAS 123R, which allows for prospective recognition of compensation expense without restatement of prior periods in the year of adoption.

As discussed in Note 2 to the Consolidated Financial Statements, we have accounted for our stock-based compensation programs according to the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Accordingly, compensation expense is recognized to the extent of employee or director services rendered based on the intrinsic value of compensatory options or shares granted under the plans.

Historically, stock options have been granted annually to all CDW coworkers as part of the Company's overall compensation plan. As announced on April 29, 2005, after studying the potential impact of SFAS 123R and taking into consideration the results of coworker surveys and focus groups, the Compensation and Stock Option Committee (the "Committee") of the Company's Board of Directors approved certain modifications to the Company's compensation structure. As modified, the Company's compensation structure for coworkers includes the following features:

- CDW officers, directors and managers will participate in the Company's employee stock option plan on an annual basis. Except as noted below, these grants will be determined in a manner consistent with how prior grants have been determined.
- Coworkers below manager level will no longer be granted options on an annual basis. There may be minor, discrete grants made to specific coworkers below manager level in recognition of outstanding performance or significant contribution to the Company.
- All coworkers will be eligible for an additional discretionary profit-sharing contribution from the Company to the CDW Corporation Employees' Profit Sharing Plan (the "Plan"). The amount of the discretionary contribution, if any, will be determined annually by the Committee. The Committee approved a \$1,000 profit sharing contribution with respect to each coworker who was eligible to participate in the Plan and was employed on December 31, 2005. The cost of this 2005 contribution was approximately \$4 million (pre-tax) and was recognized equally over the months of April through December 2005. In 2005, CDW officers, directors and managers have, as an offset to the increased contribution, received slightly fewer options than they otherwise would have received.
- All unvested options granted prior to January 1, 2005 held by coworkers at the manager level and below who were employed on December 31, 2005 became fully vested effective December 31, 2005. In connection with the acceleration of vesting, the Company recorded a charge of \$3.7 million (pre-tax) in the fourth quarter of 2005.

The acceleration of vesting was undertaken primarily so that compensation expense for the accelerated options will not be recognized in the Company's income statement in future periods upon adoption of SFAS 123R. It is estimated that the compensation expense for stock options will be approximately \$16 to \$17 million (pre-tax) in 2006. This estimate is based on an assumption regarding the number of stock options that would be forfeited and an assumption of the number of options that would be granted in 2006 and the valuation of such stock options at the time of grant. The estimated stock-based compensation expense for 2006 does not include the expense for any additional discretionary profit-sharing contribution the Company may make to the Plan for 2006 similar to the contribution to be made for 2005, as described above.

In addition, after studying the potential impact of SFAS 123R, certain modifications to the Company's Employee Stock Purchase Plan ("ESPP") were approved. The ESPP provided that eligible coworkers may contribute up to 15% of their eligible compensation towards the quarterly purchase of our common stock. Historically, the coworkers' purchase price was 85% of the lesser of the fair market value of the stock on the first business day or the last business day of the quarterly offering period. Effective January 1, 2006, the coworkers' purchase price will be 95% of the fair market value of the stock on the last business day of the quarterly offering period.

FASB Staff Position Nos. 115-1 and 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP 115-1 and 124-1")

FSP 115-1 and 124-1 addresses the determination as to when an investment is considered impaired, whether the impairment is "other-than-temporary", and the measurement of an impairment loss. The investment is impaired if the fair value is less than cost. The impairment is "other-than-temporary" for equity securities and debt securities that can contractually be prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost. If "other-than-temporary", an impairment loss shall be recognized in earnings equal to the difference between the investment's cost and its fair value. The guidance in FSP 115-1 and 124-1 is effective in reporting periods beginning after December 15, 2005. We are reviewing FSP 115-1 and 124-1 but do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations” (“FIN 47”)

In March 2005, the FASB issued FIN 47. FIN 47 clarifies that the term “conditional asset retirement obligation” as used in FASB Statement No. 143, “Accounting for Asset Retirement Obligations” refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. We adopted FIN 47 during the fourth quarter of 2005 and it did not have a material impact on our consolidated financial statements.

Emerging Issues Task Force Issue No. 02-16, “Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor’s Products)” (“EITF 02-16”)

EITF 02-16 became effective for the Company on January 1, 2003. EITF 02-16 requires that consideration received from vendors, such as advertising support funds, be accounted for as a reduction to cost of sales when recognized in the reseller’s income statement unless certain conditions are met showing that the funds are used for a specific program entirely funded by an individual vendor. If these specific requirements related to individual vendors are met, the consideration is accounted for as a reduction in the related expense category, such as advertising or selling and administrative expense. EITF 02-16 applies to all agreements modified or entered into on or after January 1, 2003. Adopting EITF 02-16 had no impact on our income from operations, as the vendor consideration recorded as a reduction of cost of sales would previously have been recorded as a reduction of advertising expense and selling and administrative expense.

4. Marketable Securities

Estimated fair values of marketable securities are based on quoted market prices.

The following table summarizes our investments in marketable securities at December 31, 2005 and 2004 (in thousands):

Security Type	Estimated Fair Value	Gross Unrealized Holding		Amortized Cost
		Gains	Losses	
<b>December 31, 2005</b>				
Available-for-sale:				
State and municipal bonds	\$ 232,804	\$ -	\$ (111)	\$ 232,915
Corporate fixed income securities	3,900	-	(14)	3,914
U.S. Government and Government agency securities	72,972	-	(508)	73,480
Total available-for-sale	<u>309,676</u>	<u>-</u>	<u>(633)</u>	<u>310,309</u>
Held-to-maturity:				
U.S. Government and Government agency securities	99,291	-	(709)	100,000
Total held-to-maturity	<u>99,291</u>	<u>-</u>	<u>(709)</u>	<u>100,000</u>
Total marketable securities	<u>\$ 408,967</u>	<u>\$ -</u>	<u>\$ (1,342)</u>	<u>\$ 410,309</u>
<b>December 31, 2004</b>				
Available-for-sale:				
Municipal bonds	\$ 165,688	\$ -	\$ (237)	\$ 165,925
Corporate fixed income securities	50,652	-	-	50,652
U.S. Government and Government agency securities	83,479	-	-	83,479
Total available-for-sale	<u>299,819</u>	<u>-</u>	<u>(237)</u>	<u>300,056</u>
Held-to-maturity:				
U.S. Government and Government agency securities	153,963	-	(1,037)	155,000
Total held-to-maturity	<u>153,963</u>	<u>-</u>	<u>(1,037)</u>	<u>155,000</u>
Total marketable securities	<u>\$ 453,782</u>	<u>\$ -</u>	<u>\$ (1,274)</u>	<u>\$ 455,056</u>

The following table presents the gross unrealized losses and fair values of our investments in marketable securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2005 and 2004 (in thousands):

Security Type	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2005</b>						
State and municipal bonds	\$ 9,931	\$ (69)	\$ 14,958	\$ (42)	\$ 24,889	\$ (111)
Corporate fixed income securities	-	-	3,900	(14)	3,900	(14)
U.S Government and Government agency securities	76,225	(555)	96,038	(662)	172,263	(1,217)
Total	<u>\$ 86,156</u>	<u>\$ (624)</u>	<u>\$ 114,896</u>	<u>\$ (718)</u>	<u>\$ 201,052</u>	<u>\$ (1,342)</u>
<b>December 31, 2004</b>						
State and municipal bonds	\$ 14,763	\$ (237)	\$ -	\$ -	\$ 14,763	\$ (237)
U.S Government and Government agency securities	153,963	(1,037)	-	-	153,963	(1,037)
Total	<u>\$ 168,726</u>	<u>\$ (1,274)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 168,726</u>	<u>\$ (1,274)</u>

Because the Company believes that unrealized losses on fixed income securities are primarily attributable to changes in interest rates, and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired as of December 31, 2005.

