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October 31, 2018
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srt:ReportableLegalEntitiesMember 2018-09-30 iso4217:USD xbrli:shares cdw:employee iso4217:GBP iso4217:USD
xbrli:shares xbrli:pure cdw:segment cdw:subsidiary

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from to

Commission File Number 001-35985

CDW CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**26-0273989**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
75 Tri-State International	**60069**

Lincolnshire, Illinois
(Address of principal executive offices) (Zip Code)

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

None
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ý Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No

As of October 26, 2018, there were 149,984,769 shares of common stock, $0.01 par value, outstanding.

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CDW CORPORATION AND SUBSIDIARIES
FORM 10-Q

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

	September 30, 2018 (unaudited)	December 31, 2017 (as adjusted)
Assets		
Current assets:		
Cash and cash equivalents	$255.1	$144.2
Accounts receivable, net of allowance for doubtful accounts of $8.0 and $6.2, respectively	2,650.5	2,329.3
Merchandise inventory	481.1	411.5
Miscellaneous receivables	370.4	343.0
Prepaid expenses and other	192.4	168.3
Total current assets	3,949.5	3,396.3
Property and equipment, net	147.8	161.1
Goodwill	2,469.5	2,479.6
Other intangible assets, net	758.2	897.0
Other assets	50.4	32.7
Total Assets	$7,375.4	$6,966.7
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable-trade	$1,609.9	$1,317.7
Accounts payable-inventory financing	407.6	498.0
Current maturities of long-term debt	32.0	25.5
Contract liabilities	188.5	158.8
Accrued expenses and other current liabilities:		
Compensation	162.8	129.5
Interest	15.9	21.6
Sales taxes	34.6	43.8
Advertising	132.2	89.2
Income taxes	11.2	16.2
Other	209.2	221.8
Total current liabilities	2,803.9	2,522.1
Long-term liabilities:		
Debt	3,187.4	3,210.0
Deferred income taxes	158.4	196.3
Other liabilities	65.0	52.7
Total long-term liabilities	3,410.8	3,459.0
Stockholders' equity:		
Preferred stock, $0.01 par value, 100.0 shares authorized, no shares issued or outstanding for both periods	—	—
Common stock, $0.01 par value, 1,000.0 shares authorized; 150.9 and 153.1 shares issued, respectively	1.5	1.5
Less: treasury stock, $0.01 par value, 0.0 and 0.1 shares held, respectively	—	—
Outstanding common stock, $0.01 par value, 150.9 and 153.0 shares outstanding, respectively	1.5	1.5
Paid-in capital	2,970.9	2,911.6
Accumulated deficit	(1,703.5)	(1,831.6)
Accumulated other comprehensive loss	(108.2)	(95.9)

Total stockholders' equity	1,160.7	985.6
Total Liabilities and Stockholders' Equity	$7,375.4	$6,966.7

The accompanying notes are an integral part of the Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(unaudited)	(as adjusted)	(unaudited)	(as adjusted)
Net sales	$4,373.2	$3,933.2	$12,165.7	$11,080.8
Cost of sales	3,659.6	3,291.0	10,152.6	9,244.3
Gross profit	713.6	642.2	2,013.1	1,836.5
Selling and administrative expenses	390.7	351.9	1,134.8	1,062.8
Advertising expense	48.1	46.3	133.9	128.1
Income from operations	274.8	244.0	744.4	645.6
Interest expense, net	(36.6)	(37.8)	(111.5)	(113.4)
Net loss on extinguishments of long-term debt	—	—	—	(57.4)
Other income, net	0.2	0.7	1.0	1.9
Income before income taxes	238.4	206.9	633.9	476.7
Income tax expense	(54.7)	(77.6)	(150.2)	(148.4)
Net income	$183.7	$129.3	$483.7	$328.3
Net income per common share:				
Basic	$1.22	$0.84	$3.19	$2.10
Diluted	$1.20	$0.83	$3.14	$2.06
Weighted-average common shares outstanding:				
Basic	150.9	153.8	151.6	156.3
Diluted	153.7	156.2	154.1	159.2
Cash dividends declared per common share	$0.2100	$0.1600	$0.6300	$0.4800

The accompanying notes are an integral part of the Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(unaudited)	(as adjusted)	(unaudited)	(as adjusted)
Net income	$183.7	$129.3	$483.7	$328.3
Foreign currency translation, net[1]	(3.2)	14.0	(17.9)	39.5
Unrealized gain (loss) from hedge accounting, net[2]	0.1	0.3	5.6	(1.4)
Other comprehensive (loss) income, net	(3.1)	14.3	(12.3)	38.1
Comprehensive income	$180.6	$143.6	$471.4	$366.4

The accompanying notes are an integral part of the Consolidated Financial Statements.

(1) Net of tax expense of $0.1 million and tax expense of $0.3 million for the three months ended September 30, 2018 and 2017, respectively, and net of tax benefit of $0.1 million and tax expense of $0.3 million for the nine months ended September 30, 2018 and 2017, respectively.

(2) Net of tax expense of zero and $0.2 million for the three months ended September 30, 2018 and 2017, respectively, and net of tax expense of $1.9 million and tax benefit of $0.9 million for the nine months ended September 30, 2018 and 2017, respectively.

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

	Nine Months Ended September 30, 2018								
	Preferred Stock		Common Stock		Treasury Stock				
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance as of December 31, 2017 (as reported)	—	$ —	153.1	$ 1.5	0.1	$ —	$ 2,911.6	$ (1,834.3)	$ (95.9)	$ 982.9
Cumulative adjustment upon adoption of ASC 606	—	—	—	—	—	—	—	2.7	—	2.7
Balance as of December 31, 2017 (as adjusted)	—	—	153.1	1.5	0.1	—	2,911.6	(1,831.6)	(95.9)	985.6
Net income	—	—	—	—	—	—	—	483.7	—	483.7
Equity-based compensation expense	—	—	—	—	—	—	26.0	—	—	26.0
Stock option exercises	—	—	0.7	—	—	—	24.4	—	—	24.4
Coworker Stock Purchase Plan	—	—	0.1	—	—	—	8.4	—	—	8.4
Repurchases of common stock	—	—	(3.0)	—	—	—	—	(232.5)	—	(232.5)
Dividends paid	—	—	—	—	—	—	0.5	(96.0)	—	(95.5)
Incentive compensation plan stock withheld for taxes	—	—	—	—	(0.1)	—	—	(27.1)	—	(27.1)
Foreign currency translation	—	—	—	—	—	—	—	—	(17.9)	(17.9)
Unrealized gain from hedge accounting	—	—	—	—	—	—	—	—	5.6	5.6
Balance as of September 30, 2018	—	$ —	150.9	$ 1.5	—	$ —	$ 2,970.9	$ (1,703.5)	$ (108.2)	$ 1,160.7

The accompanying notes are an integral part of the Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2018	**2017**
Cash flows from operating activities:	(unaudited)	(as adjusted)
Net income	$483.7	$328.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	198.7	195.2
Equity-based compensation expense	29.9	33.6
Deferred income taxes	(39.2)	(55.2)
Net loss on extinguishments of long-term debt	—	57.4
Other	8.7	3.9
Changes in assets and liabilities:		
Accounts receivable	(334.3)	(120.7)
Merchandise inventory	(72.1)	(83.6)
Other assets	(66.1)	(181.6)
Accounts payable-trade	300.6	140.2
Other liabilities	92.4	121.6
Net cash provided by operating activities	602.3	439.1
Cash flows used in investing activities:		
Capital expenditures	(53.4)	(58.6)
Net cash used in investing activities	(53.4)	(58.6)
Cash flows used in financing activities:		
Proceeds from borrowings under revolving credit facilities	688.9	1,279.1
Repayments of borrowings under revolving credit facilities	(681.9)	(1,087.5)
Repayments of long-term debt	(18.2)	(11.2)
Proceeds from issuance of long-term debt	—	2,083.0
Payments to extinguish long-term debt	—	(2,121.3)
Payments of debt financing fees	(1.0)	(9.6)
Net change in accounts payable-inventory financing	(90.1)	(41.4)
Premium payments on interest rate cap agreements	(12.6)	—
Proceeds from stock option exercises	24.4	9.1
Proceeds from Coworker Stock Purchase Plan	8.4	7.6
Repurchases of common stock	(232.5)	(534.0)
Payment of incentive compensation plan withholding taxes	(27.1)	(42.0)
Dividends	(95.5)	(74.7)
Other	1.9	(4.7)
Net cash used in financing activities	(435.3)	(547.6)
Effect of exchange rate changes on cash and cash equivalents	(2.7)	1.3
Net increase (decrease) in cash and cash equivalents	110.9	(165.8)
Cash and cash equivalents—beginning of period	144.2	263.7
Cash and cash equivalents—end of period	$255.1	$97.9
Supplementary disclosure of cash flow information:		
Interest paid	$(117.4)	$(118.6)
Taxes paid, net	$(200.5)	$(169.6)

The accompanying notes are an integral part of the Consolidated Financial Statements.

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

CDW Corporation ("Parent") is a Fortune 500 company with multi-national capabilities and a leading provider of integrated information technology ("IT") solutions to small, medium and large business, government, education and healthcare customers in the United States ("US"), the United Kingdom ("UK") and Canada. The Company's offerings range from discrete hardware and software products to integrated IT solutions such as mobility, security, data center optimization, cloud computing, virtualization and collaboration.

Throughout this report, the terms the "Company" and "CDW" refer to Parent and its 100% owned subsidiaries. Parent has two 100% owned subsidiaries, CDW LLC and CDW Finance Corporation. CDW LLC is an Illinois limited liability company that, together with its 100% owned subsidiaries, holds all material assets and conducts all business activities and operations of the Company. CDW Finance Corporation is a Delaware corporation formed for the sole purpose of acting as co-issuer of certain debt obligations as described in Note 13 (Supplemental Guarantor Information) and does not hold any material assets or engage in any business activities or operations.

Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements as of September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017 (the "Consolidated Financial Statements") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the rules and regulations of the US Securities and Exchange Commission (the "SEC") for interim financial statements. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. These Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the "December 31, 2017 Consolidated Financial Statements"). The significant accounting policies used in preparing these Consolidated Financial Statements were applied on a basis consistent with those reflected in the December 31, 2017 Consolidated Financial Statements except for changes from the adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, as amended ("Topic 606"), as discussed below. In the opinion of management, the Consolidated Financial Statements contain all adjustments (consisting of a normal, recurring nature) necessary to present fairly the Company's financial position, results of operations, comprehensive income, cash flows and changes in stockholders' equity as of the dates and for the periods indicated. The unaudited results of operations for such interim periods reported are not necessarily indicative of results for the full year.

Effective January 1, 2018, the Company adopted the requirements of Topic 606 utilizing the full retrospective method as discussed in Note 2 (Recent Accounting Pronouncements). Prior period amounts have been adjusted accordingly.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of Parent and its 100% owned subsidiaries. All intercompany transactions and accounts are eliminated in consolidation.

Use of Estimates

The preparation of the Consolidated Financial Statements in accordance with GAAP requires management to make use of certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reported periods. The Company bases its estimates on historical experience and on various other assumptions that management believes are reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The notes to the Consolidated Financial Statements contained in the December 31, 2017 Consolidated Financial Statements include a discussion of the significant accounting policies and estimates used in the preparation of the Company's Consolidated Financial Statements. Except as noted above for the adoption of Topic 606, there have been no material changes to the Company's significant accounting policies and estimates during the nine months ended September 30, 2018.

Revenue Recognition

The Company is a primary distribution channel for a large group of vendors and suppliers, including original equipment manufacturers ("OEMs"), software publishers and wholesale distributors.

The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are established, the contract has commercial substance and collectability of consideration is probable. The Company evaluates the following indicators amongst others when determining whether it is acting as a principal in the transaction and recording revenue on a gross basis: (i) the Company is primarily responsible for fulfilling the promise to provide the specified goods or service, (ii) the Company has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer and (iii) the Company has discretion in establishing the price for the specified good or service. If the terms of a transaction do not indicate the Company is acting as a principal in the transaction, then the Company is acting as an agent in the transaction and the associated revenues are recognized on a net basis.

The Company recognizes revenue once control has passed to the customer. The following indicators are evaluated in determining when control has passed to the customer: (i) the Company has a right to payment for the product or service, (ii) the customer has legal title to the product, (iii) the Company has transferred physical possession of the product to the customer, (iv) the customer has the significant risk and rewards of ownership of the product and (v) the customer has accepted the product. The Company's products can be delivered to customers in a variety of ways, including (i) as physical product shipped from the Company's warehouse, (ii) via drop-shipment by the vendor or supplier or (iii) via electronic delivery of keys for software licenses. The Company’s shipping terms typically specify F.O.B. destination.

The Company leverages drop-shipment arrangements with many of its vendors and suppliers to deliver products to its customers without having to physically hold the inventory at its warehouses. The Company is the principal in the transaction and recognizes revenue for drop-shipment arrangements on a gross basis.

Revenue Recognition for Hardware

Revenues from sales of hardware products are recognized on a gross basis as the Company is acting as a principal in these transactions, with the selling price to the customer recorded as Net sales and the acquisition cost of the product recorded as Cost of sales. The Company recognizes revenue from these transactions when control has passed to the customer, which is usually upon delivery of the product to the customer.

In some instances, the customer agrees to buy the product from the Company but requests delivery at a later date, commonly known as bill-and-hold arrangements. For these transactions, the Company deems that control passes to the customer when the product is ready for delivery. The Company views products ready for delivery when the customer has a signed agreement, significant risk and rewards for the products, the ability to direct the assets, the products have been set aside specifically for the customer, cannot be redirected to another customer and for customer orders that include configuration services, when such services have been completed.

The Company's vendor partners warrant most of the products the Company sells. These manufacturer warranties are assurance-type warranties and are not considered separate performance obligations. The warranties are not sold

separately and only provide assurance that products will conform with the manufacturer's specifications. In some transactions, a third-party will provide the customer with an extended warranty. These extended warranties are sold separately and provide the customer with a service in addition to assurance that the product will function as expected. The Company considers these service-type warranties to be separate performance obligations from the underlying product. For service-type warranties, the Company is arranging for those services to be provided by the third-party and therefore is acting as an agent in the transaction and records revenue on a net basis at the point of sale.

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Revenue Recognition for Software

Revenues from most software license sales are recognized as a single performance obligation on a gross basis as the Company is acting as a principal in these transactions at the point the software license is delivered to the customer. Generally, software licenses are sold with accompanying third-party delivered software assurance, which is a product that allows customers to upgrade, at no additional cost, to the latest technology if new capabilities are introduced during the period that the software assurance is in effect. The Company evaluates whether the software assurance is a separate performance obligation by assessing if the third-party delivered software assurance is critical or essential to the core functionality of the software itself. This involves considering if the software provides its original intended functionality to the customer without the updates, if the customer would ascribe a higher value to the upgrades versus the up-front deliverable, if the customer would expect frequent intelligence updates to the software (such as updates that maintain the original functionality), and if the customer chooses to not delay or always install upgrades. If the Company determines that the accompanying third-party delivered software assurance is critical or essential to the core functionality of the software license, the software license and the accompanying third-party delivered software assurance are recognized as a single performance obligation. The value of the product is primarily the accompanying support delivered by a third-party and therefore the Company is acting as an agent in these transactions and recognizes them on a net basis at the point the associated software license is delivered to the customer. For software licenses where the accompanying third-party delivered software assurance is not critical or essential to the core functionality, the software assurance is recognized as a separate performance obligation, with the associated revenue recognized on a net basis at the point the related software license is delivered to the customer. For additional details regarding the accounting for bundled arrangements, see "Revenue Recognition for Bundled Arrangements" below.

