2006 Annual Report

Expanding Our Platform for Growth

CDW

determined at trial, paid to it. On February 1, 2007, CDW entered into a settlement agreement (the "Settlement Agreement") to resolve the above referenced action pursuant to which CDW agreed to pay $25 million to the Liquidating Trust in return for a full release and complete dismissal of the litigation, with prejudice. While CDW believed it had good defenses to the claims by the Liquidating Trust, it agreed to settle the case in order to avoid the substantial costs and uncertainties involved with further litigation. The Settlement Agreement represents the compromise of a disputed claim and does not constitute an admission of liability on behalf of CDW. A Motion to Approve the Settlement Agreement was filed in the Bankruptcy Court by the Liquidating Trust on February 1, 2007. No objections were filed with the Bankruptcy Court, and the time for filing objections has expired. An order approving the Settlement Agreement was entered by the Bankruptcy Court on February 21, 2007. That order becomes final and nonappealable on March 5, 2007. CDW's settlement payment, included in other current liabilities on the Consolidated Balance Sheet as of December 31, 2006, and a motion by the Liquidating Trust to dismiss the litigation with prejudice, are both due on March 12, 2007.

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 any such 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 and in the ordinary course of our business. CDW is also subject to audit by federal, state and local tax authorities, by various government agencies relating to sales under certain government contracts and by vendors relating to vendor incentive programs.

We do not believe that any current audit or pending or threatened litigation will have a material adverse effect on our financial condition. Litigation and audits, however, involve uncertainties and it is possible that the eventual outcome of litigation or audits could adversely affect our results of operations for a particular period.

16. Segment Information

We have three operating segments: corporate sector, which is primarily comprised of business customers; public sector, which is comprised of federal, state and local government entities, educational institutions, and healthcare institutions; and Berbee, a new segment as a result of the Berbee acquisition in October 2006, which provides advanced technology solutions. 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 1, "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 2004 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, 2006				
	Corporate Sector	Public Sector	Berbee	Headquarters / Other	Consolidated
Net sales	$ 4,514,106	$ 2,162,378	$ 108,989	$ -	$ 6,785,473
Income (loss) from operations	$ 350,588	$ 106,717	$ 3,839	$ (64,745)	$ 396,399
Net interest income and other expense					17,952
Income before income taxes					$ 414,351
Total assets	$ 508,567	$ 278,746	$ 324,113	$ 840,001	$ 1,951,427

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

	Year Ended December 31, 2004				
	Corporate Sector	Public Sector	Berbee	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

The $25.0 million litigation settlement, as described in Note 15, is reflected in the Headquarters/Other loss from operations in 2006.

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

No single customer accounted for more than 1% of net sales in fiscal years 2006, 2005 or 2004. During 2006, approximately 2% of our sales were to customers outside of the continental United States, primarily in Canada.

17. Share Repurchase Programs

Since 1998, we have repurchased a total of 17.5 million shares of our common stock at a total cost of $876.9 million under various share repurchase programs authorized by our Board of Directors. The program authorizing the repurchase of 4,529,600 shares that was approved by our Board of Directors in April 2005 was completed in March 2006. In April 2006, our Board of Directors authorized a new share repurchase program of up to 5,000,000 shares of our common stock. Share repurchases may be made from time to time in both open market and private transactions, as conditions warrant. The new program is expected to remain in effect through April 2008, unless earlier terminated by the Board or completed. The following table presents share repurchases during the years ended December 31, 2006, 2005 and 2004 (in thousands):

Year	Shares	Amount
2006	4,059	$ 227,669
2005	4,570	$ 258,298
2004	1,352	$ 86,010

As of December 31, 2006, 3.2 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.

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