The net unrealized holding losses on available-for-sale securities are determined by specific identification and are included in accumulated other comprehensive income, which is reflected as a separate component of shareholders' equity. The gross realized losses on marketable securities that are included in other expense in the Consolidated Statements of Income are not material.

The following table summarizes the maturities of our fixed income securities as of December 31, 2005 and 2004 (in thousands):

	Estimated Fair Value	Amortized Cost
<b>December 31, 2005</b>		
Due in one year or less	\$ 370,003	\$ 370,990
Due in greater than one year	38,964	39,319
Total investments in marketable securities	<u>\$ 408,967</u>	<u>\$ 410,309</u>
<b>December 31, 2004</b>		
Due in one year or less	\$ 328,865	\$ 329,393
Due in greater than one year	124,917	125,663
Total investments in marketable securities	<u>\$ 453,782</u>	<u>\$ 455,056</u>

As of December 31, 2005 all of the marketable securities that are due after one year have maturity dates prior to September 15, 2007.

5. Property and Equipment

Property and equipment consists of the following (in thousands):

	December 31,	
	2005	2004
Land	\$ 10,367	\$ 10,367
Machinery and equipment	40,829	38,215
Building and leasehold improvements	34,970	33,519
Computer and data processing equipment	35,972	36,501
Computer software	29,651	22,658
Furniture and fixtures	9,843	10,411
Construction in progress	28,102	3,145
Total property and equipment	189,734	154,816
Less accumulated depreciation	92,457	86,221
Net property and equipment	<u>\$ 97,277</u>	<u>\$ 68,595</u>

We own approximately 45 acres of land at our Vernon Hills, Illinois headquarters site, of which approximately 11 acres are undeveloped.

During 2005, we recorded an adjustment to remove \$12.8 million of fully depreciated assets that were no longer in use from property and equipment and accumulated depreciation.

6. Financing Arrangements

We have an aggregate \$70.0 million available pursuant to two \$35.0 million unsecured lines of credit with two financial institutions. One line of credit was renewed in June 2005, and now expires in June 2006. The other line does not have a fixed expiration date. Borrowings under the first credit facility 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. The Company does not incur any facility fees associated with either line of credit. At December 31, 2005, there were no borrowings under either of the credit facilities.

7. Trade Financing Agreements

We have entered into security agreements with certain financial institutions in order to facilitate the purchase of inventory from various suppliers under certain terms and conditions. The agreements allow for a maximum credit line of \$80.0 million collateralized by inventory purchases financed by the financial institutions. We do not incur any interest expenses associated with these agreements, as we pay the balances when they are due. At December 31, 2005 and 2004, we owed the financial institutions approximately \$43.8 million and \$29.3 million, respectively, which is included in trade accounts payable.

8. Operating Leases

We are obligated under various operating lease agreements 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, 2005, 2004 and 2003, rent expense was \$11.4 million, \$13.8 million and \$11.3 million, respectively. Future minimum lease payments are as follows (in thousands):

<u>Years Ended December 31,</u>	<u>Amount</u>
2006	\$ 9,780
2007	11,967
2008	12,633
2009	12,924
2010	12,877
Thereafter	84,950
Total future minimum lease payments	<u>\$ 145,131</u>

## 9. Income Taxes

Pretax income from continuing operations for the years ended December 31, 2005, 2004 and 2003 was taxed under the following jurisdictions (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Domestic	\$ 432,923	\$ 400,585	\$ 289,641
Foreign	35	(725)	(77)
Total	<u>\$ 432,958</u>	<u>\$ 399,860</u>	<u>\$ 289,564</u>

Components of the provision for income taxes for the years ended December 31, 2005, 2004 and 2003 consist of (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current:			
Federal	\$ 143,805	\$ 128,527	\$ 91,361
State	15,762	27,671	21,244
Total current	159,567	156,198	112,605
Deferred	1,299	2,217	1,773
Provision for income taxes	<u>\$ 160,866</u>	<u>\$ 158,415</u>	<u>\$ 114,378</u>

The current income tax liabilities for 2005, 2004 and 2003 were reduced by \$11.0 million, \$19.6 million and \$36.5 million, respectively, for tax benefits recorded directly to paid-in capital relating to the exercise and vesting of shares pursuant to the CDW Stock Option Plan, the MPK Stock Option Plan and the MPK Restricted Stock Plan as described in Note 10.

The reconciliation between the statutory tax rate expressed as a percentage of income before income taxes and the actual effective tax rate for the years ended December 31, 2005, 2004 and 2003 is as follows (dollars in thousands):

	<u>2005</u>		<u>2004</u>		<u>2003</u>	
Statutory federal income tax rate	\$ 151,535	35.0 %	\$ 139,951	35.0 %	\$ 101,347	35.0 %
State taxes, net of federal benefit	9,066	2.1	18,268	4.6	13,921	4.8
Change in valuation allowance	(12)	0.0	290	0.0	31	0.0
Other	277	0.1	(94)	0.0	(921)	(0.3)
Effective tax rates	<u>\$ 160,866</u>	<u>37.2 %</u>	<u>\$ 158,415</u>	<u>39.6 %</u>	<u>\$ 114,378</u>	<u>39.5 %</u>

The tax effect of temporary differences that give rise to the net deferred income tax asset at December 31, 2005 and 2004 is presented below (in thousands):

	<u>2005</u>	<u>2004</u>
Assets:		
Payroll and benefits	\$ 5,523	\$ 7,184
Accounts receivable	4,769	4,142
Employee stock plans	2,484	3,118
Rent	1,491	1,454
Accrued expenses	1,192	1,531
Merchandise inventory	1,021	860
Loss carryforwards	291	321
Unrealized losses on marketable securities	240	-
Gross deferred assets	<u>17,011</u>	<u>18,610</u>
Liabilities:		
Property and equipment	3,380	4,019
Other	129	-
Gross deferred liabilities	<u>3,509</u>	<u>4,019</u>
Deferred tax asset valuation allowance	<u>291</u>	<u>321</u>
Net deferred tax asset	<u>\$ 13,211</u>	<u>\$ 14,270</u>

The portion of the net deferred tax asset relating to employee stock plans results primarily from the compensatory stock option grants under the CDW Stock Option Plans. Compensation expense related to these plans is deductible for income tax purposes in the year the options are exercised.

The portion of the net deferred tax asset relating to unrealized losses on marketable securities was recorded as a partial offset to the loss recorded in other comprehensive income.