Revenue Recognition for Services

The Company provides professional services, which include project managers and consultants recommending, designing and implementing IT solutions. Revenue from professional services is recognized either on a time and materials basis or recognized proportionally as costs are incurred for fixed fee project work. For time and materials projects, revenue is recognized on a gross basis each month as work is performed and the Company transfers those services.

The Company sells cloud computing solutions, which include Software as a Service ("SaaS") and Infrastructure as a Service ("IaaS"). SaaS solutions utilize third-party partners to offer the Company's customers access to software in the cloud that enhances office productivity, provides security or assists in collaboration. IaaS solutions utilize third-party partners to enable customers to access data center functionality in a cloud-based solution, including storage, computing and networking. The Company recognizes revenue for cloud computing solutions for arrangements with one-time invoicing to the customer at the time of invoice on a net basis as the Company is acting as an agent in the transaction. For monthly subscription-based arrangements, the Company is acting as an agent in the transaction and recognizes revenue as it invoices the customer for its monthly usage on a net basis.

Revenues from the sale of data center services, such as managed and remote managed services, server co-location, internet connectivity and data backup and storage provided by the Company, are recognized over the period the service is provided. Most hosting and managed service obligations are based on the quantity and pricing parameters established in the agreement. As the customer receives the benefit of the service each month, the Company recognizes the respective revenue on a gross basis as the Company is acting as a principal in the transaction. Additionally, the Company's managed services team provides project support to customers that are billed on a fixed fee basis. The Company is acting as the principal in the transaction and recognizes revenue on a gross basis based on the total number of hours incurred for the period over the total expected hours for the project. Total expected hours to complete the project is updated for each period and best represents the transfer of control of the service to the customer.

The Company's customers are offered the opportunity by certain of its vendors to purchase software licenses and software assurance under enterprise agreements ("EAs"), referred to as services in this paragraph. For most EA

transactions, the Company's obligation to the customer is that of a distributor or sales agent of the services, where all obligations for providing the services to customers are passed to the Company's vendors. The Company's performance obligations are satisfied at the time of the sale. In other EA transactions, the Company is responsible for fulfilling the promised services to the customer and providing remedy or refund for work if the customer is not satisfied with the delivered services, has inventory risk in the arrangement and has full control to set the price for the customer. This results in the Company acting as a principal in the agreement. With most EAs, the Company's vendors will transfer the license and invoice the customer

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directly, paying resellers an agency fee or commission on these sales. The Company records these fees as a component of Net sales as earned and there is no corresponding Cost of sales amount.

Revenue Recognition for Bundled Arrangements

The Company also sells some of its products and services as part of bundled contract arrangements containing multiple deliverables, which may include a combination of products and services. For each deliverable that represents a distinct performance obligation, total arrangement consideration is allocated based upon the standalone selling prices of each performance obligation. The Company excludes amounts collected on behalf of third-parties, such as sales taxes, when determining the transaction price. For certain performance obligations, the Company will use a combination of methods to estimate the standalone selling price. When evidence from recent transactions is not available to confirm that the prices are representative of the standalone selling price, an expected cost plus a margin approach is used.

Sales In-Transit

The Company performs an analysis of the estimated number of days of sales in-transit to customers at the end of each reporting period based on a weighted-average analysis of commercial delivery terms that include drop-shipment arrangements. This analysis is the basis upon which the Company estimates the amount of Net sales in-transit at the end of the period and adjusts revenue and the related costs to reflect only what has been delivered to the customer. Changes in delivery patterns may result in a different number of business days estimated to make this adjustment.

Freight Costs

The Company records freight billed to its customers as Net sales and the related freight costs as a Cost of sales when the underlying product revenue is recognized. For freight not billed to its customers, the Company records the freight costs as a Cost of sales. The Company's typical shipping terms are F.O.B. destination, which results in shipping being performed before the customer obtains control of the product. The Company considers shipping to be a fulfillment activity and not a separate performance obligation.

Other

The nature of the Company's contracts give rise to variable consideration in the form of sales returns and allowances. The Company estimates variable consideration at the most likely amount to which it is expected to be entitled. This estimated amount is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based on an assessment of the Company's anticipated performance and all information that is reasonably available. At the time of sale, the Company records an estimate for sales returns and allowances and an associated right of return asset based on historical experience.

When a contract results in revenue being recognized in excess of the amount the Company has the right to invoice to the customer, a contract asset is recorded on the balance sheet. Contract assets are comprised primarily of professional services with fixed fee arrangements.

Contract liabilities consist of payments received from customers, or such consideration that is contractually due, in advance of providing the product or performing services. Contract liabilities are comprised primarily of professional services with fixed fee arrangements, bill-and-hold transactions where control has not passed to the customer and certain governmental contracts.

Trade accounts receivable are recorded at the point of sale (or in accordance with the Statement of Work for services) for the total amount payable by the customer to the Company for sale of goods. Taxes to be collected from the customer as part of the sale are included in Accounts receivable.

Any incremental direct costs of obtaining a contract, primarily sales commissions, are deferred on the Consolidated Balance Sheets and amortized over the period of contract performance.

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The Company typically does not enter into long-term contracts. The Company has elected to use the practical expedient for its performance obligations table to show only those contracts that are longer than 12 months at the time of contract inception and those contracts that are non-cancelable. Additionally, for certain governmental contracts where there are annual renewals, the Company has excluded these contracts since there is only a one-year legal obligation. Typically, the only contracts that are longer than 12 months in duration are related to the Company's professional and managed services business.

The Company requests payments for its products and services at the point of sale. The Company generally does not enter into any long-term financing arrangements or payment plans with customers or contracts with customers that have non-cash consideration.

2. Recent Accounting Pronouncements

Accounting for Hedging Activities

In August 2017, the Financial Accounting Standards Board (the "FASB") issued ASU 2017-12, Derivatives and Hedging (Topic 815), intending to improve the transparency of information included in the financial statements by aligning cash flow and fair value hedge accounting with its risk management activities. The ASU eliminates the requirement to separately measure and report hedge ineffectiveness for cash flow hedges and net investment hedges, and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The ASU also simplifies certain documentation and assessment requirements and will incorporate new disclosure requirements and amendments to existing disclosures. This ASU is effective for the Company beginning the first quarter of 2019 and allows for early adoption. The Company is currently evaluating the impact the ASU will have on its Consolidated Financial Statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the assumptions, models and methods for estimating expected credit losses. This ASU is effective for the Company beginning in the first quarter of 2020 and allows for early adoption beginning in the first quarter of 2019. The Company is currently evaluating the impact the ASU will have on its Consolidated Financial Statements.

Accounting for Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which, together with amendments issued during 2018, requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. This ASU is effective for the Company beginning in the first quarter of 2019 and allows for early adoption. Entities are required to use the modified retrospective approach, with the option of applying the requirements of the standard either (1) retrospectively to each prior comparative reporting period presented or (2) retrospectively at the beginning of the period of adoption.

The Company plans to adopt the standard on January 1, 2019, and will apply it at the beginning of the period of adoption. Therefore, upon adoption, financial information and disclosures will not be updated for comparative reporting periods under the new standard. Additionally, the Company intends to elect the transition package of practical expedients upon adoption which, among other things, allows an entity to not reassess the historical lease classification. The Company has established a cross-functional implementation team to analyze the effect of the ASU. The Company utilized a combination of a bottom-up and top-down approach to identify and analyze its lease portfolio. The analysis included reviewing all forms of leases, performing a completeness assessment over the lease population, assessing the policy elections offered by the standard and evaluating its business processes and internal controls to meet the ASU's accounting, reporting and disclosure requirements.

The Company expects adoption of the standard will have an impact on the Consolidated Balance Sheet. The Company does not expect the adoption of the standard to impact the Consolidated Statements of Operations or the Consolidated

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Statements of Cash Flows. The most significant effect of the new standard on the Consolidated Balance Sheet relates to the recognition of right-of-use assets and lease liabilities for the Company's real estate portfolio. The Company will also be providing new disclosures for its leasing activities.

Revenue Recognition

On January 1, 2018, the Company adopted Topic 606 and utilized the full retrospective method. For additional details, see Note 1 (Description of Business and Summary of Significant Accounting Policies).

The adoption of Topic 606 impacted the Company's results as follows:

	Three Months Ended September 30, 2017[1]			Nine Months Ended September 30, 2017[1]		
(in millions) (except per share amounts)	As Reported	New Revenue Standard Adjustment	As Adjusted	As Reported	New Revenue Standard Adjustment	As Adjusted
Net sales	$4,033.9	$(100.7)	$3,933.2	$11,353.0	$(272.2)	$11,080.8
Gross profit	642.0	0.2	642.2	1,835.6	0.9	1,836.5
Gross profit margin	15.9 %	40 bps	16.3 %	16.2 %	40 bps	16.6 %
Income from operations	243.7	0.3	244.0	644.6	1.0	645.6
Income tax expense	(77.4)	(0.2)	(77.6)	(147.9)	(0.5)	(148.4)
Net income	$129.2	$0.1	$129.3	$327.8	$0.5	$328.3
Net income per common share						
Basic	$0.84	$—	$0.84	$2.10	$—	$2.10
Diluted	$0.83	$—	$0.83	$2.06	$—	$2.06

(1) Amounts may not foot or cross-foot due to rounding.

The adoption of Topic 606 impacted the Company's Consolidated Balance Sheet as follows:

	December 31, 2017[1]		
(in millions)	As Reported	New Revenue Standard Adjustment	As Adjusted
Accounts receivable	$2,320.5	$ 8.8	$2,329.3
Merchandise inventory	449.5	(38.0)	411.5
Miscellaneous receivables	336.5	6.5	343.0
Prepaid expenses and other	127.4	40.9	168.3
Total current assets	3,378.1	18.2	3,396.3
Other assets	40.8	(8.1)	32.7
Total assets	6,956.6	10.1	6,966.7
Contract liabilities	194.0	(35.2)	158.8
Income tax payable	15.1	1.1	16.2
Other accrued expenses	180.2	41.6	221.8
Total current liabilities	2,514.6	7.5	2,522.1
Total liabilities	5,973.7	7.5	5,981.1
Total stockholders' equity	$982.9	$ 2.7	$985.6

(1) Amounts may not foot or cross-foot due to rounding.

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3. Inventory Financing Agreements

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

Amounts included in Accounts payable-inventory financing are as follows:

(in millions)	September 30, 2018	December 31, 2017
Revolving Loan inventory financing agreement[1]	$ 394.8	$ 480.9
Other inventory financing agreements	12.8	17.1
Accounts payable-inventory financing	$ 407.6	$ 498.0

(1) The Senior Secured Asset-Based Revolving Credit Facility includes an inventory floorplan sub-facility that enables the Company to maintain an inventory financing agreement with a financial intermediary to facilitate the purchase of inventory from certain vendors on more favorable terms than offered directly by the vendors.

4. Contract Liabilities and Remaining Performance Obligations

The Company's contract liabilities consist of payments received from customers, or such consideration that is contractually due, in advance of providing the product or performing services. The Company's contract liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. As of September 30, 2018 and December 31, 2017, the contract liability balance was $188 million and $159 million, respectively. During the nine months ended September 30, 2018 and 2017, the Company recognized revenue of $153 million and $126 million, respectively, related to its contract liabilities.

A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. For more information regarding the Company's performance obligations, see Note 1 (Description of Business and Summary of Significant Accounting Policies). The following table represents the total transaction price for the remaining performance obligations as of September 30, 2018 related to non-cancelable contracts longer than 12 months in duration that is expected to be recognized over future periods.

(in millions)	Within 1 Year	Years 1-2	Years 2-3	Thereafter
Remaining performance obligations	$38.2	$24.3	$6.3	$ 0.5

5. Financial Instruments

The Company's indebtedness creates interest rate risk on its variable-rate debt. The Company uses derivative financial instruments to manage its exposure to interest rate risk. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

The Company has interest rate cap agreements that entitle it to payments from the counterparty of the amount, if any, by which three-month LIBOR exceeds the strike rates of the caps during the agreement period in exchange for an upfront premium. During the first quarter of 2018, the Company entered into interest rate cap agreements with a combined notional value of $1.4 billion resulting in premiums paid to the counterparties of $13 million. As of September 30, 2018 and December 31, 2017, the Company had the following interest rate cap agreements for which the fair values are classified within Other assets on the Consolidated Balance Sheets:

			September 30, 2018	December 31, 2017
Notional Value (in millions)	Effective Date	Maturity Date	Fair Value (in millions)	Fair Value (in millions)
$1,400.0	January 17, 2017	December 31, 2018	$ 3.2	$ 5.4
1,400.0	December 31, 2018	December 31, 2020	19.0	—
			$ 22.2	$ 5.4

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The fair value of the Company's interest rate cap agreements is classified as Level 2 in the fair value hierarchy. The valuation of the interest rate cap agreements is derived by using a discounted cash flow analysis on the expected cash receipts that would occur if variable interest rates rise above the strike rates of the caps. This analysis reflects the contractual terms of the interest rate cap agreements, including the period to maturity, and uses observable market-based inputs, including LIBOR curves and implied volatilities. The Company also incorporates insignificant credit valuation adjustments to appropriately reflect the respective counterparty's nonperformance risk in the fair value measurements. The counterparty credit spreads are based on publicly available credit information obtained from a third-party credit data provider. For additional details, see Note 6 (Long-Term Debt).

The interest rate cap agreements are designated as cash flow hedges. The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges is recorded in Accumulated other comprehensive loss and is subsequently reclassified into Interest expense in the period when the hedged forecasted transaction affects earnings. If a derivative is deemed to be ineffective, the ineffective portion of the change in fair value of the derivative is recognized directly into earnings. The Company's interest rate cap agreements were deemed effective during both the nine months ended September 30, 2018 and 2017, and the Company expects the derivatives will continue to be effective for the next twelve months. During the three months ended September 30, 2018 and 2017, the Company recorded an insignificant gain for the effective portion of the interest rate cap agreements into Accumulated other comprehensive loss. During the nine months ended September 30, 2018 and 2017, the Company recorded a $6 million gain and a $1 million loss, respectively, net of tax, for the effective portion of the interest rate cap agreements into Accumulated other comprehensive loss. During the three and nine months ended September 30, 2018, the Company reclassified $1 million and $3 million, respectively, from Accumulated other comprehensive loss to earnings within Interest expense, net on the Consolidated Statement of Operations. The Company expects to reclassify $5 million from Accumulated other comprehensive loss into Interest expense, net during the next twelve months.

Prior to the election of hedge accounting treatment during the first quarter of 2017, the Company recognized less than $1 million of Interest income during the nine months ended September 30, 2017 in the Company's Consolidated Statement of Operations related to the changes in the fair value of the interest rate cap agreements.

6. Long-Term Debt

Long-term debt as of September 30, 2018 is as follows:

(dollars in millions)	Interest Rate	Principal	Unamortized Discount and Deferred Financing Fees	Total
Senior secured asset-based revolving credit facility	— %	$—	$—	$—
CDW UK revolving credit facility	2.1%	6.5	—	6.5
Senior secured term loan facility [1]	3.8%	1,456.9	(2.7)	1,454.2
CDW UK term loan	2.3%	66.5	(1.1)	65.4
Senior notes due 2023	5.0%	525.0	(3.8)	521.2
Senior notes due 2024	5.5%	575.0	(4.6)	570.4
Senior notes due 2025	5.0%	600.0	(6.6)	593.4
Other long-term obligations		8.3	—	8.3
Total debt		3,238.2	(18.8)	3,219.4
Less current maturities		(32.0)	—	(32.0)
Long-term debt, excluding current maturities		$3,206.2	$(18.8)	$3,187.4

(1) The Senior secured term loan facility has a variable interest rate, which has effectively been capped through the use of an interest rate cap (see Note 5 (Financial Instruments)). The interest rate disclosed represents the variable interest rate in effect as of September 30, 2018.

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Long-term debt as of December 31, 2017 is as follows:

(dollars in millions)	Interest Rate	Principal	Unamortized Discount and Deferred Financing Fees	Total
Senior secured asset-based revolving credit facility	— %	$—	$—	$—
CDW UK revolving credit facility	— %	—	—	—
Senior secured term loan facility [1]	3.7%	1,468.0	(2.0)	1,466.0
CDW UK term loan	1.9%	75.7	(1.4)	74.3
Senior notes due 2023	5.0%	525.0	(4.5)	520.5
Senior notes due 2024	5.5%	575.0	(5.2)	569.8
Senior notes due 2025	5.0%	600.0	(7.3)	592.7
Other long-term obligations		12.2	—	12.2
Total debt		3,255.9	(20.4)	3,235.5
Less current maturities		(25.5)	—	(25.5)
Long-term debt, excluding current maturities		$3,230.4	$(20.4)	$3,210.0

(1) The Senior secured term loan facility has a variable interest rate, which has effectively been capped through the use of an interest rate cap (see Note 5 (Financial Instruments)). The interest rate disclosed represents the variable interest rate in effect as of December 31, 2017.

Senior Secured Asset-based Revolving Credit Facility ("Revolving Loan")

As of September 30, 2018, the Company had no outstanding borrowings under the Revolving Loan, less than $1 million of undrawn letters of credit, $379 million reserved for the floorplan sub-facility and a borrowing base of $2.0 billion, which is based on the amount of eligible inventory and accounts receivable balances as of August 31, 2018. Borrowings under the Revolving Loan are limited by the borrowing base. As of September 30, 2018, the Company could have borrowed up to an additional $1.1 billion under the Revolving Loan. Borrowings are also limited by a minimum liquidity condition, which provides that, if excess cash availability is less than the lower of (i) $125 million and (ii) the greater of (a) 10.0% of the borrowing base, and (b) $100 million, the lenders are not required to lend additional amounts under the Revolving Loan unless the consolidated fixed charge coverage ratio, as defined, is at least 1.00 to 1.00.

Borrowings under the Revolving Loan bear interest at a variable interest rate plus an applicable margin. The interest rate margin is based on one of two indices, either (i) LIBOR or (ii) the Alternate Base Rate ("ABR"), with the ABR being the greater of (a) the prime rate, (b) the federal funds effective rate plus 50 basis points or (c) the one-month LIBOR plus 1.00%. The applicable margin varies (1.25% to 1.75% for LIBOR borrowings and 0.25% to 0.75% for ABR borrowings) depending upon average daily excess cash availability under the agreement evidencing the Revolving Loan.

During the nine months ended September 30, 2017, the Company amended, extended and increased its prior revolving loan ("Prior Revolving Loan") and recorded a loss on extinguishment of long-term debt of $1 million in the Consolidated Statement of Operations, representing a write-off of a portion of unamortized deferred financing fees. Fees of $4 million related to the Prior Revolving Loan were capitalized as deferred financing fees and are being amortized over the five-year term of the facility on a straight-line basis. These deferred financing fees are recorded in the Other assets line on the Consolidated Balance Sheets.

Senior Secured Term Loan Facility ("Term Loan")

On April 3, 2018, the Company amended the Term Loan, reducing interest margins by 25 basis points. Borrowings under the Term Loan continue to bear interest at either (i) LIBOR plus a margin or (ii) the Alternative Base Rate ("ABR"), with the ABR being the greater of (a) the prime rate, (b) the federal funds effective rate plus 50 basis points or (c) the one-month LIBOR plus a margin. The amended margin is 1.75% for LIBOR borrowings and 0.75% for ABR borrowings effective April 3, 2018. Additionally, the Company amended its covenant on restricted payments, such that the Company is permitted to make restricted payments so long as the total net leverage ratio is less than 3.75:1.00 on a pro forma basis.

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As of September 30, 2018, the outstanding principal amount of the Term Loan was $1.5 billion, excluding $3 million of deferred financing fees. Borrowings under the Term Loan are payable quarterly on the last day of each March, June, September and December. The Company is required to pay quarterly principal installments of $4 million with the remaining principal amount payable on the maturity date of August 17, 2023.

During the nine months ended September 30, 2017, the Company amended its prior $1.5 billion senior secured term loan facility ("Prior Term Loan Facility") and recorded a loss on extinguishment of long-term debt of $14 million in the Consolidated Statement of Operations. This loss represented the write-off of a portion of the unamortized deferred financing fees of $5 million and unamortized discount related to the Prior Term Loan Facility of $9 million. In connection with the issuance of the Term Loan, the Company incurred and recorded $2 million in deferred financing fees.

CDW UK Term Loan and Revolving Credit Facility

As of September 30, 2018, the outstanding principal amount of the CDW UK Term Loan facility ("CDW UK Term Loan") was £51 million ($66 million at September 30, 2018), excluding £1 million ($1 million at September 30, 2018) of deferred financing fees.

The Company is required to make annual principal installments of £5 million ($7 million at September 30, 2018), with the remaining principal amount payable on the maturity date of August 1, 2021. Borrowings under the CDW UK Term Loan bear interest at LIBOR plus a margin, payable quarterly on the last day of each March, June, September and December. As of September 30, 2018, an interest rate of 2.29% was in effect, which represents LIBOR plus a 1.40% margin.

The CDW UK Term Loan also includes a separate £50 million ($65 million at September 30, 2018) revolving credit facility (the "CDW UK Revolving Credit Facility"). As of September 30, 2018, the Company had £5 million ($7 million at September 30, 2018) of outstanding borrowings under the CDW UK Revolving Credit Facility.

5.0% Senior Notes due 2023 ("2023 Senior Notes")

As of September 30, 2018, the outstanding principal amount of the 2023 Senior Notes was $525 million. The 2023 Notes will mature on September 1, 2023 and bear interest at a rate of 5.0% per annum, payable semi-annually on March 1 and September 1 of each year.

5.5% Senior Notes due 2024 ("2024 Senior Notes")

As of September 30, 2018, the outstanding principal amount of the 2024 Senior Notes was $575 million. The 2024 Senior Notes will mature on December 1, 2024 and bear interest at a rate of 5.5% per annum, payable semi-annually on June 1 and December 1 of each year.

5.0% Senior Notes due 2025 ("2025 Senior Notes")

As of September 30, 2018, the outstanding principal amount of the 2025 Senior Notes was $600 million. The 2025 Senior Notes will mature on September 1, 2025 and bear interest at a rate of 5.0% per annum, payable semi-annually on March 1 and September 1 of each year.

During the nine months ended September 30, 2017, the Company completed the issuance of the 2025 Senior Notes at par. The proceeds from the issuance of the 2025 Senior Notes along with cash on hand and proceeds from Revolving Loan borrowings were deposited to redeem all of the then remaining $600 million aggregate principal amount of the 2022 Senior Notes ("2022 Senior Notes"). In connection with this redemption, the Company recorded a loss on extinguishment of long-term debt of $43 million in the Consolidated Statement of Operations for the nine months ended September 30, 2017. This loss represents $37 million in redemption premium and $6 million for the write-off of the remaining deferred financing fees related to the 2022 Senior Notes.

Debt Guarantors, Covenants and Restrictions

CDW LLC is the borrower under the Term Loan and Revolving Loan. CDW LLC and CDW Finance Corporation are the co-issuers of the 2023, 2024 and 2025 Senior Notes ("Senior Notes"). The obligations under the Term Loan, the Revolving Loan and the Senior Notes are guaranteed by Parent and each of CDW LLC's direct and indirect, wholly owned, US subsidiaries (the "Guarantors").

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The Revolving Loan is collateralized by a first priority interest in inventory (excluding inventory collateralized under the inventory floorplan arrangements as described in Note 3 (Inventory Financing Agreements)), deposits and accounts receivable and by a second priority interest in substantially all US assets.

The Term Loan is collateralized by a second priority interest in substantially all inventory (excluding inventory collateralized under the inventory floorplan arrangements as described in Note 3 (Inventory Financing Agreements)), deposits and accounts receivable and by a first priority interest in substantially all other US assets.

As of September 30, 2018, the Company remained in compliance with the covenants under its various credit agreements. The Term Loan contains negative covenants that, among other things, place restrictions and limitations on the ability of the Guarantors to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness, make distributions or other restricted payments, create liens, make equity or debt investments, make acquisitions, engage in mergers or consolidations or engage in certain transactions with affiliates. As of September 30, 2018, the amount of CDW's restricted payment capacity under the Term Loan was $1.4 billion. The total net leverage ratio was 2.33:1.00 as of September 30, 2018.

Each of the Senior Notes indentures contain negative covenants that, among other things, place restrictions and limitations on the ability of the Guarantors to enter into sale and lease-back transactions, incur additional secured indebtedness and create liens. The indenture governing each of the Senior Notes do not contain any financial covenants.

The CDW UK Term Loan imposes restrictions on CDW UK's ability to transfer funds to the Company through the payment of dividends, repayment of intercompany loans, advances or subordinated debt that require, among other things, the maintenance of a minimum net leverage ratio. As of September 30, 2018, the amount of restricted payment capacity under the CDW UK Term Loan was £117 million ($152 million at September 30, 2018).

Fair Value

The fair values of the Senior Notes were estimated using quoted market prices for identical liabilities that are traded in over-the-counter secondary markets that are not considered active. The fair value of the Term Loan was estimated using dealer quotes for identical liabilities in markets that are not considered active. The Senior Notes, Term Loan and the CDW UK Term Loan are classified as Level 2 within the fair value hierarchy. The carrying value of the Revolving Loan and the CDW UK Revolving Credit Facility approximate fair value if there are outstanding borrowings. As of September 30, 2018, the carrying value of the CDW UK Term Loan approximated fair value. The approximate fair values and related carrying values of the Company's long-term debt, including current maturities and excluding unamortized discount and unamortized deferred financing fees, were as follows:

(in millions)	September 30, 2018	December 31, 2017
Fair value	$3,275.3	$3,366.5
Carrying value	3,238.2	3,255.9

7. Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law. The Tax Cuts and Jobs Act changes several aspects of US federal tax law including: reducing the US corporate income tax rate from 35.0% to 21.0% beginning on January 1, 2018; a one-time tax on the deemed mandatory repatriation of the Company's unremitted foreign earnings which have not been subject to US tax; imposing a minimum US tax on foreign earnings; providing for the immediate expensing of certain qualified property; and changing the tax treatment of performance-based executive compensation and certain employee fringe benefits.

The SEC issued Staff Accounting Bulletin 118 allowing for provisional amounts to be recorded during a measurement period not to exceed one year. The Company recorded during the year ended December 31, 2017 provisional amounts for the impact of revaluing deferred tax assets and liabilities, the deemed mandatory repatriation tax on the Company's unremitted foreign earnings and the state income tax effects from the changes in federal tax law during the year ended December 31, 2017. The Company adjusted the US federal provisional amounts during the three and nine months

ended September 30, 2018, recording a net tax benefit of $2 million. The adjustment was driven by the rate differential on adjustments to temporary book-tax differences made in finalizing the 2017 federal income tax return and finalizing the deemed mandatory repatriation tax on the Company's unremitted foreign earnings. The Company continues to analyze

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the state income tax effects of the changes in federal tax law and will adjust the related provisional amounts within the one-year measurement period.

Income tax expense was $55 million for the three months ended September 30, 2018, compared to $78 million for the same period of the prior year. The effective income tax rate, expressed by calculating the income tax expense as a percentage of Income before income taxes, was 22.9% for the three months ended September 30, 2018 and differed from the US federal statutory rate of 21.0% primarily due to state income taxes partially offset by excess tax benefits on equity-based compensation. The effective tax rate for the same period of the prior year was 37.5% and differed from the US federal statutory rate of 35.0% primarily due to state income taxes and additional expense as a result of a change in state tax rates enacted during the quarter, partially offset by excess tax benefits on equity-based compensation and a state tax refund.

Income tax expense was $150 million for the nine months ended September 30, 2018, compared to $148 million for the same period of the prior year. The effective income tax rate, expressed by calculating the income tax expense as a percentage of Income before income taxes, was 23.7% for the nine months ended September 30, 2018 and differed from the US federal statutory rate of 21.0% primarily due to state income taxes partially offset by excess tax benefits on equity-based compensation. The effective tax rate for the same period of the prior year was 31.1% and differed from the US federal statutory rate of 35.0% primarily due to excess tax benefits on equity-based compensation, partially offset by state taxes.

8. Stockholders' Equity

On February 14, 2018, the Company retired 109,207 shares of its treasury stock. On December 31, 2017 the shares were acquired in satisfaction of withholding taxes which were paid by the Company on behalf of coworkers under the Performance Share Awards program.

9. Equity-Based Compensation

On August 1, 2018, 456,613 stock options granted by one of the sellers of CDW UK to certain CDW UK coworkers as part of the Company's acquisition of CDW UK vested. These equity awards had a weighted-average grant-date fair value of $35.93 per option. In connection with the exercise of such options, the seller of CDW UK distributed shares of common stock to each participant and withheld the number of shares of common stock equal to the respective tax withholding for each participant. The seller of CDW UK then transferred such withheld shares to the Company to satisfy the tax withholding for participants. The Company was required to pay withholding taxes of $19 million to Her Majesty’s Revenue and Customs taxing authority related to the exercise of these options. This amount is reported as a financing activity in the Consolidated Statement of Cash Flows and as an increase to Accumulated Deficit in the Consolidated Statement of Shareholders’ Equity for the nine months ended September 30, 2018.

On December 31, 2017, 321,880 Performance Share Units ("PSUs") under the 2013 Long-Term Incentive Plan vested, representing a vesting rate for the 2015-2017 performance period of 192.0% of target. The PSUs had a weighted-average grant-date fair value of $37.84 per unit. In connection with the PSUs that vested, the Company distributed shares of common stock to each participant during the nine months ended September 30, 2018 and withheld the number of shares of common stock equal to the respective tax withholding for each participant. The Company was required to pay withholding taxes of $9 million to federal, state and foreign taxing authorities for the vesting of these PSUs. This amount is reported as a financing activity in the Consolidated Statement of Cash Flows and as an increase to Accumulated Deficit in the Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2018.

On December 31, 2016, 748,855 PSUs under the 2013 Long-Term Incentive Plan vested, representing a vesting rate for the 2014-2016 performance period of 193.5% of target. The PSUs had a weighted-average grant-date fair value of $24.40 per unit. In connection with the PSUs that vested, the Company distributed shares of common stock to each participant during the nine months ended September 30, 2017 and withheld the number of shares of common stock equal to the respective tax withholding for each participant. The Company was required to pay withholding taxes

of $18 million to federal, state and foreign taxing authorities for the vesting of these PSUs. This amount is reported as a financing activity in the Consolidated Statement of Cash Flows and as an increase to Accumulated Deficit in the Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2017.

On June 26, 2017, an aggregate of 997,450 Restricted Stock Units ("RSUs") under the 2013 Long-Term Incentive Plan vested. The RSUs had a weighted-average grant-date fair value of $17.04 per unit. In connection with the RSUs that vested, the Company distributed shares of common stock to each participant during the nine months ended September 30, 2017 and withheld the number of shares of common stock equal to the respective tax withholding for each participant.

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The Company was required to pay withholding taxes of $24 million to federal, state and foreign taxing authorities for the vesting of these RSUs. This amount is reported as a financing activity in the Consolidated Statement of Cash Flows and as an increase to Accumulated Deficit in the Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2017.

10. Earnings per Share

The numerator for both basic and diluted earnings per share is Net income. The denominator for basic earnings per share is the weighted-average shares outstanding during the period.