The net operating loss in Canada of \$0.8 million may be carried forward to 2010 - 2011.

#### 10. Stock-Based Compensation

##### CDW Stock Option Plans

We have established certain stock-based compensation plans for the benefit of our directors and coworkers. Pursuant to these plans, as of December 31, 2005, we have reserved a total of 5,095,130 common shares for future stock option grants. The plans generally include vesting requirements from one to 10 years and option lives of up to 10 years. Options may be granted at exercise prices ranging from \$0.01 to the market price of the common stock at the date of grant.

Option activity for the years ended December 31, 2003, 2004 and 2005 was as follows:

	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Options Exercisable</u>
Balance at January 1, 2003	<u>11,379,709</u>	<u>\$ 27.79</u>	<u>1,803,103</u>
Options granted	1,282,434	43.49	-
Options exercised	(1,228,854)	21.07	-
Options forfeited/cancelled	<u>(505,140)</u>	<u>29.09</u>	<u>-</u>
Balance at December 31, 2003	<u>10,928,149</u>	<u>30.33</u>	<u>2,462,206</u>
Options granted	1,386,765	66.64	-
Options exercised	(1,304,965)	27.17	-
Options forfeited/cancelled	<u>(288,413)</u>	<u>38.18</u>	<u>-</u>
Balance at December 31, 2004	<u>10,721,536</u>	<u>35.19</u>	<u>3,228,679</u>
Options granted	981,587	54.21	-
Options exercised	(1,243,563)	23.98	-
Options forfeited/cancelled	<u>(260,060)</u>	<u>40.26</u>	<u>-</u>
Balance at December 31, 2005	<u><u>10,199,500</u></u>	<u><u>\$ 38.26</u></u>	<u><u>6,840,437</u></u>

For the years ended December 31, 2005, 2004 and 2003, the weighted-average fair value of options granted was as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Exercise price equals market price at time of grant	\$ 18.79	\$ 34.85	\$ 23.74
Exercise price is less than market price at time of grant (1)	\$ 13.78	\$ 15.38	\$ 11.75

(1) Relates to the Employee Stock Purchase Plan, whereby eligible coworkers may purchase our common stock at less than market prices. The Employee Stock Purchase Plan is discussed in more detail later in this note.

The following table summarizes the status of outstanding stock options as of December 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Exercise Price
\$ 0.00 - 0.01	49,051	16.0	\$ 0.01	-	\$ -
\$ 5.68 - 6.75	24,941	9.8	\$ 6.51	24,941	\$ 6.51
\$ 12.06 - 14.83	1,315,624	11.5	\$ 13.64	1,135,341	\$ 13.66
\$ 22.12 - 33.13	2,383,136	13.2	\$ 25.05	1,530,833	\$ 25.15
\$ 33.37 - 49.74	3,600,539	8.0	\$ 39.23	2,796,127	\$ 39.00
\$ 50.54 - 68.00	2,826,209	8.1	\$ 60.58	1,353,195	\$ 62.52
<u>\$ 0.01 - 68.00</u>	<u>10,199,500</u>	<u>9.8</u>	<u>\$ 38.26</u>	<u>6,840,437</u>	<u>\$ 36.23</u>

Had we elected to apply the provisions of SFAS 123 regarding recognition of compensation expense to the extent of the calculated fair value of stock options, reported net income and earnings per share would have been reduced as follows (in thousands, except per share amounts):

	2005	2004	2003
Net income, as reported	\$ 272,092	\$ 241,445	\$ 175,186
Add stock-based employee compensation expense included in reported net income, net of related tax effects	2,434	190	344
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(29,614)</u>	<u>(26,795)</u>	<u>(24,709)</u>
Pro forma net income	<u>\$ 244,912</u>	<u>\$ 214,840</u>	<u>\$ 150,821</u>
Basic earnings per share, as reported	\$ 3.35	\$ 2.90	\$ 2.10
Diluted earnings per share, as reported	\$ 3.26	\$ 2.79	\$ 2.03
Pro forma basic earnings per share	\$ 3.02	\$ 2.58	\$ 1.81
Pro forma diluted earnings per share	\$ 2.91	\$ 2.47	\$ 1.75

The effects of applying SFAS 123 in the above pro forma disclosure are likely not representative of the level of expense that will be recognized in future periods under SFAS 123R due to the changes in the stock-based compensation plans that were made in 2005 (as described in Note 3), the potential for future changes to these

plans, the adoption of a binomial option valuation model, changes in how certain variables used in the model are determined, which may be subject to additional refinements in the future, and the fact that the variables, such as the stock price and stock price volatility, can vary from year-to-year, which will impact the option valuation.

In preparation for the adoption of SFAS 123R on January 1, 2006, the Company changed its option valuation model from the Black-Scholes model to a binomial model effective for options granted after April 1, 2005. The binomial model considers additional variables and assumptions when calculating the fair value of options as compared to the Black-Scholes model. We have also evaluated the variables used in the option valuation models and, as a result, we have refined the manner in which several were calculated. The most significant of the changes was in the calculation of expected stock price volatility, which was based solely on historic stock price volatility, and was changed to include a combination of the historic volatility over the most recent period equal to the expected option life, the long-term mean reversion, and 180 day average implied volatility.

The weighted-average assumptions used in determining fair value as disclosed for SFAS 123 are shown in the following table:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Risk-free interest rate	4.0 %	3.2 %	3.0 %
Dividend yield	0.7 %	0.6 %	0.0 %
Option life (years)	4.5	5.0	5.0
Stock price volatility	39.62 %	58.80 %	59.00 %

#### MPK Stock Option Plan

Effective December 31, 1992, the Company's then majority shareholder established the MPK Stock Option Plan pursuant to which he granted non-forfeitable options to certain officers to purchase 16,573,500 shares of common stock owned by him at an exercise price of \$.004175 per share. Options were exercised as follows:

<u>Transaction Year</u>	<u>Number of Options Exercised</u>
1994	1,844,892
1995	1,353,258
1997	545,746
1998	659,752
1999	1,743,992
2000	4,180,888
2001	2,751,732
2002	2,384,376
2003	1,108,864
Total	<u>16,573,500</u>

All options granted under the MPK Stock Option Plan were fully exercised as of December 31, 2003.

#### MPK Restricted Stock Plan

Effective upon the closing of our initial public offering in 1993, the then majority shareholder established the MPK Restricted Stock Plan. Pursuant to this plan, the majority shareholder allocated 2,674,416 shares of his common stock to be held in escrow for the benefit of those persons employed by the Company as of December 31, 1992. The number of shares allocated to each employee was dependent upon the employee's years of service and salary history. As a result of these grants, which provided for vesting based upon continuous employment with the Company or our subsidiaries through January 1, 2000, we recorded a capital contribution and offsetting deferred charge of approximately \$2.8 million for unearned compensation equal to the number of shares granted, times \$1.0425 per share.

We filed a Registration Statement on Form S-3, which was effective on February 7, 1997, to modify the terms of the MPK Restricted Stock Plan and provide participants the option to accelerate the vesting on 25% of their shares in exchange for the extension of the vesting period on their remaining shares through January 1, 2003. Under the terms of this modification, participants who elected the acceleration were granted options by us equal to the number of shares which became vested with an exercise price of \$14.75 per share, the market price of the stock on the acceleration date.