A reconciliation of basic weighted-average shares outstanding to diluted weighted-average shares outstanding is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Basic weighted-average shares outstanding	150.9	153.8	151.6	156.3
Effect of dilutive securities[1]	2.8	2.4	2.5	2.9
Diluted weighted-average shares outstanding[2]	153.7	156.2	154.1	159.2

(1) The dilutive effect of outstanding stock options, restricted stock units, restricted stock, performance share units and Coworker Stock Purchase Plan units is reflected in the diluted weighted-average shares outstanding using the treasury stock method.

(2) There were fewer than 0.2 million potential common shares excluded from diluted weighted-average shares outstanding for both the three and nine months ended September 30, 2018 and 2017 as their inclusion would have had an anti-dilutive effect.

11. Commitments and Contingencies

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

As of September 30, 2018, the Company does not believe that there is a reasonable possibility that any material loss exceeding the amounts already recognized for these proceedings and matters, if any, has been incurred. However, the ultimate resolutions of these proceedings and matters are inherently unpredictable. As such, the Company's financial condition and results of operations could be adversely affected in any particular period by the unfavorable resolution of one or more of these proceedings or matters.

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12. Segment Information

The Company has three reportable segments: Corporate, which is comprised primarily of US private sector business customers with more than 250 employees, Small Business, primarily servicing US private sector business customers with up to 250 employees, and Public, which is comprised of government agencies and education and healthcare institutions in the US. The Company has two other operating segments: CDW UK and CDW Canada, both of which do not meet the reportable segment quantitative thresholds and, accordingly, are included in an all other category ("Other").

Information about the Company's segments is as follows:

(in millions)	Corporate	Small Business	Public	Other	Headquarters	Total
Three Months Ended September 30, 2018						
Net sales	$1,706.5	$340.0	$1,875.1	$451.6	$ —	$4,373.2
Income (loss) from operations	127.2	24.1	138.0	19.2	(33.7)	274.8
Depreciation and amortization expense	(20.3)	(5.2)	(11.5)	(7.3)	(21.5)	(65.8)
Three Months Ended September 30, 2017[1]						
Net sales	$1,552.8	$305.4	$1,693.9	$381.1	$ —	$3,933.2
Income (loss) from operations	121.6	17.7	122.3	14.2	(31.8)	244.0
Depreciation and amortization expense	(20.8)	(5.2)	(11.2)	(8.0)	(20.5)	(65.7)

(in millions)	Corporate	Small Business	Public	Other	Headquarters	Total
Nine Months Ended September 30, 2018						
Net sales	$5,006.1	$997.1	$4,740.5	$1,422.0	$ —	$12,165.7
Income (loss) from operations	393.3	71.0	322.7	60.7	(103.3)	744.4
Depreciation and amortization expense	(61.8)	(15.6)	(34.0)	(25.1)	(62.2)	(198.7)
Nine Months Ended September 30, 2017[1]						
Net sales	$4,573.5	$912.4	$4,480.4	$1,114.5	$ —	$11,080.8
Income (loss) from operations	360.6	53.7	287.6	39.5	(95.8)	645.6
Depreciation and amortization expense	(62.5)	(15.4)	(33.6)	(22.7)	(61.0)	(195.2)

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

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Geographic Areas and Revenue Mix

	Three Months Ended September 30, 2018				
	Corporate	Small Business	Public	Other	Total
Geography[1]					
United States	$1,704.1	$340.0	$1,875.1	$6.8	$3,926.0
Rest of World	2.4	—	—	444.8	447.2
Total Net sales	1,706.5	340.0	1,875.1	451.6	4,373.2
Major Product and Services					
Hardware	1,378.1	284.0	1,531.5	365.1	3,558.7
Software	228.5	44.3	290.8	44.0	607.6
Services	83.2	6.6	48.3	40.5	178.6
Other[2]	16.7	5.1	4.5	2.0	28.3
Total Net sales	1,706.5	340.0	1,875.1	451.6	4,373.2
Sales by Channel					
Corporate	1,706.5	—	—	—	1,706.5
Small Business	—	340.0	—	—	340.0
Government	—	—	639.3	—	639.3
Education	—	—	793.1	—	793.1
Healthcare	—	—	442.7	—	442.7
Other	—	—	—	451.6	451.6
Total Net sales	1,706.5	340.0	1,875.1	451.6	4,373.2
Timing of Revenue Recognition					
Transferred at a point in time where CDW is principal	1,571.6	321.0	1,764.6	402.8	4,060.0
Transferred at a point in time where CDW is agent	85.7	16.9	64.3	12.3	179.2
Transferred over time where CDW is principal	49.2	2.1	46.2	36.5	134.0
Total Net sales	$1,706.5	$340.0	$1,875.1	$451.6	$4,373.2

(1) Net sales by geography is generally based on the ship-to address with the exception of certain services that may be performed at, or on behalf of, multiple locations. Such service arrangements are categorized based on the bill-to address.

(2) Includes items such as delivery charges to customers.

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	Three Months Ended September 30, 2017[1]				
	Corporate	Small Business	Public	Other	Total
Geography[2]					
United States	$1,551.2	$305.4	$1,693.9	$6.0	$3,556.5
Rest of World	1.6	—	—	375.1	376.7
Total Net sales	1,552.8	305.4	1,693.9	381.1	3,933.2
Major Product and Services					
Hardware	1,253.9	256.9	1,383.9	307.1	3,201.8
Software	202.7	37.9	265.3	38.3	544.2
Services	79.2	5.5	39.5	33.7	157.9
Other[3]	17.0	5.1	5.2	2.0	29.3
Total Net sales	1,552.8	305.4	1,693.9	381.1	3,933.2
Sales by Channel					
Corporate	1,552.8	—	—	—	1,552.8
Small Business	—	305.4	—	—	305.4
Government	—	—	591.9	—	591.9
Education	—	—	691.3	—	691.3
Healthcare	—	—	410.7	—	410.7
Other	—	—	—	381.1	381.1
Total Net sales	1,552.8	305.4	1,693.9	381.1	3,933.2
Timing of Revenue Recognition					
Transferred at a point in time where CDW is principal	1,423.9	289.1	1,597.3	340.4	3,650.7
Transferred at a point in time where CDW is agent	82.2	14.4	53.5	8.0	158.1
Transferred over time where CDW is principal	46.7	1.9	43.1	32.7	124.4
Total Net sales	$1,552.8	$305.4	$1,693.9	$381.1	$3,933.2

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) Net sales by geography is generally based on the ship-to address with the exception of certain services that may be performed at, or on behalf of, multiple locations. Such service arrangements are categorized based on the bill-to address.

(3) Includes items such as delivery charges to customers.

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	Nine Months Ended September 30, 2018				
	Corporate	Small Business	Public	Other	Total
Geography[1]					
United States	$4,999.9	$997.1	$4,740.5	$24.0	$10,761.5
Rest of World	6.2	—	—	1,398.0	1,404.2
Total Net sales	5,006.1	997.1	4,740.5	1,422.0	12,165.7
Major Product and Services					
Hardware	4,010.5	830.7	3,877.5	1,134.3	9,853.0
Software	702.3	130.0	729.7	156.4	1,718.4
Services	242.6	20.6	120.5	124.9	508.6
Other[2]	50.7	15.8	12.8	6.4	85.7
Total Net sales	5,006.1	997.1	4,740.5	1,422.0	12,165.7
Sales by Channel					
Corporate	5,006.1	—	—	—	5,006.1
Small Business	—	997.1	—	—	997.1
Government	—	—	1,551.3	—	1,551.3
Education	—	—	1,902.4	—	1,902.4
Healthcare	—	—	1,286.8	—	1,286.8
Other	—	—	—	1,422.0	1,422.0
Total Net sales	5,006.1	997.1	4,740.5	1,422.0	12,165.7
Timing of Revenue Recognition					
Transferred at a point in time where CDW is principal	4,581.3	940.0	4,445.8	1,277.4	11,244.5
Transferred at a point in time where CDW is agent	279.9	50.5	160.7	37.1	528.2
Transferred over time where CDW is principal	144.9	6.6	134.0	107.5	393.0
Total Net sales	$5,006.1	$997.1	$4,740.5	$1,422.0	$12,165.7

(1) Net sales by geography is generally based on the ship-to address with the exception of certain services that may be performed at, or on behalf of, multiple locations. Such service arrangements are categorized based on the bill-to address.

(2) Includes items such as delivery charges to customers.

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	Nine Months Ended September 30, 2017 [1]				
	Corporate	Small Business	Public	Other	Total
Geography[2]					
United States	$4,569.3	$912.4	$4,480.4	$19.2	$9,981.3
Rest of World	4.2	—	—	1,095.3	1,099.5
Total Net sales	4,573.5	912.4	4,480.4	1,114.5	11,080.8
Major Product and Services					
Hardware	3,639.8	758.6	3,671.9	892.5	8,962.8
Software	647.2	120.4	692.3	120.6	1,580.5
Services	236.3	18.0	102.2	95.6	452.1
Other[3]	50.2	15.4	14.0	5.8	85.4
Total Net sales	4,573.5	912.4	4,480.4	1,114.5	11,080.8
Sales by Channel					
Corporate	4,573.5	—	—	—	4,573.5
Small Business	—	912.4	—	—	912.4
Government	—	—	1,490.0	—	1,490.0
Education	—	—	1,789.3	—	1,789.3
Healthcare	—	—	1,201.1	—	1,201.1
Other	—	—	—	1,114.5	1,114.5
Total Net sales	4,573.5	912.4	4,480.4	1,114.5	11,080.8
Timing of Revenue Recognition					
Transferred at a point in time where CDW is principal	4,176.1	861.5	4,217.0	997.3	10,251.9
Transferred at a point in time where CDW is agent	256.0	44.3	143.1	23.1	466.5
Transferred over time where CDW is principal	141.4	6.6	120.3	94.1	362.4
Total Net sales	$4,573.5	$912.4	$4,480.4	$1,114.5	$11,080.8

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) Net sales by geography is generally based on the ship-to address with the exception of certain services that may be performed at, or on behalf of, multiple locations. Such service arrangements are categorized based on the bill-to address.

(3) Includes items such as delivery charges to customers.

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The following table presents Net sales by major category for the three and nine months ended September 30, 2018 and 2017. Categories are based upon internal classifications.

	Three Months Ended September 30,			
	2018		2017[1]	
	Dollars in Millions	Percentage of Total Net Sales	Dollars in Millions	Percentage of Total Net Sales
Notebooks/Mobile Devices	$1,114.7	25.5 %	$964.8	24.5 %
Netcomm Products	581.4	13.3	544.1	13.8
Desktops	341.6	7.8	306.2	7.8
Video	319.5	7.3	290.7	7.4
Enterprise and Data Storage (Including Drives)	293.2	6.7	281.2	7.1
Other Hardware	908.3	20.8	814.8	20.8
Total Hardware	3,558.7	81.4	3,201.8	81.4
Software[2]	607.6	13.9	544.2	13.8
Services[2]	178.6	4.1	157.9	4.0
Other[3]	28.3	0.6	29.3	0.8
Total Net sales	$4,373.2	100.0%	$3,933.2	100.0%

	Nine Months Ended September 30,			
	2018		2017[1]	
	Dollars in Millions	Percentage of Total Net Sales	Dollars in Millions	Percentage of Total Net Sales
Notebooks/Mobile Devices	$3,041.7	25.0 %	$2,612.1	23.6 %
Netcomm Products	1,562.9	12.8	1,543.5	13.9
Desktops	990.4	8.1	877.6	7.9
Video	904.5	7.4	815.7	7.4
Enterprise and Data Storage (Including Drives)	813.7	6.7	806.9	7.3
Other Hardware	2,539.8	21.0	2,307.0	20.8
Total Hardware	9,853.0	81.0	8,962.8	80.9
Software[2]	1,718.4	14.1	1,580.5	14.3
Services[2]	508.6	4.2	452.1	4.1
Other[3]	85.7	0.7	85.4	0.7
Total Net sales	$12,165.7	100.0%	$11,080.8	100.0%

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) Certain software and services revenues are recorded on a net basis for accounting purposes. As a result, the category percentage of net revenues is not representative of the category percentage of gross profits.

(3) Includes items such as delivery charges to customers.

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13. Supplemental Guarantor Information

The 2023 Senior Notes, the 2024 Senior Notes and the 2025 Senior Notes are guaranteed by the Parent and each of CDW LLC's direct and indirect, 100% owned, domestic subsidiaries (the "Guarantor Subsidiaries"). All guarantees by the Parent and the Guarantor Subsidiaries are and were joint and several, and full and unconditional; provided that guarantees by the Guarantor Subsidiaries are subject to certain customary release provisions contained in the indentures governing the 2023 Senior Notes, the 2024 Senior Notes and the 2025 Senior Notes. CDW LLC's 100% owned foreign subsidiaries, CDW International Holdings Limited, which is comprised of CDW UK and CDW Canada (together the "Non-Guarantor Subsidiaries"), do not guarantee the debt obligations. CDW LLC and CDW Finance Corporation, as co-issuers, are 100% owned by Parent and each of the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries are, directly or indirectly, 100% owned by CDW LLC.

The following tables set forth Condensed Consolidating Balance Sheets as of September 30, 2018 and December 31, 2017, Consolidating Statements of Operations for the three and nine months ended September 30, 2018 and 2017, Condensed Consolidating Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017 and Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2018 and 2017, in accordance with Rule 3-10 of Regulation S-X. The consolidating financial information includes the accounts of CDW Corporation (the "Parent Guarantor"), which has no independent assets or operations, the accounts of CDW LLC (the "Subsidiary Issuer"), the combined accounts of the Guarantor Subsidiaries, the accounts of the Non-Guarantor Subsidiaries, and the accounts of CDW Finance Corporation (the "Co-Issuer") for the periods indicated. The information was prepared on the same basis as the Consolidated Financial Statements.

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Condensed Consolidating Balance Sheet
September 30, 2018

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	$—	$220.9	$—	$ 49.5	$ —	$(15.3)	$255.1
Accounts receivable, net	—	—	2,338.3	312.2	—	—	2,650.5
Merchandise inventory	—	—	419.7	61.4	—	—	481.1
Miscellaneous receivables	—	123.6	228.6	18.2	—	—	370.4
Prepaid expenses and other	—	17.4	133.3	41.7	—	—	192.4
Total current assets	—	361.9	3,119.9	483.0	—	(15.3)	3,949.5
Property and equipment, net	—	84.4	40.9	22.5	—	—	147.8
Goodwill	—	751.8	1,439.0	278.7	—	—	2,469.5
Other intangible assets, net	—	272.7	317.4	168.1	—	—	758.2
Other assets	1.4	64.9	151.8	2.1	—	(169.8)	50.4
Investment in and advances to subsidiaries	1,159.3	3,115.3	—	—	—	(4,274.6)	—
Total Assets	$1,160.7	$4,651.0	$5,069.0	$ 954.4	$ —	$(4,459.7)	$7,375.4
Liabilities and Stockholders' Equity							
Current liabilities:							
Accounts payable-trade	$—	$24.9	$1,431.2	$ 169.1	$ —	$(15.3)	$1,609.9
Accounts payable-inventory financing	—	0.2	395.1	12.3	—	—	407.6
Current maturities of long-term debt	—	14.9	4.1	13.0	—	—	32.0
Contract liabilities	—	—	112.8	75.7	—	—	188.5
Accrued expenses and other current liabilities	—	217.1	283.3	65.5	—	—	565.9
Total current liabilities	—	257.1	2,226.5	335.6	—	(15.3)	2,803.9
Long-term liabilities:							
Debt	—	3,124.2	4.3	58.9	—	—	3,187.4
Deferred income taxes	—	63.4	68.6	27.8	—	(1.4)	158.4
Other liabilities	—	47.0	5.7	180.7	—	(168.4)	65.0
Total long-term liabilities	—	3,234.6	78.6	267.4	—	(169.8)	3,410.8
Total stockholders' equity	1,160.7	1,159.3	2,763.9	351.4	—	(4,274.6)	1,160.7
Total Liabilities and Stockholders' Equity	$1,160.7	$4,651.0	$5,069.0	$ 954.4	$ —	$(4,459.7)	$7,375.4

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidating Balance Sheet

December 31, 2017
(as adjusted)

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	$—	$113.7	$—	$ 32.4	$ —	$(1.9)	$144.2
Accounts receivable, net	—	—	2,015.7	313.6	—	—	2,329.3
Merchandise inventory	—	—	354.6	56.9	—	—	411.5
Miscellaneous receivables	—	103.9	211.1	28.0	—	—	343.0
Prepaid expenses and other	—	18.0	100.4	49.9	—	—	168.3
Total current assets	—	235.6	2,681.8	480.8	—	(1.9)	3,396.3
Property and equipment, net	—	95.0	43.5	22.6	—	—	161.1
Goodwill	—	751.8	1,439.0	288.8	—	—	2,479.6
Other intangible assets, net	—	280.1	424.5	192.4	—	—	897.0
Other assets	1.7	30.7	209.3	2.6	—	(211.6)	32.7
Investment in and advances to subsidiaries	983.9	3,066.1	—	—	—	(4,050.0)	—
Total Assets	$985.6	$4,459.3	$4,798.1	$ 987.2	$ —	$(4,263.5)	$6,966.7
Liabilities and Stockholders' Equity							
Current liabilities:							
Accounts payable-trade	$—	$42.5	$1,112.1	$ 165.0	$ —	$(1.9)	$1,317.7
Accounts payable-inventory financing	—	1.0	480.9	16.1	—	—	498.0
Current maturities of long-term debt	—	14.9	3.8	6.8	—	—	25.5
Contract liabilities	—	—	87.5	71.3	—	—	158.8
Accrued expenses and other current liabilities	—	173.3	262.0	86.8	—	—	522.1
Total current liabilities	—	231.7	1,946.3	346.0	—	(1.9)	2,522.1
Long-term liabilities:							
Debt	—	3,134.2	8.3	67.5	—	—	3,210.0
Deferred income taxes	—	66.5	100.1	31.4	—	(1.7)	196.3
Other liabilities	—	43.0	4.7	214.9	—	(209.9)	52.7
Total long-term liabilities	—	3,243.7	113.1	313.8	—	(211.6)	3,459.0
Total stockholders' equity	985.6	983.9	2,738.7	327.4	—	(4,050.0)	985.6
Total Liabilities and Stockholders' Equity	$985.6	$4,459.3	$4,798.1	$ 987.2	$ —	$(4,263.5)	$6,966.7

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidating Statement of Operations

Three Months Ended September 30, 2018

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Net sales	$—	$—	$3,921.6	$ 451.6	$ —	$—	$4,373.2
Cost of sales	—	—	3,286.6	373.0	—	—	3,659.6
Gross profit	—	—	635.0	78.6	—	—	713.6
Selling and administrative expenses	—	33.7	299.8	57.2	—	—	390.7
Advertising expense	—	—	45.9	2.2	—	—	48.1
Income (loss) from operations	—	(33.7)	289.3	19.2	—	—	274.8
Interest (expense) income, net	—	(36.1)	0.9	(1.4)	—	—	(36.6)
Other income	—	—	0.1	0.1	—	—	0.2
Income (loss) before income taxes	—	(69.8)	290.3	17.9	—	—	238.4
Income tax (expense) benefit	(0.1)	20.5	(75.3)	0.2	—	—	(54.7)
Income (loss) before equity in earnings of subsidiaries	(0.1)	(49.3)	215.0	18.1	—	—	183.7
Equity in earnings of subsidiaries	183.8	233.1	—	—	—	(416.9)	—
Net income	$183.7	$183.8	$215.0	$ 18.1	$ —	$(416.9)	$183.7

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidating Statement of Operations

Three Months Ended September 30, 2017
(as adjusted)

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Net sales	$—	$—	$3,552.1	$ 381.1	$ —	$—	$3,933.2
Cost of sales	—	—	2,974.9	316.1	—	—	3,291.0
Gross profit	—	—	577.2	65.0	—	—	642.2
Selling and administrative expenses	—	31.8	271.8	48.3	—	—	351.9
Advertising expense	—	—	43.8	2.5	—	—	46.3
Income (loss) from operations	—	(31.8)	261.6	14.2	—	—	244.0
Interest (expense) income, net	—	(37.3)	1.0	(1.5)	—	—	(37.8)
Other income (expense)	—	(0.2)	0.3	0.6	—	—	0.7
Income (loss) before income taxes	—	(69.3)	262.9	13.3	—	—	206.9
Income tax (expense) benefit	—	26.2	(100.5)	(3.3)	—	—	(77.6)
Income (loss) before equity in earnings of subsidiaries	—	(43.1)	162.4	10.0	—	—	129.3
Equity in earnings of subsidiaries	129.3	172.4	—	—	—	(301.7)	—
Net income	$129.3	$129.3	$162.4	$ 10.0	$ —	$(301.7)	$129.3

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidating Statement of Operations

Nine Months Ended September 30, 2018

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Net sales	$—	$—	$10,743.7	$1,422.0	$—	$—	$12,165.7
Cost of sales	—	—	8,966.6	1,186.0	—	—	10,152.6
Gross profit	—	—	1,777.1	236.0	—	—	2,013.1
Selling and administrative expenses	—	103.3	861.8	169.7	—	—	1,134.8
Advertising expense	—	—	128.3	5.6	—	—	133.9
Income (loss) from operations	—	(103.3)	787.0	60.7	—	—	744.4
Interest (expense) income, net	—	(109.9)	2.8	(4.4)	—	—	(111.5)
Other income	—	—	0.6	0.4	—	—	1.0
Income (loss) before income taxes	—	(213.2)	790.4	56.7	—	—	633.9
Income tax (expense) benefit	(0.3)	61.5	(202.6)	(8.8)	—	—	(150.2)
Income (loss) before equity in earnings of subsidiaries	(0.3)	(151.7)	587.8	47.9	—	—	483.7
Equity in earnings of subsidiaries	484.0	635.7	—	—	—	(1,119.7)	—
Net income	$483.7	$484.0	$587.8	$47.9	$—	$(1,119.7)	$483.7

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidating Statement of Operations

Nine Months Ended September 30, 2017
(as adjusted)

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Net sales	$—	$—	$9,966.3	$1,114.5	$—	$—	$11,080.8
Cost of sales	—	—	8,315.4	928.9	—	—	9,244.3
Gross profit	—	—	1,650.9	185.6	—	—	1,836.5
Selling and administrative expenses	—	95.8	826.4	140.6	—	—	1,062.8
Advertising expense	—	—	122.6	5.5	—	—	128.1
Income (loss) from operations	—	(95.8)	701.9	39.5	—	—	645.6
Interest (expense) income, net	—	(111.8)	3.1	(4.7)	—	—	(113.4)
Net loss on extinguishments of long-term debt	—	(57.4)	—	—	—	—	(57.4)
Other income	—	—	0.4	1.5	—	—	1.9
Income (loss) before income taxes	—	(265.0)	705.4	36.3	—	—	476.7
Income tax (expense) benefit	—	112.8	(251.8)	(9.4)	—	—	(148.4)
Income (loss) before equity in earnings of subsidiaries	—	(152.2)	453.6	26.9	—	—	328.3
Equity in earnings of subsidiaries	328.3	480.5	—	—	—	(808.8)	—
Net income	$328.3	$328.3	$453.6	$26.9	$—	$(808.8)	$328.3

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidating Statement of Comprehensive Income

Three Months Ended September 30, 2018

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Comprehensive income	$ 180.6	$ 180.7	$ 215.0	$ 14.9	$ —	$ (410.6)	$ 180.6

Condensed Consolidating Statement of Comprehensive Income

Three Months Ended September 30, 2017
(as adjusted)

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Comprehensive income	$ 143.6	$ 143.6	$ 162.4	$ 24.0	$ —	$ (330.0)	$ 143.6

Condensed Consolidating Statement of Comprehensive Income

Nine Months Ended September 30, 2018

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Comprehensive income	$ 471.4	$ 471.7	$ 587.8	$ 30.0	$ —	$ (1,089.5)	$ 471.4

Condensed Consolidating Statement of Comprehensive Income

Nine Months Ended September 30, 2017
(as adjusted)

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Comprehensive income	$ 366.4	$ 366.4	$ 453.6	$ 66.4	$ —	$ (886.4)	$ 366.4

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2018

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Net cash provided by (used in) operating activities	$ —	$ (78.9)	$ 608.4	$ 80.2	$ —	$ (7.4)	$ 602.3
Cash flows used in investing activities:							
Capital expenditures	—	(40.9)	(3.5)	(9.0)	—	—	(53.4)
Net cash used in investing activities	—	(40.9)	(3.5)	(9.0)	—	—	(53.4)
Cash flows (used in) provided by financing activities:							
Proceeds from borrowings under revolving credit facilities	—	640.0	—	48.9	—	—	688.9
Repayments of borrowings under revolving credit facilities	—	(640.0)	—	(41.9)	—	—	(681.9)
Repayments of long-term debt	—	(11.2)	—	(7.0)	—	—	(18.2)
Payments of debt financing costs	—	(1.0)	—	—	—	—	(1.0)
Net change in accounts payable-inventory financing	—	(0.8)	(85.8)	(3.5)	—	—	(90.1)
Premium payments on interest rate cap agreements	—	(12.6)	—	—	—	—	(12.6)
Proceeds from stock option exercises	—	24.4	—	—	—	—	24.4
Proceeds from Coworker Stock Purchase Plan	—	8.4	—	—	—	—	8.4
Repurchases of common stock	(232.5)	—	—	—	—	—	(232.5)
Payment of incentive compensation plan withholding taxes	(27.1)	—	—	—	—	—	(27.1)
Dividends	(95.5)	—	—	—	—	—	(95.5)
Repayment of intercompany loan	—	—	47.5	(47.5)	—	—	—
Other	—	6.6	(4.3)	(0.4)	—	—	1.9
Distributions and advances from (to) affiliates	355.1	213.2	(562.3)	—	—	(6.0)	—
Net cash (used in) provided by financing activities	—	227.0	(604.9)	(51.4)	—	(6.0)	(435.3)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(2.7)	—	—	(2.7)
Net increase in cash and cash equivalents	—	107.2	—	17.1	—	(13.4)	110.9
Cash and cash equivalents—beginning of period	—	113.7	—	32.4	—	(1.9)	144.2
Cash and cash equivalents—end of period	$ —	$ 220.9	$ —	$ 49.5	$ —	$ (15.3)	$ 255.1

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CDW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2017
(as adjusted)

(in millions)	Parent Guarantor	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuer	Consolidating Adjustments	Consolidated
Net cash provided by (used in) operating activities	$42.4	$(17.7)	$422.4	$ 14.0	$—	$ (22.0)	$439.1
Cash flows used in investing activities:							
Capital expenditures	—	(40.0)	(4.8)	(13.8)	—	—	(58.6)
Net cash used in investing activities	—	(40.0)	(4.8)	(13.8)	—	—	(58.6)
Cash flows (used in) provided by financing activities:							
Proceeds from borrowings under revolving credit facilities	—	1,233.3	—	45.8	—	—	1,279.1
Repayments of borrowings under revolving credit facilities	—	(1,057.0)	—	(30.5)	—	—	(1,087.5)
Repayments of long-term debt	—	(11.2)	—	—	—	—	(11.2)
Proceeds from issuance of long-term debt	—	2,083.0	—	—	—	—	2,083.0
Payments to extinguish long-term debt	—	(2,121.3)	—	—	—	—	(2,121.3)
Payment of debt financing costs	—	(9.6)	—	—	—	—	(9.6)
Net change in accounts payable-inventory financing	—	(1.2)	(52.9)	12.7	—	—	(41.4)
Proceeds from stock option exercises	—	9.1	—	—	—	—	9.1
Proceeds from Coworker Stock Purchase Plan	—	7.6	—	—	—	—	7.6
Repurchases of common stock	(534.0)	—	—	—	—	—	(534.0)
Payment of incentive compensation plan withholding taxes	—	(16.0)	(24.0)	(2.0)	—	—	(42.0)
Dividends	(74.7)	—	—	—	—	—	(74.7)
Repayment of intercompany loan	—	—	34.3	(34.3)	—	—	—
Other	—	0.2	(4.1)	(0.8)	—	—	(4.7)
Distributions and advances from (to) affiliates	566.3	(202.6)	(374.0)	—	—	10.3	—
Net cash used in financing activities	(42.4)	(85.7)	(420.7)	(9.1)	—	10.3	(547.6)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	1.3	—	—	1.3
Net decrease in cash and cash equivalents	—	(143.4)	(3.1)	(7.6)	—	(11.7)	(165.8)
Cash and cash equivalents—beginning of period	—	222.7	3.1	37.9	—	—	263.7
Cash and cash equivalents—end of period	$—	$79.3	$—	$ 30.3	$—	$ (11.7)	$97.9

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

Unless otherwise indicated or the context otherwise requires, as used in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," the terms "we," "us," "the Company," "our," "CDW" and similar terms refer to CDW Corporation and its subsidiaries. "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with the unaudited interim Consolidated Financial Statements and the related notes included elsewhere in this report and with the audited Consolidated Financial Statements and the related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. This discussion contains forward-looking statements that are subject to numerous risks and uncertainties. Actual results may differ materially from those contained in any forward-looking statements. See "Forward-Looking Statements" at the end of this discussion.

Overview

CDW Corporation ("Parent") is a Fortune 500 company and a leading provider of integrated information technology ("IT") solutions to small, medium and large business, and government, education and healthcare customers in the United States ("US"), the United Kingdom ("UK") and Canada. Our broad array of offerings ranges from discrete hardware and software products to integrated IT solutions such as mobility, security, data center optimization, cloud computing, virtualization and collaboration.

We are technology "agnostic," with a portfolio including more than 100,000 products and services from more than 1,000 leading and emerging brands. Our solutions are delivered in physical, virtual and cloud-based environments through over 6,000 customer-facing coworkers, including sellers, highly-skilled technology specialists and advanced service delivery engineers. We are a leading sales channel partner for many original equipment manufacturers ("OEMs"), software publishers and cloud providers (collectively, our "vendor partners"), whose products we sell or include in the solutions we offer. We provide our vendor partners with a cost-effective way to reach customers and deliver a consistent brand experience through our established end-market coverage, technical expertise and extensive customer access.

We have three reportable segments, Corporate, Small Business and Public. Our Corporate segment primarily serves US private sector business customers with more than 250 employees. Our Small Business segment primarily serves US private sector business customers with up to 250 employees. Our Public segment is comprised of government agencies and education and healthcare institutions in the US. We also have two other operating segments: CDW UK and CDW Canada, each of which do not meet the reportable segment quantitative thresholds and, accordingly, are included in an all other category ("Other").

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

Effective January 1, 2018, we adopted the requirements of ASU 2014-09, Revenue from Contracts with Customers, as amended ("Topic 606"), utilizing the full retrospective method as discussed in Note 2 (Recent Accounting Pronouncements) to the accompanying Consolidated Financial Statements. Prior period amounts have been adjusted accordingly.

Key factors affecting our financial performance

We believe the following key factors may have a meaningful impact on our business performance, influencing our ability to generate sales and achieve our targeted financial and operating results:

- General economic conditions are a key factor affecting our results as they impact our customers' willingness to spend on information technology. This is particularly the case for business customers, as their purchases tend to reflect confidence in their business prospects, which are driven by their perceptions of business conditions. Purchasing behavior may be different between our Corporate customers and Small Business customers due to their perception of business conditions. Additionally, changes in trade policy and product constraints from suppliers could have an adverse impact on our business.
- Changes in spending policies, budget priorities and funding levels are a key factor influencing the purchasing levels of government, healthcare and education customers.