As of December 31, 2003, all of these shares were vested under the modified terms.

#### Tax Benefits

The exercise and vesting of shares pursuant to all stock-based compensation plans, including the MPK Stock Option Plan, MPK Restricted Stock Plan and the CDW Incentive Stock Option Plan, resulted in the realization by the Company of tax benefits of \$12.6 million in 2005, \$20.7 million in 2004, and \$37.2 million in 2003, of which \$1.6 million, \$1.1 million, and \$0.7 million, respectively, were previously recorded in deferred taxes. The incremental tax benefits of \$11.0 million in 2005, \$19.6 million in 2004, and \$36.5 million in 2003 were recorded to paid-in capital.

#### Restricted Stock

On January 28, 2001, we granted a restricted stock award of 100,000 shares of common stock to our Chairman and Chief Executive Officer that will vest in equal annual installments on the first four anniversaries of the date of grant. Compensation expense related to this restricted stock award is recognized over the vesting period. As of December 31, 2005, all of these shares have vested.

On November 10, 2004, we granted a restricted stock award of 1,000 shares of common stock to Stephan A. James in connection with his appointment to the Board of Directors under the 2004 Non-Employee Director Equity Compensation Plan. The fair market value of these shares as of the grant date was \$62.43 per share.

On July 7, 2005, we granted a restricted stock award of 1,000 shares of common stock to Thomas J. Hansen in connection with his appointment to the Board of Directors under the 2004 Non-Employee Director Equity Compensation Plan. The fair market value of these shares as of the grant date was \$56.85 per share.

On October 20, 2005, we granted a restricted stock award of 8,400 shares of common stock to Dennis G. Berger in connection with his employment with the Company. The fair market value of these shares as of the grant date was \$55.05 per share.

#### Employee Stock Purchase Plan

On October 1, 2002, we established an Employee Stock Purchase Plan ("ESPP") which provides that eligible coworkers may contribute up to 15% of their eligible compensation towards the quarterly purchase of our common stock. Historically, the coworkers' purchase price was 85% of the lesser of the fair market value of the stock on the first business day or the last business day of the quarterly offering period. Effective January 1, 2006, the coworkers' purchase price will be 95% of the fair market value of the stock on the last business day of the quarterly offering period. Coworkers may purchase shares having a fair market value of up to \$25,000 (measured on the first day of the quarterly offering period for each calendar year) or 325 shares per quarter. No compensation expense is recorded in connection with the plan. The total number of shares issuable under the ESPP is 500,000. Under the ESPP, we issued 137,887 shares, 100,435 shares, and 78,318 shares to coworkers in 2005, 2004, and 2003, respectively.

## 11. Earnings Per Share

At December 31, 2005, we had 79,963,651 outstanding common shares. We have granted options to purchase common shares to the directors and coworkers of the Company as discussed in Note 10. These options have a dilutive effect on the calculation of earnings per share. The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations as required by SFAS 128 (in thousands, except per share amounts):

	Years Ended December 31,		
	2005	2004	2003
Basic earnings per share:			
Income available to common shareholders (numerator)	\$ 272,092	\$ 241,445	\$ 175,186
Weighted-average common shares outstanding (denominator)	81,128	83,391	83,329
Basic earnings per share	\$ 3.35	\$ 2.90	\$ 2.10
Diluted earnings per share:			
Income available to common shareholders (numerator)	\$ 272,092	\$ 241,445	\$ 175,186
Weighted-average common shares outstanding	81,128	83,391	83,329
Effect of dilutive securities:			
Options on common stock	2,438	3,161	2,846
Total common shares and dilutive securities (denominator)	83,566	86,552	86,175
Diluted earnings per share	\$ 3.26	\$ 2.79	\$ 2.03

Additional options to purchase common shares were outstanding during the years ended December 31, 2005 and 2004 but were not included in the computation of diluted earnings per share because the exercise prices of these options were greater than the average market price of common shares during the respective periods. The following table summarizes the weighted-average number, and the weighted-average exercise price, of those options which were excluded from the calculation:

	Years Ended December 31,	
	2005	2004
Weighted-average number of options (in 000's)	1,226	1,091
Weighted-average exercise price	\$ 67.64	\$ 68.00

## 12. Profit Sharing and 401(k) Plan

We have a profit sharing plan that includes a salary reduction feature established under the Internal Revenue Code Section 401(k) covering substantially all employees. Company contributions to the profit sharing plan are made in cash and determined at the discretion of the Board of Directors. As discussed in Note 3, an additional contribution for 2005 will be made to the 401(k) plan in conjunction with a modification to the Company's stock option program. For the years ended December 31, 2005, 2004 and 2003, amounts charged to expense for this plan totaled \$10.9 million, \$5.5 million, and \$3.1 million, respectively.

## 13. Leasing Joint Venture

CDW-L was a joint venture that was 50 percent owned by each of CDWCC, a wholly-owned subsidiary of the Company, and First Portland Corporation ("FIRSTCORP"), an unrelated third party leasing company. In a transaction that was effective August 1, 2004, CDWCC sold its 50 percent interest in CDW-L to

FIRSTCORP for \$2.7 million. The sale of \$2.4 million of net assets, including \$5.0 million in cash, resulted in a gain of \$0.3 million which is included in income from operations.

In accordance with FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an interpretation of ARB 51," we consolidated CDW-L on December 31, 2003. CDW-L's results of operations subsequent to December 31, 2003 and through the date of sale are included in our statement of income with a minority interest for FIRSTCORP's 50 percent interest in this joint venture reflected in other expense, net. CDW-L had a \$40 million financing commitment from a financial institution, of which \$1.5 million was outstanding at December 31, 2003. During the first quarter of 2004, the balance of \$1.5 million was repaid and the financing commitment was terminated.

#### 14. Contingencies

On September 9, 2003, CDW completed the purchase of certain assets of Bridgeport Holdings, Inc., Micro Warehouse, Inc., Micro Warehouse, Inc. of Ohio, and Micro Warehouse Gov/Ed, Inc. (collectively, "Micro Warehouse"). On September 10, 2003, Micro Warehouse filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (Case No. 03-12825). On January 20, 2004, the Official Committee of Unsecured Creditors (the "Committee") appointed in the Micro Warehouse bankruptcy proceedings filed a motion with the court seeking the production of certain documents for review and certain representatives of CDW for depositions. On February 12, 2004, the Bankruptcy Court entered an order approving a stipulation between the Committee and CDW whereby CDW consented to the Committee's production requests. Pursuant to the stipulation, CDW produced the requested documents and certain CDW representatives were deposed. In a subsequent filing with the Bankruptcy Court, the Committee stated its belief that the Micro Warehouse estate has a claim against CDW for a transfer of assets for less than reasonably equivalent value arising from the sale of such assets to CDW. The Bankruptcy Court confirmed a plan of distribution with respect to Micro Warehouse which became effective on October 14, 2004. In connection therewith, any such claim that the estate had against CDW was transferred to the Bridgeport Holdings, Inc. Liquidating Trust (the "Liquidating Trust"). On March 3, 2005, the Liquidating Trust filed a civil claim against CDW in the United States Bankruptcy Court for the District of Delaware. The Liquidating Trust alleges that CDW did not pay reasonably equivalent value for the assets it acquired from Micro Warehouse and seeks to have CDW's "purchase of Micro Warehouse" set aside and an amount of damages, to be determined at trial, paid to it. CDW believes that it paid reasonably equivalent value for the assets it acquired from Micro Warehouse and believes that the outcome of this claim will not have a material adverse effect on CDW's financial condition. It is not possible for CDW to estimate a range of any possible loss that could result from this litigation.