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- Technology trends drive customer purchasing behaviors in the market. Current technology trends are focused on delivering greater flexibility and efficiency, as well as designing IT securely. These trends are driving customer adoption of solutions such as those delivered via cloud, software defined architectures and hybrid on-premise and off-premise combinations.

Key business metrics

We monitor a number of financial and non-financial measures and ratios on a regular basis in order to track the progress of our business and make adjustments as necessary. We believe that the most important of these measures and ratios include average daily sales, gross margin, operating margin, Net income, Non-GAAP income before income taxes, Non-GAAP net income, Net income per common share, Non-GAAP net income per diluted share, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, free cash flow, return on working capital, Cash and cash equivalents, net working capital, cash conversion cycle (defined to be days of sales outstanding in Accounts receivable plus days of supply in Inventory minus days of purchases outstanding in Accounts payable, based on a rolling three-month average), debt levels including available credit and leverage ratios, sales per coworker and coworker turnover. These measures and ratios are compared to standards or objectives set by management, so that actions can be taken, as necessary, in order to achieve the standards and objectives.

In this Form 10-Q, we discuss Non-GAAP income before income taxes, Non-GAAP net income, Non-GAAP net income per diluted share, EBITDA, Adjusted EBITDA and Adjusted EBITDA margin, which are non-GAAP financial measures.

We believe these measures provide analysts, investors and management with helpful information regarding the underlying operating performance of our business, as they remove the impact of items that management believes are not reflective of underlying operating performance. Management uses these measures to evaluate period-over-period performance as management believes they provide a more comparable measure of the underlying business. Additionally, Adjusted EBITDA is a measure in the credit agreement governing our Senior Secured Term Loan Facility ("Term Loan"), which is used to evaluate our ability to make certain investments, incur additional debt, and make restricted payments, such as dividends and share repurchases, as well as whether we are required to make additional principal prepayments on the Term Loan beyond the quarterly amortization payments. For further details regarding the Term Loan, see Long-Term Debt and Financing Arrangements within Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 6 (Long-Term Debt) to the accompanying Consolidated Financial Statements. For the definitions of Non-GAAP income before income taxes, Non-GAAP net income and Adjusted EBITDA and reconciliations to Net income, see "Results of Operations."

The results of certain business metrics are as follows:

	Three Months Ended September 30,	
(dollars in millions)	2018	2017[1]
Net sales	$4,373.2	$3,933.2
Gross profit	713.6	642.2
Income from operations	274.8	244.0
Net income	183.7	129.3
Non-GAAP net income	217.6	168.3
Adjusted EBITDA	354.7	324.6
Average daily sales[2]	69.4	62.4
Net debt[3]	2,964.3	3,332.0
Cash conversion cycle (in days)[4]	18	19

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) There were 63 selling days for both the three months ended September 30, 2018 and 2017.

(3) Defined as Total debt minus Cash and cash equivalents.

(4) Cash conversion cycle is defined as days of sales outstanding in Accounts receivable and certain receivables due from vendors plus days of supply in Merchandise inventory minus days of purchases outstanding in Accounts

payable and Accounts payable-inventory financing, based on a rolling three-month average.

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Results of Operations

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Results of operations, in dollars and as a percentage of Net sales are as follows:

	Three Months Ended September 30,			
	2018		2017[1]	
	Dollars in Millions	Percentage of Net Sales	Dollars in Millions	Percentage of Net Sales
Net sales	$4,373.2	100.0 %	$3,933.2	100.0 %
Cost of sales	3,659.6	83.7	3,291.0	83.7
Gross profit	713.6	16.3	642.2	16.3
Selling and administrative expenses	390.7	8.9	351.9	8.9
Advertising expense	48.1	1.1	46.3	1.2
Income from operations	274.8	6.3	244.0	6.2
Interest expense, net	(36.6)	(0.8)	(37.8)	(1.0)
Other income, net	0.2	—	0.7	—
Income before income taxes	238.4	5.5	206.9	5.3
Income tax expense	(54.7)	(1.2)	(77.6)	(2.0)
Net income	$183.7	4.2 %	$129.3	3.3 %

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

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Net sales

Net sales by segment, in dollars and as a percentage of total Net sales, and the year-over-year dollar and percentage change in Net sales are as follows:

	Three Months Ended September 30,					
	2018		2017[1]			
(dollars in millions)	Net Sales	Percentage of Total Net Sales	Net Sales	Percentage of Total Net Sales	Dollar Change	Percent Change[2]
Corporate	$1,706.5	39.1 %	$1,552.8	39.5 %	$153.7	9.9 %
Small Business	340.0	7.8	305.4	7.8	34.6	11.3
Public:						
Government	639.3	14.6	591.9	15.1	47.4	8.0
Education	793.1	18.1	691.3	17.6	101.8	14.7
Healthcare	442.7	10.1	410.7	10.4	32.0	7.8
Total Public	1,875.1	42.8	1,693.9	43.1	181.2	10.7
Other	451.6	10.3	381.1	9.6	70.5	18.5
Total net sales	$4,373.2	100.0%	$3,933.2	100.0%	$440.0	11.2 %

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) There were 63 selling days for both the three months ended September 30, 2018 and 2017.

Total Net sales for the three months ended September 30, 2018 increased $440 million, or 11.2%, to $4,373 million, compared to $3,933 million for the three months ended September 30, 2017. Excluding the impact of foreign currency fluctuations, constant currency Net sales growth was 11.4%. See "Non-GAAP Financial Measure Reconciliations" below for additional information regarding constant currency Net sales growth.

For the three months ended September 30, 2018, Net sales growth reflected balanced growth across transactions and solutions. Transactional growth was primarily driven by client devices. Solutions growth was driven primarily by software, servers, networking and enterprise storage. Additionally, strong results from our international operations contributed to our Net sales growth.

Corporate segment Net sales for the three months ended September 30, 2018 increased $154 million, or 9.9%, compared to the three months ended September 30, 2017. Growth was primarily driven by client device refresh.

Small Business segment Net sales for the three months ended September 30, 2018 increased by $35 million, or 11.3%, between periods. Sales growth was primarily driven by solutions growth, including software.

Public segment Net sales for the three months ended September 30, 2018 increased $181 million, or 10.7%, compared to the three months ended September 30, 2017. The increase was primarily driven by double digit growth in Education, as well as Government and Healthcare both contributing high single-digit growth to the overall performance for the period. Net sales in Education increased 14.7%, primarily driven by notebook and netcomm performance within K-12 as customers addressed their client device and networking needs. Net sales to Government customers increased 8.0%, primarily driven by State & Local success in executing against contracts and continued success in meeting public safety needs. Healthcare Net sales increased as customers moved forward with network refresh and data center projects.

Net sales in Other, which is comprised of results from our UK and Canadian operations, for the three months ended September 30, 2018 increased $71 million, or 18.5%, compared to the three months ended September 30, 2017. Both operations grew in local currency and continued to take share in their respective local markets. In addition, UK growth was driven in part by referral business for US-based customers. The impact of foreign currency exchange decreased Other sales growth by approximately 200 basis points, due primarily to the unfavorable impact resulting from the Canadian dollar to US dollar translation.

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Gross profit

Gross profit increased $72 million, or 11.1%, to $714 million for the three months ended September 30, 2018, compared to $642 million for the three months ended September 30, 2017. As a percentage of Net sales, Gross profit margin remained flat versus prior year at 16.3% for the three months ended September 30, 2018. Gross profit margin was positively impacted by product margin improvement. This was offset by year-over-year Net sales growth out-pacing the year-over-year growth rate in partner funding.

Selling and administrative expenses

Selling and administrative expenses increased $39 million, or 11.0%, to $391 million for the three months ended September 30, 2018, compared to $352 million for the three months ended September 30, 2017. The increase was driven by higher sales payroll costs, including sales commissions consistent with higher Gross profit dollars, higher coworker costs driven by attainment for performance-based compensation and strategic investments funded by tax reform. Total coworker count was 8,937, up 215 from 8,722 at September 30, 2017. Total coworker count was 8,726 at December 31, 2017.

As a percentage of total Net sales, Selling and administrative expenses remained flat at 8.9% for the three months ended September 30, 2018.

Income from operations

Income from operations by segment, in dollars and as a percentage of Net sales, and the year-over-year percentage change are as follows:

	Three Months Ended September 30,				
	2018		2017[1]		
	Dollars in Millions	Operating Margin Percentage	Dollars in Millions	Operating Margin Percentage	Percent Change in Income from Operations
Segments:[2]					
Corporate	$127.2	7.5 %	$121.6	7.8 %	4.1 %
Small Business	24.1	7.1	17.7	5.8	36.1
Public	138.0	7.4	122.3	7.2	12.9
Other[3]	19.2	4.2	14.2	3.7	34.5
Headquarters[4]	(33.7)	nm*	(31.8)	nm*	5.9
Total income from operations	$274.8	6.3 %	$244.0	6.2 %	12.6 %

* Not meaningful

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

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

(3) Includes the financial results for our other operating segments, CDW UK and CDW Canada, which do not meet the reportable segment quantitative thresholds.

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

Income from operations was $275 million for the three months ended September 30, 2018, an increase of $31 million, or 12.6%, compared to $244 million for the three months ended September 30, 2017. Income from operations increased primarily due to higher gross profit dollars, partially offset by higher sales payroll expenses and higher coworker costs due to higher attainment for performance-based compensation. Total operating margin percentage increased 10 basis points to 6.3% for the three months ended September 30, 2018, from 6.2% for the three months ended September 30, 2017.

Corporate segment income from operations was $127 million for the three months ended September 30, 2018, an increase of $5 million, or 4.1%, compared to $122 million for the three months ended September 30, 2017. Corporate segment income from operations increased primarily due to higher gross profit dollars, partially offset by higher sales payroll expenses and coworker costs due to higher attainment for performance-based compensation. Corporate segment operating margin percentage decreased 30 basis points to 7.5% for the three months ended September 30,

2018, from 7.8% for the three months ended September 30,

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2017. This decrease in operating margin percentage was primarily driven by product margin compression due to increased hardware sales and higher coworker costs due to higher attainment for performance-based compensation as a percentage of Net sales.

Small Business segment income from operations was $24 million for the three months ended September 30, 2018, an increase of $6 million, or 36.1%, compared to $18 million for the three months ended September 30, 2017. Small business segment income from operations increased primarily due to higher gross profit dollars. Small Business segment operating margin percentage increased 130 basis points to 7.1% for the three months ended September 30, 2018, from 5.8% for the three months ended September 30, 2017. This increase in operating margin percentage was primarily driven by higher product margin, partially offset by higher sales payroll expenses and coworker costs due to higher attainment for performance-based compensation as a percentage of Net sales.

Public segment income from operations was $138 million for the three months ended September 30, 2018, an increase of $16 million, or 12.9%, compared to $122 million for the three months ended September 30, 2017. Public segment income from operations increased primarily due to higher gross profit dollars. Public segment operating margin percentage increased 20 basis points to 7.4% for the three months ended September 30, 2018, from 7.2% for the three months ended September 30, 2017. This increase in operating margin percentage was primarily driven by higher product margin, partially offset by higher coworker costs due to higher attainment for performance-based compensation as a percentage of Net sales.

Other income from operations was $19 million for the three months ended September 30, 2018, an increase of $5 million, or 34.5%, compared to $14 million for the three months ended September 30, 2017. Other income from operations increased primarily due to higher gross profit dollars, partially offset by higher payroll expenses. Other operating margin percentage increased 50 basis points to 4.2% for the three months ended September 30, 2018, from 3.7% for the three months ended September 30, 2017. This increase was primarily driven by the mix of Net sales and lower intangible asset amortization as a percentage of Net sales, partially offset by higher equity-based compensation expense as a percentage of Net sales.

Income tax expense

Income tax expense was $55 million for the three months ended September 30, 2018, compared to $78 million for the same period of the prior year. The effective income tax rate, expressed by calculating the income tax expense as a percentage of Income before income taxes, was 22.9% for the three months ended September 30, 2018 and differed from the US federal statutory rate of 21.0% primarily due to state income taxes partially offset by excess tax benefits on equity-based compensation. The effective tax rate for the same period of the prior year was 37.5% and differed from the US federal statutory rate of 35.0% primarily due to state income taxes and additional expense as a result of a change in state tax rates enacted during the quarter, partially offset by excess tax benefits on equity-based compensation and a state tax refund.

The lower effective tax rate for the three months ended September 30, 2018 as compared to the same period of the prior year was primarily attributable to the reduction in the US federal statutory rate and higher excess tax benefits on equity-based compensation, partially offset by higher effective net state income tax rates primarily due to the reduced US federal benefit.

Non-GAAP Financial Measure Reconciliations

We have included reconciliations of Non-GAAP income before income taxes, Non-GAAP net income, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and consolidated Net sales growth on a constant currency basis for the three months ended September 30, 2018 and 2017 below.

Non-GAAP income before income taxes and Non-GAAP net income exclude, among other things, charges related to the amortization of acquisition-related intangible assets, equity-based compensation and associated taxes, gains and losses from the extinguishment of debt and integration expenses. EBITDA is defined as consolidated net income before interest expense, net, income tax expense, depreciation and amortization. Adjusted EBITDA, which is a measure defined in our credit agreements, means EBITDA adjusted for certain items, which are described in the tables below. Adjusted EBITDA margin is defined as Adjusted EBITDA as a percentage of Net sales. Consolidated Net

sales growth on a constant currency basis is defined as consolidated Net sales growth excluding the impact of foreign currency translation on net sales compared to the prior period.

Non-GAAP income before income taxes, Non-GAAP net income, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and consolidated Net sales growth on a constant currency basis are considered non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance or financial position that either excludes or includes amounts that are not normally included or excluded in the most directly comparable measure calculated and presented in accordance with GAAP. Non-GAAP measures used by management may differ from similar measures used by other companies, even when similar terms are used to identify such measures.

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We believe these measures provide analysts, investors and management with helpful information regarding the underlying operating performance of our business, as they remove the impact of items that management believes are not reflective of underlying operating performance. Management uses these measures to evaluate period-over-period performance as management believes they provide a more comparable measure of the underlying business. Additionally, Adjusted EBITDA is a measure in the credit agreement governing our Term Loan used to evaluate our ability to make certain investments, incur additional debt, and make restricted payments, such as dividends and share repurchases, as well as whether we are required to make additional principal prepayments on the Term Loan beyond the quarterly amortization payments. For further details regarding the Term Loan, see Note 6 (Long-Term Debt) to the accompanying Consolidated Financial Statements.

Non-GAAP net income

Non-GAAP net income was $218 million for the three months ended September 30, 2018, an increase of $50 million, or 29.3%, compared to $168 million for the three months ended September 30, 2017.

	Three Months Ended September 30,					
	2018			2017[1]		
(dollars in millions)	Income before income taxes	Income tax expense[2]	Net income	Income before income taxes	Income tax (expense) benefit[2]	Net income
GAAP (as reported)	$238.4	$(54.7)	$183.7	$206.9	$(77.6)	$129.3
Amortization of intangibles[3]	45.3	(12.0)	33.3	46.5	(15.8)	30.7
Equity-based compensation	10.8	(10.5)	0.3	10.0	(4.1)	5.9
Reinstatement of prior year unclaimed property balances[4]	—	—	—	4.1	(1.6)	2.5
Tax Cuts and Jobs Act[5]	—	(2.0)	(2.0)	—	—	—
Other adjustments[6]	3.0	(0.7)	2.3	(0.2)	0.1	(0.1)
Non-GAAP	$297.5	$(79.9)	$217.6	$267.3	$(99.0)	$168.3

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) Income tax on non-GAAP adjustments includes excess tax benefits associated with equity-based compensation. Additionally, 2018 includes the impact of global intangible low tax income ("GILTI") on equity-based compensation and amortization of intangibles.