From time to time, customers of CDW file voluntary petitions for reorganization under the United States bankruptcy laws. In such cases, certain pre-petition payments received by CDW could be considered preference items and subject to return to the bankruptcy administrator. CDW believes that the final resolution of these preference items will not have a material adverse effect on its financial condition.

In addition, CDW is party to legal proceedings that arise from time to time, both with respect to specific transactions, such as the purchase of certain assets from Micro Warehouse described above, and in the ordinary course of our business. We do not believe that any currently pending or threatened litigation will have a material adverse effect on our financial condition. Litigation, however, involves uncertainties and it is possible that the eventual outcome of litigation could adversely affect our results of operations for a particular period.

#### 15. Segment Information

We have two operating segments: corporate sector, which is primarily comprised of business customers, but also includes consumers, and public sector, which is comprised of federal, state and local government entities, educational institutions and healthcare customers. In accordance with Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information," the

internal organization that is used by management for making operating decisions and assessing performance is the source of our reportable segments.

In the first quarter of 2005, we revised the operating segments which reflect the basis for making operating decisions and assessing performance. Under the revised structure, centralized logistics and headquarters functions that were formerly provided by the corporate sector segment to the public sector segment were separated from the corporate sector segment. The logistics functions include purchasing, distribution, and fulfillment services to support both the corporate and public sector segments, and costs and intercompany charges associated with the logistics function are fully allocated to both of the operating segments based on a percent of sales. The centralized headquarters functions provide services in areas such as accounting, information technology, marketing, legal, and coworker services. Certain of the headquarters function costs that are not allocated to the operating segments are included under the heading of “Headquarters/Other” in the tables below.

In July 2005, the Company announced the creation of a dedicated healthcare sales team. In creating this team, we consolidated healthcare accounts from across our entire sales organization and transferred these accounts to the new team in the public sector group. This new team focuses on IT solutions addressing the unique needs of a range of customers within the healthcare field. For financial reporting purposes, results of operations and assets related to healthcare customers are reported as part of the public sector segment.

The accounting policies of the segments are the same as those described in Note 2, “Summary of Significant Accounting Policies.” We allocate resources to and evaluate performance of our segments based on both sales and operating income.

We have restated the prior year segment information to conform to our revised segment reporting structure. The following tables present information about our reportable segments (in thousands):

	Year Ended December 31, 2005			Consolidated
	Corporate Sector	Public Sector	Headquarters / Other	
Net sales	<u>\$ 4,410,708</u>	<u>\$ 1,881,137</u>	<u>\$ -</u>	<u>\$ 6,291,845</u>
Income (loss) from operations	<u>\$ 341,810</u>	<u>\$ 110,425</u>	<u>\$ (32,601)</u>	<u>\$ 419,634</u>
Net interest income and other expense				<u>13,324</u>
Income before income taxes				<u>\$ 432,958</u>
Total assets	<u>\$ 461,416</u>	<u>\$ 285,709</u>	<u>\$ 901,931</u>	<u>\$ 1,649,056</u>

	Year Ended December 31, 2004			
	Corporate Sector	Public Sector	Headquarters / Other	Consolidated
Net sales	\$ 4,105,090	\$ 1,632,684	\$ -	\$ 5,737,774
Income (loss) from operations	\$ 327,520	\$ 93,411	\$ (28,172)	\$ 392,759
Net interest income and other expense				7,101
Income before income taxes				\$ 399,860
Total assets	\$ 411,381	\$ 237,686	\$ 871,868	\$ 1,520,935

	Year Ended December 31, 2003			
	Corporate Sector	Public Sector	Headquarters / Other	Consolidated
Net sales	\$ 3,327,945	\$ 1,336,671	\$ -	\$ 4,664,616
Income (loss) from operations	\$ 265,208	\$ 61,865	\$ (42,615)	\$ 284,458
Net interest income and other expense				5,106
Income before income taxes				\$ 289,564
Total assets	\$ 353,281	\$ 205,148	\$ 753,203	\$ 1,311,632

Our assets are primarily managed by our headquarters functions, including all cash, cash equivalents, and marketable securities, inventory, and the majority of all property and equipment. As a result, capital expenditures and related depreciation are immaterial for the two operating segments. The operating segments' assets consist principally of accounts receivable.

No single customer accounted for more than 1% of net sales in fiscal years 2005, 2004 or 2003. During 2005, approximately 2% of our sales were to customers outside of the continental United States, primarily in Canada.

#### 16. Share Repurchase Programs

Since 1998, we have repurchased a total of 13,483,400 shares of our common stock at a total cost of \$649.2 million under various share repurchase programs authorized by our Board of Directors. Our current program authorizing the repurchase of 4,529,600 shares was approved by our Board of Directors in April 2005. Share repurchases may be made from time to time in both open market and private transactions, as conditions warrant. The current repurchase program is expected to remain in effect through April 2007, unless earlier terminated by the Board or completed. The following table presents share repurchases for the years ended December 31, 2005, 2004 and 2003 (dollars in thousands):

<u>Year</u>	<u>Shares</u>	<u>Amount</u>
2005	4,570,300	\$ 258,298
2004	1,352,300	\$ 86,010
2003	1,852,424	\$ 76,324

As of December 31, 2005, 2.2 million shares remained available for repurchase under our current program. Repurchased shares are held in treasury pending use for general corporate purposes, including issuances under various employee stock plans.

#### 17. Public Offering of Common Shares

In May 2003, Gregory C. Zeman, former director and vice chairman of the Company, and Daniel B. Kass, former director and executive vice president of the Company, sold a total of 1,108,864 shares of common stock. We did not receive any proceeds from the sale of shares and the number of outstanding common shares was not impacted. The shares sold by Mr. Zeman and Mr. Kass were acquired from Michael P. Krasny, the chairman emeritus, principal shareholder and a director of the Company through the exercise of options previously granted to them pursuant to the MPK Stock Option Plan. The exercise of options by Mr. Zeman and Mr. Kass resulted in the realization by the Company of an income tax benefit of approximately \$17.7 million in 2003, of which approximately \$0.3 million had been previously recorded to deferred taxes. We recorded the incremental tax benefit of \$17.4 million as an increase to paid-in capital. In addition, we recorded incremental payroll tax expense related to the option exercise of approximately \$0.7 million, which reduced diluted earnings per share in 2003 by less than \$0.01 per share.

#### 18. Micro Warehouse Transactions

During September 2003, we purchased selected U.S. assets and the Canadian operations of Micro Warehouse, a reseller of computers, software and peripheral products. The U.S. transaction, completed on September 9, 2003, was accounted for as a purchase of assets, with the \$20.0 million purchase price allocated to the assets purchased, including inventory, fixed assets and customer lists, based upon their fair values at the date of purchase. Subsequent to the completion of the U.S. transaction, sales made by former members of the Micro Warehouse U.S. sales force who joined CDW in conjunction with this transaction, along with the associated costs, are included in the accompanying consolidated financial statements. The Canadian transaction, completed on September 23, 2003, was accounted for as the purchase of a business and, accordingly, the results of operations of the acquired business subsequent to the date of purchase are included in the accompanying consolidated financial statements, and the assumed assets and liabilities were recorded based upon their fair values at the date of purchase. The Canadian operations were purchased for \$2.7 million.

During the year ended December 31, 2003, we recorded \$22.3 million (pre-tax) of transaction and integration expenses associated with these transactions. These expenses were primarily comprised of severance and outplacement costs, payroll expenses for former Micro Warehouse employees performing transition services, customer satisfaction expenses, customer communications and advertising expenses, legal and accounting advisory fees and a reserve established for the equipment in a Wilmington, Ohio distribution center leased by Micro Warehouse as discussed below. These expenses are included in cost of sales (\$0.3 million), selling and administrative expenses (\$20.2 million), net advertising expenses (\$1.5 million) and other expense (\$0.3 million) in the Consolidated Statements of Income in 2003.

During the year ended December 31, 2004, we recorded \$3.9 million (pre-tax) of transaction and integration expenses associated with these transactions. These expenses were primarily comprised of payroll expenses for former Micro Warehouse employees performing transition services, legal fees and an adjustment to the reserve established for the equipment in the Wilmington, Ohio distribution center leased by Micro Warehouse as discussed below. These expenses are included in selling and administrative expenses in the Consolidated Statements of Income in 2004.

In February 2004, we purchased the equipment in the Wilmington, Ohio distribution center leased by Micro Warehouse and forfeited leasing the facility in exchange for \$8.25 million. During 2003, we recorded a \$5.0 million reserve related to the purchased equipment in accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." At March 31, 2004, we increased this reserve by \$2.0 million due to a change in the scenarios used in estimating the Company's exposure. During the third quarter of 2004, substantially all of this equipment was liquidated at values in line with our expectations.

19. Selected Quarterly Financial Data (Unaudited)

The following information is for the years ended December 31, 2005 and 2004 (in thousands, except per share data):

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<b><u>December 31, 2005</u></b>				
Net sales	\$ 1,475,082	\$ 1,539,595	\$ 1,670,204	\$ 1,606,964
Gross profit	226,429	237,478	254,943	248,780
Income before income taxes	100,539	105,998	115,808	110,613
Net income	61,397	67,061	73,124	70,510
Earnings per share:				
Basic	\$ 0.74	\$ 0.82	\$ 0.91	\$ 0.88
Diluted	\$ 0.72	\$ 0.80	\$ 0.88	\$ 0.86
<b><u>December 31, 2004</u></b>				
Net sales	\$ 1,336,689	\$ 1,382,904	\$ 1,511,054	\$ 1,507,127
Gross profit	204,463	214,530	227,956	223,175
Income before income taxes	91,606	96,597	107,975	103,682
Net income	55,293	58,275	65,178	62,699
Earnings per share:				
Basic	\$ 0.66	\$ 0.70	\$ 0.78	\$ 0.75
Diluted	\$ 0.63	\$ 0.67	\$ 0.76	\$ 0.73

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company’s management carried out an evaluation, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2005. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2005, the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company (including its consolidated subsidiaries) in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

**Design and Evaluation of Internal Control Over Financial Reporting**

We have included Management’s Report on Internal Control Over Financial Reporting as part of this Annual Report on Form 10-K. This report, which is found on page 28 herein, contains management’s assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2005. The Company’s independent registered public accounting firm has audited management’s assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2005 and the effectiveness of our internal control over financial reporting as of December 31, 2005 as stated in its report which is included on page 29 herein.

**Changes in Internal Control Over Financial Reporting**

There was no change in the Company’s internal control over financial reporting that occurred during the Company’s fiscal quarter ended December 31, 2005 that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant.**

Except for the discussion in the following paragraph regarding the code of ethical conduct, the information required by this item regarding directors and executive officers is incorporated by reference from the discussion in our proxy statement (the “Proxy Statement”) for the 2006 Annual Meeting of Shareholders under the headings “*Proposal 1 – Election of Directors;*” “*Corporate Governance;*” “*Shareholder Recommendations of Candidates for the Board of Directors;*” “*Compliance with Section 16(a) of the Securities Exchange Act of 1934;*” and “*Management.*”

We have adopted a code of ethical conduct for directors, executive officers and other senior financial personnel which is available on our Web site at [CDW.com](http://CDW.com).

**Item 11. Executive Compensation.**

The information required by this item is incorporated by reference from the discussion in our Proxy Statement under the headings “*Director Compensation;*” “*Employment Related Agreements;*” “*Executive Compensation;*” “*Summary Compensation Table;*” “*Option Grants in 2005;*” and “*2005 Option Exercises and Fiscal Year-End Option Values.*”

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this item is incorporated by reference from the discussion in our Proxy Statement under the headings “*Stock Beneficially Owned by Directors, Certain Executive Officers and Our Largest Shareholders;*” “*Equity Compensation Plan Information;*” “*Employment Related Agreements;*” and “*Certain Arrangements with Other Executive Officers.*”

**Item 13. Certain Relationships and Related Transactions.**

The information required by this item is incorporated by reference from the discussion in our Proxy Statement under the headings “*Certain Arrangements with Other Executive Officers;*” and “*Certain Transactions.*”

**Item 14. Principal Accounting Fees and Services.**

The information required by this item is incorporated by reference from the discussion in our Proxy Statement under the heading “*Proposal 2 – Ratification of the Selection of Independent Registered Public Accounting Firm.*”

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

(a) The following documents are filed as part of this report:

1. Financial Statements (See Index to Consolidated Financial Statements on page 27 of this Report);
2. Index to Financial Statement Schedule: Page  
Schedule II - Valuation and Qualifying Accounts S-1