(3) Includes amortization expense for acquisition-related intangible assets, primarily customer relationships, customer contracts and trade names.

(4) Comprised of the reinstatement of prior year unclaimed property balances as a result of a retroactive Illinois state law change enacted in the third quarter of 2017.

(5) Comprised of an adjustment to the provisional amounts recorded to finalize the US federal impact of revaluing deferred tax assets and liabilities and mandatory repatriation tax due to the completion of the 2017 US federal tax return.

(6) Includes other expenses such as payroll taxes on equity-based compensation during the three months ended September 30, 2018 and 2017.

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Adjusted EBITDA

Adjusted EBITDA was $355 million for the three months ended September 30, 2018, an increase of $30 million, or 9.3%, compared to $325 million for the three months ended September 30, 2017. As a percentage of Net sales, Adjusted EBITDA was 8.1% for the three months ended September 30, 2018 and 8.3% for the three months ended September 30, 2017.

	Three Months Ended September 30,			
(in millions)	2018	Percentage of Net Sales	2017(1)	Percentage of Net Sales
Net income	$183.7		$129.3	
Depreciation and amortization	65.8		65.7	
Income tax expense	54.7		77.6	
Interest expense, net	36.6		37.8	
EBITDA	340.8	7.8 %	310.4	7.9 %
Adjustments:				
Equity-based compensation	10.8		10.0	
Reinstatement of prior year unclaimed property balances(2)	—		4.1	
Other adjustments(3)	3.1		0.1	
Total adjustments	13.9		14.2	
Adjusted EBITDA	$354.7	8.1 %	$324.6	8.3 %

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) Comprised of the reinstatement of prior year unclaimed property balances as a result of a retroactive Illinois state law change enacted in the third quarter of 2017.

(3) Includes other expenses such as payroll taxes on equity-based compensation and our share of net income from our equity investment during the three months ended September 30, 2018 and 2017. Also includes historical retention costs during the three months ended September 30, 2017.

Consolidated net sales growth on constant currency basis

Consolidated Net sales increased $440 million, or 11.2%, to $4,373 million for the three months ended September 30, 2018, compared to $3,933 million for the three months ended September 30, 2017. Consolidated Net sales on a constant currency basis, which excludes the impact of foreign currency translation, increased $447 million, or 11.4%.

	Three Months Ended September 30,			
(in millions)	2018	2017(1)	% Change	Average Daily % Change(2)
Consolidated Net sales, as reported	$4,373.2	$3,933.2	11.2%	11.2 %
Foreign currency translation(3)	—	(7.0)		
Consolidated Net sales, on a constant currency basis	$4,373.2	$3,926.2	11.4%	11.4 %

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) There were 63 selling days for both the three months ended September 30, 2018 and 2017.

(3) Represents the effect of translating the prior year results of CDW UK and CDW Canada at the average exchange rates applicable in the current year.

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Nine Months Overview

The results of certain business metrics are as follows:

(dollars in millions)	Nine Months Ended September 30, 2018	2017[1]
Net sales	$12,165.7	$11,080.8
Gross profit	2,013.1	1,836.5
Income from operations	744.4	645.6
Net income	483.7	328.3
Non-GAAP net income	593.6	453.2
Adjusted EBITDA	979.2	889.2
Average daily sales[2]	63.7	58.0
Net debt[3]	2,964.3	3,332.0
Cash conversion cycle (in days)[4]	18	19

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.
(2) There were 191 selling days for both the nine months ended September 30, 2018 and 2017.
(3) Defined as Total debt minus Cash and cash equivalents.
(4) Cash conversion cycle is defined as days of sales outstanding in Accounts receivable and certain receivables due from vendors plus days of supply in Merchandise inventory minus days of purchases outstanding in Accounts payable and Accounts payable-inventory financing, based on a rolling three-month average.

Results of Operations

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Results of operations, in dollars and as a percentage of Net sales are as follows:

	Nine Months Ended September 30,			
	2018		2017[1]	
	Dollars in Millions	Percentage of Net Sales	Dollars in Millions	Percentage of Net Sales
Net sales	$12,165.7	100.0 %	$11,080.8	100.0 %
Cost of sales	10,152.6	83.5	9,244.3	83.4
Gross profit	2,013.1	16.5	1,836.5	16.6
Selling and administrative expenses	1,134.8	9.3	1,062.8	9.6
Advertising expense	133.9	1.1	128.1	1.2
Income from operations	744.4	6.1	645.6	5.8
Interest expense, net	(111.5)	(0.9)	(113.4)	(1.0)
Net loss on extinguishments of long-term debt	—	—	(57.4)	(0.5)
Other income, net	1.0	—	1.9	—
Income before income taxes	633.9	5.2	476.7	4.3
Income tax expense	(150.2)	(1.2)	(148.4)	(1.3)
Net income	$483.7	4.0 %	$328.3	3.0 %

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

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Net sales

Net sales by segment, in dollars and as a percentage of total Net sales, and the year-over-year dollar and percentage change in Net sales are as follows:

	Nine Months Ended September 30,					
	2018		2017[1]			
(dollars in millions)	Net Sales	Percentage of Total Net Sales	Net Sales	Percentage of Total Net Sales	Dollar Change	Percent Change[2]
Corporate	$5,006.1	41.1 %	$4,573.5	41.3 %	$432.6	9.5 %
Small Business	997.1	8.2	912.4	8.2	84.7	9.3
Public:						
Government	1,551.3	12.8	1,490.0	13.5	61.3	4.1
Education	1,902.4	15.6	1,789.3	16.1	113.1	6.3
Healthcare	1,286.8	10.6	1,201.1	10.8	85.7	7.1
Total Public	4,740.5	39.0	4,480.4	40.4	260.1	5.8
Other	1,422.0	11.7	1,114.5	10.1	307.5	27.6
Total net sales	$12,165.7	100.0%	$11,080.8	100.0%	$1,084.9	9.8 %

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) There were 191 selling days for both the nine months ended September 30, 2018 and 2017.

Total Net sales for the nine months ended September 30, 2018 increased $1,085 million, or 9.8%, to $12,166 million, compared to $11,081 million for the nine months ended September 30, 2017. Excluding the impact of foreign currency fluctuations, constant currency Net sales growth was 9.3%. See "Non-GAAP Financial Measure Reconciliations" below for additional information regarding constant currency Net sales growth.

For the nine months ended September 30, 2018, growth was driven by ongoing focus on client device refresh within hardware and strong growth from our international operations. In addition, sales growth reflected both underlying demand for solutions, as well as the impact of the reversal associated with supply chain issues experienced at the end of 2017.

Corporate segment Net sales for the nine months ended September 30, 2018 increased $433 million, or 9.5% compared to the nine months ended September 30, 2017. Growth was primarily driven by client device refresh, as well as continued success helping customers with solutions, including data center and software.

Small Business segment Net sales for the nine months ended September 30, 2018 increased by $85 million, or 9.3%, between periods. Sales growth was primarily driven by client device refresh.

Public segment Net sales for the nine months ended September 30, 2018 increased $260 million, or 5.8%, compared to the nine months ended September 30, 2017. Net sales in Healthcare increased 7.1%, primarily driven by performance in client devices and video as customers moved forward on refresh projects. Education Net sales increased 6.3% primarily driven by continued success addressing client device and networking needs for both K-12 and Higher Education customers. Net sales to Government customers grew at 4.1%, driven by the success of executing against contracts to State & Local government customers and continued success meeting public safety needs.

Net sales in Other, which is comprised of results from our UK and Canadian operations, for the nine months ended September 30, 2018 increased $308 million, or 27.6%, compared to the nine months ended September 30, 2017. Both operations had strong growth in local currency as we continued to take share in the local markets. In addition, UK growth was driven in part by increased sales from referrals for US-based customers. The impact of foreign currency exchange increased Other sales growth by approximately 500 basis points, due to the favorable impact resulting from the British pound and Canadian dollar to US dollar translations.

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Gross profit

Gross profit increased $176 million, or 9.6%, to $2,013 million for the nine months ended September 30, 2018, compared to $1,837 million for the nine months ended September 30, 2017. As a percentage of Net sales, Gross profit margin decreased 10 basis points to 16.5% for the nine months ended September 30, 2018. Gross profit margin was impacted by improved product margin, this was offset by year-over-year Net sales growth out-pacing the year-over-year growth rate in partner funding.

Selling and administrative expenses

Selling and administrative expenses increased $72 million, or 6.8%, to $1,135 million for the nine months ended September 30, 2018, compared to $1,063 million for the nine months ended September 30, 2017. The increase was driven by higher sales payroll costs, including sales commissions primarily due to higher Gross profit dollars, higher coworker costs due to higher attainment of performance-based compensation and strategic investments funded by tax reform. This was partially offset by lower equity-based compensation expense and the associated payroll taxes due to the prior year vesting of an equity grant made at the time of our initial public offering.

As a percentage of total Net sales, Selling and administrative expenses decreased 30 basis points to 9.3% during the nine months ended September 30, 2018, down from 9.6% in the nine months ended September 30, 2017.

Income from operations

Income from operations by segment, in dollars and as a percentage of Net sales, and the year-over-year percentage change are as follows:

	Nine Months Ended September 30,					
	2018		2017[1]			
	Dollars in Millions	Operating Margin Percentage	Dollars in Millions	Operating Margin Percentage	Percent Change in Income from Operations	
Segments:[2]						
Corporate	$393.3	7.9 %	$360.6	7.9 %	8.9	%
Small Business	71.0	7.1	53.7	5.9	32.1	
Public	322.7	6.8	287.6	6.4	12.2	
Other[3]	60.7	4.3	39.5	3.5	53.7	
Headquarters[4]	(103.3)	nm*	(95.8)	nm*	7.8	
Total income from operations	$744.4	6.1 %	$645.6	5.8 %	15.2	%

* Not meaningful

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

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

(3) Includes the financial results for our other operating segments, CDW UK and CDW Canada, which do not meet the reportable segment quantitative thresholds.

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

Income from operations was $744 million for the nine months ended September 30, 2018, an increase of $98 million, or 15.2%, compared to $646 million for the nine months ended September 30, 2017. Income from operations increased primarily due to higher gross profit dollars, partially offset by higher sales payroll expenses and higher coworker costs due to higher attainment on performance-based compensation. Total operating margin percentage increased 30 basis points to 6.1% for the nine months ended September 30, 2018, from 5.8% for the nine months ended September 30, 2017. The increase was primarily due to lower equity-based compensation expense and the associated payroll taxes and intangible asset amortization as a percentage of Net sales, which do not trend in line with sales movement.

Corporate segment income from operations was $393 million for the nine months ended September 30, 2018, an increase of $32 million, or 8.9%, compared to $361 million for the nine months ended September 30, 2017. Corporate segment income from operations increased primarily due to higher gross profit dollars driven by higher sales.

Corporate segment operating margin

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percentage remained flat to prior year at 7.9% for the nine months ended September 30, 2018. The benefit from lower Selling and administrative expenses as a percentage of Net sales was offset by product margin compression due to increased hardware sales.

Small Business segment income from operations was $71 million for the nine months ended September 30, 2018, an increase of $17 million, or 32.1%, compared to $54 million for the nine months ended September 30, 2017. Small business segment income from operations increased primarily due to higher gross profit dollars. Small Business segment operating margin percentage increased 120 basis points to 7.1% for the nine months ended September 30, 2018, from 5.9% for the nine months ended September 30, 2017. This increase in operating margin percentage was primarily driven by higher product margin and the benefit of lower sales payroll expenses and intangible asset amortization expenses as a percentage of Net sales.

Public segment income from operations was $323 million for the nine months ended September 30, 2018, an increase of $35 million, or 12.2%, compared to $288 million for the nine months ended September 30, 2017. Public segment income from operations increased primarily due to higher gross profit dollars. Public segment operating margin percentage increased 40 basis points to 6.8% for the nine months ended September 30, 2018, from 6.4% for the nine months ended September 30, 2017. This increase in operating margin percentage was primarily driven by a higher product margin.

Other income from operations was $61 million for the nine months ended September 30, 2018, an increase of $21 million, or 53.7%, compared to $40 million for the nine months ended September 30, 2017. Other income from operations increased primarily due to higher gross profit dollars, partially offset by higher sales payroll expenses. Foreign exchange translation also had a favorable impact on income from operations. Other operating margin percentage increased 80 basis points to 4.3% for the nine months ended September 30, 2018, from 3.5% for the nine months ended September 30, 2017. This increase was primarily due to lower sales payroll expenses and lower intangible asset amortization as a percentage of Net sales.

Net loss on extinguishments of long-term debt

During the nine months ended September 30, 2017, we incurred a net loss on extinguishment of long-term debt of $57 million. For information regarding our debt, see Note 6 (Long-Term Debt) to the accompanying Consolidated Financial Statements.

Net loss on extinguishments of long-term debt for the nine months ended September 30, 2017 are as follows:

		(in millions)	
Month of Extinguishment	Debt Instrument	Amount Extinguished	Loss Recognized
February 2017	Senior Secured Term Loan Facility	$1,483.0	$(13.7)
March 2017	Senior Notes due 2022	600.0	(42.5) [1]
March 2017	Senior Secured Asset-based Revolving Credit Facility	—	(1.2)
	Total Loss Recognized		$(57.4)

(1) We repaid all of the remaining aggregate principal amount outstanding. The loss recognized represents the difference between the aggregate principal amount and the net carrying amount of the purchased debt, adjusted for the remaining unamortized deferred financing fees and premium.

Income tax expense

Income tax expense was $150 million for the nine months ended September 30, 2018, compared to $148 million for the same period of the prior year. The effective income tax rate, expressed by calculating the income tax expense as a percentage of Income before income taxes, was 23.7% for the nine months ended September 30, 2018 and differed from the US federal statutory rate of 21.0% primarily due to state income taxes, partially offset by excess tax benefits on equity-based compensation. The effective tax rate for the same period of the prior year was 31.1% and differed from the US federal statutory rate of 35.0% primarily due to excess tax benefits on equity-based compensation, partially offset by state taxes.

The lower effective tax rate for the nine months ended September 30, 2018 as compared to the same period of the prior year was primarily attributable to the reduction in the US federal statutory rate, partially offset by lower excess tax benefits on equity-based compensation and a higher effective net state income tax rate primarily due to the reduced US federal benefit.

Non-GAAP Financial Measure Reconciliations

We have included reconciliations of Non-GAAP income before income taxes, Non-GAAP net income, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and consolidated Net sales growth on a constant currency basis for the nine months ended September 30, 2018 and 2017 below. See the "Non-GAAP Financial Measure Reconciliations" section included above for the three months ended September 30, 2018 and 2017 for all Non-GAAP measure definitions.

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Non-GAAP net income

Non-GAAP net income was $594 million for the nine months ended September 30, 2018, an increase of $141 million or 31.0% compared to $453 million for the nine months ended September 30, 2017.