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

3. Exhibits required by Securities and Exchange Commission Regulation S-K, Item 601:

<b>Exhibit</b>	<b>Description of Document</b>
3(a)	Restated Articles of Incorporation of the Company, incorporated by reference from the exhibits filed with the Company's Quarterly Report (000-21796) on Form 10-Q for the quarter ended June 30, 2003.
3(b)	Amended and Restated Bylaws of the Company, incorporated by reference from the exhibits filed with the Company's Quarterly Report (000-21796) on Form 10-Q for the quarter ended March 31, 2004.
4(a)	Specimen of common stock certificate, incorporated by reference from the exhibits filed with the Company's Annual Report (000-21796) on Form 10-K for the year ended December 31, 2003.
10(a)*	CDW Incentive Stock Option Plan, incorporated by reference from the exhibits filed with the Company's Registration Statement (33-59802) on Form S-1 filed under the Securities Act of 1933 filed on May 11, 1993.
10(b)*	First Amendment to CDW Incentive Stock Option Plan, incorporated by reference from the exhibits filed with the Company's Annual Report (000-21796) on Form 10-K for the year ended December 31, 1998.
10(c)*	CDW 1996 Incentive Stock Option Plan, incorporated by reference from the exhibits filed with the Company's Registration Statement (333-20935) on Form S-3 filed under the Securities Act of 1933 on January 31, 1997.
10(d)*	First Amendment to CDW 1996 Incentive Stock Option Plan, incorporated by reference from the exhibits filed with the Company's Annual Report (000-21796) on Form 10-K for the year ended December 31, 1998.
10(e)*	Employment Agreement dated as of January 28, 2001 between the Company and John A. Edwardson, incorporated by reference from the exhibits filed with the Company's Annual Report (000-21796) on Form 10-K for the year ended December 31, 2000.
10(f)*	Transitional Compensation Agreement dated as of January 28, 2001 between the Company and John A. Edwardson, incorporated by reference from the exhibits filed with the Company's Annual Report (000-21796) on Form 10-K for the year ended December 31, 2000.
10(g)*	Award Notice of Stock Option Grant dated as of January 28, 2001 between the Company and John A. Edwardson, incorporated by reference from the exhibits filed with the Company's Annual Report (000-21796) on Form 10-K for the year ended December 31, 2000.
10(h)	Line of Credit Demand Note between the Company and Northern Trust Company dated July 25, 2001, incorporated by reference from the exhibits filed with the Company's Quarterly Report (000-21796) on Form 10-Q for the quarter ended September 30, 2001.
10(i)*	CDW Compensation Protection Plan adopted as of December 10, 2002, applicable to the Company's executive officers, incorporated by reference from the exhibits filed with the Company's Annual Report (000-21796) on Form 10-K for the year ended December 31, 2002.
10(j)*	Form of Transitional Compensation Agreement, effective December 2002, entered into with each of the Company's executive officers, incorporated by reference from the exhibits filed with the Company's Annual Report (000-21796) on Form 10-K for the year ended December 31, 2002.

10(k)*	Form of Noncompetition Agreement, effective December 2002, entered into with each of the Company's executive officers, incorporated by reference from the exhibits filed with the Company's Annual Report (000-21796) on Form 10-K for the year ended December 31, 2002.
10(l)*	Form of Stock Option Agreement for awards to non-employee directors under the 2004 Non-Employee Director Equity Compensation Plan, incorporated by reference from the exhibits filed with the Company's Quarterly Report (000-21796) on Form 10-Q for the quarter ended September 30, 2004.
10(m)*	Form of Restricted Stock Award for awards to non-employee directors under the 2004 Non-Employee Director Equity Compensation Plan, incorporated by reference from the exhibits filed with the Company's Quarterly Report (000-21796) on Form 10-Q for the quarter ended September 30, 2004.
10(n)	Industrial Lease, dated as of February 22, 2005, between CDW Logistics Inc., as Tenant, and DP Industrial, LLC, as Landlord, incorporated by reference from the exhibits filed with the Company's Annual Report (000-21796) on Form 10-K for the year ended December 31, 2004.
10(o)	Guaranty Agreement, dated as of February 22, 2005, executed by CDW Corporation in favor of DP Industrial, LLC, incorporated by reference from the exhibits filed with the Company's Annual Report (000-21796) on Form 10-K for the year ended December 31, 2004.
10(p)	Revolving Note between the Company and LaSalle National Bank dated June 30, 2005, incorporated by reference from the exhibits filed with the Company's Quarterly Report (000-21796) on Form 10-Q for the quarter ended June 30, 2005.
10(q)*	CDW 2000 Incentive Stock Option Plan, as amended and restated effective January 1, 2006.
10(r)*	CDW Senior Management Incentive Plan, as amended and restated effective January 1, 2006.
10(s)*	2004 Non-Employee Director Equity Compensation Plan, as amended and restated effective January 1, 2006.
10(t)*	Form of Stock Option Agreement for awards to coworkers under the CDW 2000 Incentive Stock Option Plan
21	Subsidiaries of the Registrant
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350

\* Indicates management contract or compensatory plan or arrangement.

- (b) The Exhibits required by Item 601 of Regulation S-K are reflected above in Section (a) 3. of this Item.
- (c) The financial statement schedule is included as reflected in Section (a) 2. of this Item.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 CORPORATION

Date: March 3, 2006

By: /s/ John A. Edwardson  
 John A. Edwardson  
 Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ John A. Edwardson</u> John A. Edwardson	Chairman and Chief Executive Officer	March 3, 2006
<u>/s/ Barbara A. Klein</u> Barbara A. Klein	Senior Vice President and Chief Financial Officer (principal financial officer)	March 3, 2006
<u>/s/ Sandra M. Rouhselang</u> Sandra M. Rouhselang	Vice President and Controller (principal accounting officer)	March 3, 2006
<u>/s/ Michelle L. Collins</u> Michelle L. Collins	Director	March 3, 2006
<u>/s/ Casey G. Cowell</u> Casey G. Cowell	Director	March 3, 2006
<u>/s/ Daniel S. Goldin</u> Daniel S. Goldin	Director	March 3, 2006
<u>/s/ Thomas J. Hansen</u> Thomas J. Hansen	Director	March 3, 2006
<u>/s/ Donald P. Jacobs</u> Donald P. Jacobs	Director	March 3, 2006
<u>/s/ Stephan A. James</u> Stephan A. James	Director	March 3, 2006
<u>/s/ Michael P. Krasny</u> Michael P. Krasny	Director	March 3, 2006
<u>/s/ Terry L. Lengfelder</u> Terry L. Lengfelder	Director	March 3, 2006
<u>/s/ Susan D. Wellington</u> Susan D. Wellington	Director	March 3, 2006
<u>/s/ Brian E. Williams</u> Brian E. Williams	Director	March 3, 2006

**CDW CORPORATION**  
**SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS**  
**Years ended December 31, 2005, 2004 and 2003**  
(in thousands)

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
<b>Year ended December 31, 2005</b>					
Deducted in the balance sheet from the asset to which it applies:					
Allowance for doubtful accounts	\$ 9,890	\$ 2,475	\$ -	\$ 2,801 (a)	\$ 9,564
<b>Year ended December 31, 2004</b>					
Deducted in the balance sheet from the asset to which it applies:					
Allowance for doubtful accounts	\$ 10,057	\$ 2,813	\$ -	\$ 2,980 (a)	\$ 9,890
<b>Year ended December 31, 2003</b>					
Deducted in the balance sheet from the asset to which it applies:					
Allowance for doubtful accounts	\$ 10,500	\$ 2,414	\$ -	\$ 2,857 (a)	\$ 10,057

Note:

(a) Uncollectible items written off, less recoveries of items previously written off.

**EXHIBIT 21**

**CDW CORPORATION  
SUBSIDIARIES OF THE REGISTRANT**

**Subsidiary**

**Jurisdiction of Incorporation**

CDW Canada, Inc.

New Brunswick

CDW Capital Corporation

Illinois

CDW Corporation

Delaware

CDW Direct, LLC

Illinois

CDW Government, Inc.

Illinois

CDW ISFC, LLC

Delaware

CDW Logistics, Inc.

Illinois

CDW SAC, Inc.

Illinois

**EXHIBIT 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-120260, No. 333-43925, No. 333-48172, and No. 333-98123) of CDW Corporation of our report dated March 3, 2006 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

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PricewaterhouseCoopers LLP

Chicago, Illinois

March 3, 2006

## EXHIBIT 31.1

### CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, John A. Edwardson, certify that:

1. I have reviewed this annual report on Form 10-K of CDW Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John A. Edwardson

John A. Edwardson  
Chairman and Chief Executive Officer  
CDW Corporation  
March 3, 2006

## EXHIBIT 31.2

### CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Barbara A. Klein, certify that:

1. I have reviewed this annual report on Form 10-K of CDW Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Barbara A. Klein

Barbara A. Klein  
Senior Vice President and Chief Financial Officer  
CDW Corporation  
March 3, 2006

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO SECTION 1350 OF CHAPTER 63  
OF TITLE 18 OF THE UNITED STATES CODE**

I, John A. Edwardson, the chief executive officer of CDW Corporation (“CDW”), certify that (i) the Annual Report on Form 10-K for the year ended December 31, 2005 (the “10-K”) of CDW fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the 10-K fairly presents, in all material respects, the financial condition and results of operations of CDW.

/s/ John A. Edwardson

John A. Edwardson  
Chairman and Chief Executive Officer  
CDW Corporation  
March 3, 2006

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO SECTION 1350 OF CHAPTER 63  
OF TITLE 18 OF THE UNITED STATES CODE**

I, Barbara A. Klein, the chief financial officer of CDW Corporation, (“CDW”), certify that (i) the Annual Report on Form 10-K for the year ended December 31, 2005 (the “10-K”) of CDW fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the 10-K fairly presents, in all material respects, the financial condition and results of operations of CDW.

/s/ Barbara A. Klein

Barbara A. Klein  
Senior Vice President and Chief Financial Officer  
CDW Corporation  
March 3, 2006

# Board of Directors

Michelle L. Collins <sup>(1+)</sup>  
 Managing Director  
 Svoboda, Collins L.L.C.

Casey G. Cowell <sup>(2)</sup>  
 Chairman and Principal Owner  
 Durandal, Inc.

John A. Edwardson  
 Chairman and Chief Executive Officer, CDW

Daniel S. Goldin <sup>(3)</sup> <sup>(4)</sup>  
 Founder and Chief Executive Officer  
 The Intellis Group (formerly The Intellis Corporation)

Thomas J. Hansen <sup>(1)</sup>  
 Executive Vice President  
 Illinois Tool Works, Inc.

Donald P. Jacobs <sup>(1)</sup> <sup>(3+)</sup> <sup>(4+)</sup>  
 Dean Emeritus  
 Kellogg School of Management  
 Northwestern University  
 Lead Director

Stephan A. James <sup>(2)</sup>  
 International Chairman  
 Accenture

Michael P. Krasny <sup>(3)</sup>  
 Chairman Emeritus and Founder, CDW  
 President, Sawdust Investment Management Corp.

Terry L. Lengfelder <sup>(1)</sup> <sup>(3)</sup> <sup>(4)</sup>  
 Retired Regional Managing Partner  
 Andersen (formerly Arthur Andersen LLP)

Susan D. Wellington <sup>(2)</sup>  
 Former President – U.S. Beverages,  
 The Quaker Oats Company of PepsiCo, Inc.

Brian E. Williams <sup>(2+)</sup>  
 President and Chief Executive Officer  
 Element 79 Partners

(1) Member of the Audit Committee

(2) Member of the Compensation and Stock Option Committee

(3) Member of the Corporate Governance Committee

(4) Member of the Nominating Committee

+ Denotes committee chair

# Officers

John A. Edwardson\*  
 Chairman and Chief Executive Officer

Harry J. Harczak, Jr.\*  
 Executive Vice President

James R. Shanks\*  
 Executive Vice President – Sales  
 and President, CDW Government, Inc.

Douglas E. Eckrote\*  
 Senior Vice President – Operations

Barbara A. Klein\*  
 Senior Vice President and Chief Financial Officer

Dennis G. Berger\*  
 Vice President – Coworker Services

Christine A. Leahy\*  
 Vice President, General Counsel and Corporate Secretary

Jonathan J. Stevens\*  
 Vice President – International and Chief Information Officer

Kevin P. Adams  
 Vice President – Program Management,  
 CDW Government, Inc.

Kenneth B. Grimsley  
 Vice President – Strategic Sales,  
 CDW Government, Inc.

Anne B. Ireland  
 Vice President – Business Development

Cindy T. Klimstra  
 Vice President – Investor Relations

James J. Lillis  
 Vice President – Services

Frederick K. Neil  
 Vice President – Strategic Marketing

Max R. Peterson II  
 Vice President – Federal Sales,  
 CDW Government, Inc.

Christina V. Rother  
 Group Vice President,  
 CDW Government, Inc.

Sandra M. Rouhselang  
 Vice President and Controller

Steve M. Schuldt  
 Vice President – Sales

Maria M. Sullivan  
 Vice President – Learning and Development

Matthew A. Troka  
 Vice President – Purchasing

Robert J. Welyki  
 Vice President – Treasurer and Assistant Secretary

\*Member of the Executive Committee

# Information

## Corporate and Shareholder Information

Corporate Office  
200 North Milwaukee Avenue  
Vernon Hills, Illinois 60061  
847.465.6000

Independent Registered Public Accounting Firm  
PricewaterhouseCoopers LLP  
Chicago, Illinois

Transfer Agent and Registrar  
American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, New York 10038  
800.937.5449  
212.936.5100

### Annual Meeting

Annual meeting of shareholders will be held on May 17, 2006, at 5 p.m. Central time at the Company's Mettawa facility:  
26125 North Riverwoods Boulevard  
Mettawa, Illinois 60045

## Financial Reports

Financial reports, including Form 10-K and annual reports, can be accessed online at [CDW.com/investor](http://CDW.com/investor).

You may also obtain a copy upon written request to:

CDW Corporation  
Attention: Investor Relations  
200 North Milwaukee Avenue  
Vernon Hills, Illinois 60061

## Investor Inquiries

Cindy Thorson Klimstra  
Vice President – Investor Relations  
Phone: 847.419.6328  
Fax: 847.419.6628  
E-mail: [investorrelations@cdw.com](mailto:investorrelations@cdw.com)

## Stock Market Information

CDW's common stock trades on The Nasdaq Stock Market® under the symbol CDWC.  
The following table sets forth the low and high stock prices by quarter in 2005 and 2004.

Quarter Ended	2005		2004	
	Low	High	Low	High
March 31	\$55.46	\$66.97	\$58.06	\$74.45
June 30	\$51.86	\$60.58	\$61.30	\$70.93
September 30	\$56.00	\$64.15	\$56.07	\$65.20
December 31	\$53.51	\$61.00	\$56.61	\$68.26



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