	Nine Months Ended September 30,					
	2018			2017[1]		
(dollars in millions)	Income before income taxes	Income tax expense[2]	Net income	Income before income taxes	Income tax expense[2]	Net income
GAAP (as reported)	$633.9	$(150.2)	$483.7	$476.7	$(148.4)	$328.3
Amortization of intangibles[3]	138.6	(36.0)	102.6	138.9	(49.1)	89.8
Equity-based compensation	29.9	(23.8)	6.1	33.6	(42.6)	(9.0)
Net loss on extinguishments of long-term debt	—	—	—	57.4	(20.7)	36.7
Integration expenses[4]	—	—	—	2.5	(0.9)	1.6
Reinstatement of prior year unclaimed property balances[5]	—	—	—	4.1	(1.5)	2.6
Tax Cuts and Jobs Act[6]	—	(2.0)	(2.0)	—	—	—
Other adjustments[7]	4.2	(1.0)	3.2	4.8	(1.6)	3.2
Non-GAAP	$806.6	$(213.0)	$593.6	$718.0	$(264.8)	$453.2

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) Income tax on non-GAAP adjustments includes excess tax benefits associated with equity-based compensation. Additionally, 2018 includes the impact of GILTI on equity-based compensation and amortization of intangibles.

(3) Includes amortization expense for acquisition-related intangible assets, primarily customer relationships, customer contracts and trade names.

(4) Comprised of expenses related to CDW UK.

(5) Comprised of the reinstatement of prior year unclaimed property balances as a result of a retroactive Illinois state law change enacted in the third quarter of 2017.

(6) Comprised of an adjustment to the provisional amounts recorded to finalize the US federal impact of revaluing deferred tax assets and liabilities and mandatory repatriation tax due to the completion of the 2017 US federal tax return.

(7) Includes other expenses such as payroll taxes on equity-based compensation during the nine months ended September 30, 2018 and 2017.

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Adjusted EBITDA

Adjusted EBITDA was $979 million for the nine months ended September 30, 2018, an increase of $90 million, or 10.1%, compared to $889 million for the nine months ended September 30, 2017. As a percentage of Net sales, Adjusted EBITDA was 8.0% for both the nine months ended September 30, 2018 and 2017.

	Nine Months Ended September 30,			
(in millions)	2018	Percentage of Net Sales	2017(1)	Percentage of Net Sales
Net income	$483.7		$328.3	
Depreciation and amortization	198.7		195.2	
Income tax expense	150.2		148.4	
Interest expense, net	111.5		113.4	
EBITDA	944.1	7.8 %	785.3	7.1 %
Adjustments:				
Equity-based compensation	29.9		33.6	
Net loss on extinguishments of long-term debt	—		57.4	
Integration expenses(2)	—		2.5	
Reinstatement of prior year unclaimed property balances(3)	—		4.1	
Other adjustments(4)	5.2		6.3	
Total adjustments	35.1		103.9	
Adjusted EBITDA	$979.2	8.0 %	$889.2	8.0 %

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) Comprised of expenses related to CDW UK.

(3) Comprised of the reinstatement of prior year unclaimed property balances as a result of a retroactive Illinois state law change enacted in the third quarter of 2017.

(4) Includes other expenses such as payroll taxes on equity-based compensation and our share of net income from our equity investment during the nine months ended September 30, 2018 and 2017. Also includes historical retention costs during the nine months ended September 30, 2017.

Consolidated net sales growth on constant currency basis

Consolidated Net sales increased $1,085 million, or 9.8%, to $12,166 million for the nine months ended September 30, 2018, compared to $11,081 million for the nine months ended September 30, 2017. Consolidated Net sales on a constant currency basis, which excludes the impact of foreign currency translation, increased $1,038 million, or 9.3%.

	Nine Months Ended September 30,			
(in millions)	2018	2017(1)	% Change	Average Daily % Change(2)
Consolidated Net sales, as reported	$12,165.7	$11,080.8	9.8 %	9.8 %
Foreign currency translation(3)	—	47.3		
Consolidated Net sales, on a constant currency basis	$12,165.7	$11,128.1	9.3 %	9.3 %

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) There were 191 selling days for both the nine months ended September 30, 2018 and 2017.

(3) Represents the effect of translating the prior year results of CDW UK and CDW Canada at the average exchange rates applicable in the current year.

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Seasonality

While we have not historically experienced significant seasonality throughout the year, sales in our Corporate segment, which primarily serves US private sector business customers with more than 250 employees, are typically higher in the fourth quarter than in other quarters due to customers spending their remaining technology budget dollars at the end of the year. Additionally, sales in our Public segment have historically been higher in the third quarter than in other quarters primarily due to the buying patterns of the federal government and education customers.

Liquidity and Capital Resources

Overview

We finance our operations and capital expenditures with internally generated cash from operations. As of September 30, 2018, we also have $1.1 billion of availability for borrowings under our senior secured asset-based revolving credit facility and an additional £45 million ($59 million at September 30, 2018) under the CDW UK revolving credit facility. Our liquidity and borrowing plans are established to align with our financial and strategic planning processes and ensure we have the necessary funding to meet our operating commitments, which primarily include the purchase of inventory, payroll and general expenses. We also take into consideration our overall capital allocation strategy, which includes investment for future growth, dividend payments, acquisitions and share repurchases. We believe we have adequate sources of liquidity and funding available for at least the next year; however, there are a number of factors that may negatively impact our available sources of funds. The amount of cash generated from operations will be dependent upon factors such as the successful execution of our business plan and general economic conditions.

Share Repurchase Program

During the nine months ended September 30, 2018, we repurchased 3.0 million shares of our common stock for $233 million under the previously announced share repurchase program. For more information on our share repurchase program, see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds.

Dividends

A summary of 2018 dividend activity for our common stock is as follows:

Dividend Amount	Declaration Date	Record Date	Payment Date
$0.21	February 7, 2018	February 26, 2018	March 12, 2018
$0.21	May 2, 2018	May 25, 2018	June 11, 2018
$0.21	August 2, 2018	August 24, 2018	September 10, 2018

On October 31, 2018, we announced that our Board of Directors declared a quarterly cash dividend of $0.295 per common share. The dividend will be paid on December 10, 2018 to all stockholders of record as of the close of business on November 26, 2018.

The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon our results of operations, financial condition, business prospects, capital requirements, contractual restrictions, any potential indebtedness we may incur, restrictions imposed by applicable law, tax considerations and other factors that our Board of Directors deems relevant. In addition, our ability to pay dividends on our common stock will be limited by restrictions on our ability to pay dividends or make distributions to our stockholders and on the ability of our subsidiaries to pay dividends or make distributions to us, in each case, under the terms of our current and any future agreements governing our indebtedness.

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Cash Flows

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

(in millions)	Nine Months Ended September 30, 2018	2017
Net cash provided by (used in):		
Operating activities	$602.3	$439.1
Investing activities	(53.4)	(58.6)
Net change in accounts payable-inventory financing	(90.1)	(41.4)
Other financing activities	(345.2)	(506.2)
Financing activities	(435.3)	(547.6)
Effect of exchange rate changes on cash and cash equivalents	(2.7)	1.3
Net increase (decrease) in cash and cash equivalents	$110.9	$(165.8)

Operating Activities

(in millions)	Nine Months Ended September 30, 2018	2017(1)	Dollar Change
Net income	$483.7	$328.3	$155.4
Adjustments for the impact of non-cash items[2]	198.1	234.9	(36.8)
Net income adjusted for the impact of non-cash items[3]	681.8	563.2	118.6
Changes in assets and liabilities:			
Accounts receivable[4]	(334.3)	(120.7)	(213.6)
Merchandise inventory	(72.1)	(83.6)	11.5
Accounts payable-trade[5]	300.6	140.2	160.4
Other[6]	26.3	(60.0)	86.3
Net cash provided by operating activities	$602.3	$439.1	$163.2

(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) Includes items such as deferred income taxes, depreciation and amortization, equity-based compensation expense and Net loss on extinguishments of long-term debt.

(3) The change is primarily due to stronger operating results driven by Net sales and Gross profit growth, partially offset by higher sales payroll.

(4) The change in Accounts receivable is primarily due to increased sales volume in 2018 compared to 2017.

(5) The change in Accounts payable-trade is due to increased sales in 2018, the timing of purchases and the changes in the mix of vendors with different payment terms.

(6) The change in Other is driven by improved collection performance of our receivables from vendors, higher accrued compensation expense in 2018 and the settlement of our Restricted Debt Unit Plan liability in 2017.

In order to manage our working capital and operating cash needs, we monitor our cash conversion cycle, defined as days of sales outstanding in accounts receivable plus days of supply in inventory minus days of purchases outstanding in accounts payable, based on a rolling three-month average. Components of our cash conversion cycle are as follows:

(in days)	September 30, 2018	2017[1]
Days of sales outstanding ("DSO")[2]	55	54
Days of supply in inventory ("DIO")[3]	12	13
	(49)	(48)

Days of purchases outstanding ("DPO")[4]		
Cash conversion cycle	18	19

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(1) Amounts for 2017 have been adjusted to reflect the adoption of Topic 606.

(2) Represents the rolling three-month average of the balance of Accounts receivable, net at the end of the period, divided by average daily Net sales for the same three-month period. Also incorporates components of other miscellaneous receivables.

(3) Represents the rolling three-month average of the balance of Merchandise inventory at the end of the period divided by average daily Cost of sales for the same three-month period.

(4) Represents the rolling three-month average of the combined balance of Accounts payable-trade, excluding cash overdrafts, and Accounts payable-inventory financing at the end of the period divided by average daily Cost of sales for the same three-month period.

The cash conversion cycle decreased to 18 days at September 30, 2018 compared to 19 days at September 30, 2017 as DSO and DPO each increased 1 day and DIO decreased 1 day compared to September 30, 2017. Both DSO and DPO are impacted by third party services such as software as a service and warranties. These sales have an unfavorable impact on DSO as the receivable is recognized on the Consolidated Balance Sheet on a gross basis while the corresponding sales amount in the Consolidated Statement of Operations is recorded on a net basis. This also results in a favorable impact on DPO as the payable is recognized on the Consolidated Balance Sheet without a corresponding Cost of sales in the Statement of Operations because the cost paid to the vendor or third-party service provider is recorded as a reduction to Net sales. Additionally, average inventory balances remained at the same levels as 2017 which, coupled with higher Cost of sales, led to a favorable impact on DIO.

Investing Activities

Net cash used in investing activities decreased by $6 million in the nine months ended September 30, 2018 compared to the same period of the prior year. Capital expenditures were $53 million and $59 million for the nine months ended September 30, 2018 and 2017, respectively. The decrease in capital expenditures is primarily due to the timing of investments for improvements to our information technology systems.

Financing Activities

Net cash used in financing activities decreased by $112 million in the nine months ended September 30, 2018 compared to the same period of the prior year. The decrease was primarily driven by fewer share repurchases during the nine months ended September 30, 2018, which resulted in a $301 million decrease in cash used in financing activities. The decrease in cash used in financing activities was partially offset by reduced borrowings under our revolving credit facilities, which resulted in net cash outflows of $185 million. For more information regarding our debt and refinancing activities, see Note 6 (Long-Term Debt) to the accompanying Consolidated Financial Statements.

Long-Term Debt and Financing Arrangements

As of September 30, 2018, we had total indebtedness of $3.2 billion, of which $1.5 billion was secured indebtedness. At September 30, 2018, we were in compliance with the covenants under our various credit agreements and indentures. The amount of CDW's restricted payment capacity under the Senior Secured Term Loan Facility was $1.4 billion at September 30, 2018. The amount of restricted payment capacity for the CDW UK Term Loan was $152 million at September 30, 2018.

For additional details regarding our debt and refinancing activities, refer to Note 6 (Long-Term Debt) to the accompanying Consolidated Financial Statements.

Inventory Financing Agreements

We have entered into agreements with certain financial intermediaries to facilitate the purchase of inventory from various suppliers under certain terms and conditions. These amounts are classified separately as Accounts payable-inventory financing on the Consolidated Balance Sheets. We do not incur any interest expense associated with these agreements as balances are paid when they are due. For further details, see Note 3 (Inventory Financing Agreements) to the accompanying Consolidated Financial Statements.

Contractual Obligations

Except as disclosed under Note 6 (Long-Term Debt) to the accompanying Consolidated Financial Statements, there have been no material changes to our contractual obligations from those reported in our Annual Report on Form 10-K for the year ended December 31, 2017.

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Off-Balance Sheet Arrangements

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

Commitments and Contingencies

The information set forth in Note 11 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements.

Critical Accounting Policies and Estimates

During the nine months ended September 30, 2018, we adopted the requirements of Topic 606. See Note 1 (Description of Business and Summary of Significant Accounting Policies) to the accompanying Consolidated Financial Statements for information regarding our new revenue recognition critical accounting policy.

Recent Accounting Pronouncements

The information set forth in Note 2 (Recent Accounting Pronouncements) to the accompanying Consolidated Financial Statements is incorporated herein by reference.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact included in this report are forward-looking statements. These statements relate to analysis and other information, which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. We claim the protection of The Private Securities Litigation Reform Act of 1995 for all forward-looking statements in this report. These forward-looking statements are identified by the use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "will" and similar terms and phrases, including references to assumptions. However, these words are not the exclusive means of identifying such statements. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that we will achieve those plans, intentions or expectations. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected.

Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed under the section entitled "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2017 and from time to time in our subsequent Quarterly Reports on Form 10-Q and our other SEC filings. These factors include, among others, global and regional economic and political conditions; decreases in spending on technology products and services; CDW's relationships with vendor partners and availability of their products; continued innovations in hardware, software and services offerings by CDW's vendor partners; substantial competition that could reduce CDW's market share; CDW's substantial indebtedness and ability to generate sufficient cash to service such indebtedness; restrictions imposed by agreements relating to CDW's indebtedness on its operations and liquidity; changes in, or the discontinuation of, CDW's share repurchase program or dividend payments; the continuing development, maintenance and operation of CDW's information technology systems; potential breaches of data security and failure to protect our information technology systems from cybersecurity threats; potential failures to comply with Public segment contracts or applicable laws and regulations; potential failures to provide high-quality services to CDW's customers; potential losses of any key personnel; potential interruptions of the flow of products from suppliers; potential adverse occurrences at one of CDW's primary facilities or customer data centers; increases in the cost of commercial delivery services or disruptions of those services; CDW's exposure to accounts receivable and inventory risks; fluctuations in foreign currency; future acquisitions or alliances; fluctuations in CDW's operating results; current and future legal proceedings and audits; changes in laws, including the recent US tax legislation, regulations or interpretations thereof; and other risk factors or uncertainties identified from time to time in CDW's filings with the SEC. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements contained in the section entitled "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2017

and elsewhere in this report as well as other cautionary statements that are made from time to time in our other SEC filings and public communications. You should evaluate all forward-looking statements made in this report in the context of these risks and uncertainties.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. As of September 30, 2018, there have been no material changes in this information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, and that information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely discussions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth in Note 11 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements included in Part I, Item 1 "Financial Statements", of this Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

See "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

Information relating to the Company's purchases of its common stock during the three months ended September 30, 2018 is as follows:

Period	Total Number of Shares Purchased (in millions)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (in millions)	Maximum Dollar Value of Shares that May Yet be Purchased Under the Program[(1)] (in millions)
July 1 through July 31, 2018	0.3	$84.49	0.3	$ 660.1
August 1 through August 31, 2018	0.1	$85.66	0.1	$ 650.7
September 1 through September 30, 2018	0.3	$88.89	0.3	$ 625.5
Total	0.7		0.7	

(1) The amounts presented in this column are the remaining total authorized value to be spent after each month's repurchases. On August 3, 2017, the Company announced that its Board of Directors authorized a $750 million increase to the share repurchase program under which the Company may repurchase shares of its common stock in the open market through privately negotiated or other transactions, depending on share price, market conditions and other factors.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit	Description
31.1*	Certification of Chief Executive Officer Pursuant to Rule 15d-14(a) under the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 15d-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.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

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*Filed herewith

**These items are furnished and not filed.

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SIGNATURES

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

CDW CORPORATION

Date: October 31, 2018 By: /s/ Collin B. Kebo
Collin B. Kebo
Senior Vice President and Chief Financial Officer
(Duly authorized officer and principal financial officer)