

ARROW ELECTRONICS INC  
Form 10-Q  
May 06, 2014

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

FORM 10-Q

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

For the quarterly period ended March 29, 2014

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 1-4482

ARROW ELECTRONICS, INC.  
(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of  
incorporation or organization)

11-1806155  
(I.R.S. Employer  
Identification Number)

7459 South Lima Street, Englewood, Colorado  
(Address of principal executive offices)

80112  
(Zip Code)

(303) 824-4000  
(Registrant's telephone number, including area code)

No Changes  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Edgar Filing: ARROW ELECTRONICS INC - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

There were 99,635,590 shares of Common Stock outstanding as of May 2, 2014.

---

ARROW ELECTRONICS, INC.

INDEX

	Page
Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Statements of Operations	<u>3</u>
Consolidated Statements of Comprehensive Income	<u>4</u>
Consolidated Balance Sheets	<u>5</u>
Consolidated Statements of Cash Flows	<u>6</u>
Notes to Consolidated Financial Statements	<u>7</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>23</u>
Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>31</u>
Item 4. Controls and Procedures	<u>32</u>
Part II. Other Information	
Item 1A. Risk Factors	<u>33</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>33</u>
Item 6. Exhibits	<u>34</u>
Signature	<u>35</u>

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

ARROW ELECTRONICS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands except per share data)  
(Unaudited)

	Quarter Ended	
	March 29, 2014	March 30, 2013
Sales	\$5,082,040	\$4,849,629
Costs and expenses:		
Cost of sales	4,378,212	4,207,557
Selling, general, and administrative expenses	477,903	451,405
Depreciation and amortization	36,571	31,505
Restructuring, integration, and other charges	11,614	21,610
	4,904,300	4,712,077
Operating income	177,740	137,552
Equity in earnings of affiliated companies	1,417	1,983
Loss on prepayment of debt	—	4,277
Interest and other financing expense, net	29,637	29,530
Income before income taxes	149,520	105,728
Provision for income taxes	42,328	27,770
Consolidated net income	107,192	77,958
Noncontrolling interests	72	83
Net income attributable to shareholders	\$107,120	\$77,875
Net income per share:		
Basic	\$1.07	\$.74
Diluted	\$1.06	\$.72
Weighted-average shares outstanding:		
Basic	99,948	105,889
Diluted	101,399	107,824

See accompanying notes.

ARROW ELECTRONICS, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Quarter Ended	
	March 29, 2014	March 30, 2013
Consolidated net income	\$107,192	\$77,958
Other comprehensive income:		
Foreign currency translation adjustment	(10,507	) (66,170
Unrealized gain (loss) on investment securities, net	596	(1,978
Unrealized gain on interest rate swaps designated as cash flow hedges, net	99	1,744
Employee benefit plan items, net	553	799
Other comprehensive loss	(9,259	) (65,605
Comprehensive income	97,933	12,353
Less: Comprehensive income attributable to noncontrolling interests	73	83
Comprehensive income attributable to shareholders	\$97,860	\$12,270

See accompanying notes.

ARROW ELECTRONICS, INC.  
CONSOLIDATED BALANCE SHEETS

(In thousands except par value)

	March 29, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$258,283	\$390,602
Accounts receivable, net	4,846,349	5,769,759
Inventories	2,094,439	2,167,287
Other current assets	287,691	258,122
Total current assets	7,486,762	8,585,770
Property, plant, and equipment, at cost:		
Land	24,042	24,051
Buildings and improvements	144,344	142,583
Machinery and equipment	1,137,995	1,113,987
	1,306,381	1,280,621
Less: Accumulated depreciation and amortization	(664,860	) (648,232
Property, plant, and equipment, net	641,521	632,389
Investments in affiliated companies	68,364	67,229
Intangible assets, net	430,475	426,069
Cost in excess of net assets of companies acquired	2,083,892	2,039,293
Other assets	321,902	310,133
Total assets	\$11,032,916	\$12,060,883
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$3,627,458	\$4,503,200
Accrued expenses	653,049	774,868
Short-term borrowings, including current portion of long-term debt	16,452	23,878
Total current liabilities	4,296,959	5,301,946
Long-term debt	2,142,987	2,226,132
Other liabilities	367,064	347,977
Equity:		
Shareholders' equity:		
Common stock, par value \$1:		
Authorized - 160,000 shares in both 2014 and 2013		
Issued - 125,424 shares in both 2014 and 2013	125,424	125,424
Capital in excess of par value	1,056,326	1,071,075
Treasury stock (25,820 and 25,488 shares in 2014 and 2013, respectively), at cost	(962,635	) (920,528
Retained earnings	3,785,829	3,678,709
Accumulated other comprehensive income	216,293	225,552
Total shareholders' equity	4,221,237	4,180,232
Noncontrolling interests	4,669	4,596
Total equity	4,225,906	4,184,828
Total liabilities and equity	\$11,032,916	\$12,060,883

See accompanying notes.



ARROW ELECTRONICS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Quarter Ended	
	March 29, 2014	March 30, 2013
Cash flows from operating activities:		
Consolidated net income	\$ 107,192	\$ 77,958
Adjustments to reconcile consolidated net income to net cash provided by (used for) operations:		
Depreciation and amortization	36,571	31,505
Amortization of stock-based compensation	9,796	5,983
Equity in earnings of affiliated companies	(1,417)	(1,983)
Deferred income taxes	10,641	19,584
Restructuring, integration, and other charges	8,020	15,495
Excess tax benefits from stock-based compensation arrangements	(5,862)	(6,475)
Other	1,492	1,596
Change in assets and liabilities, net of effects of acquired businesses:		
Accounts receivable	904,719	388,980
Inventories	72,001	(25,377)
Accounts payable	(859,288)	(467,797)
Accrued expenses	(127,226)	(173,437)
Other assets and liabilities	(32,602)	(45,436)
Net cash provided by (used for) operating activities	124,037	(179,404)
Cash flows from investing activities:		
Cash consideration paid for acquired businesses	(60,224)	(9,382)
Acquisition of property, plant, and equipment	(32,843)	(26,751)
Other	—	(3,000)
Net cash used for investing activities	(93,067)	(39,133)
Cash flows from financing activities:		
Change in short-term and other borrowings	(7,338)	(14,342)
Proceeds from (repayment of) long-term bank borrowings, net	(85,000)	44,300
Net proceeds from note offering	—	591,156
Redemption of senior notes	—	(338,184)
Proceeds from exercise of stock options	16,142	10,600
Excess tax benefits from stock-based compensation arrangements	5,862	6,475
Repurchases of common stock	(88,501)	(113,504)
Net cash provided by (used for) financing activities	(158,835)	186,501
Effect of exchange rate changes on cash	(4,454)	(13,497)
Net decrease in cash and cash equivalents	(132,319)	(45,533)
Cash and cash equivalents at beginning of period	390,602	409,684
Cash and cash equivalents at end of period	\$ 258,283	\$ 364,151

See accompanying notes.



ARROW ELECTRONICS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands except per share data)  
(Unaudited)

Note A – Basis of Presentation

The accompanying consolidated financial statements of Arrow Electronics, Inc. (the "company") were prepared in accordance with accounting principles generally accepted in the United States and reflect all adjustments of a normal recurring nature, which are, in the opinion of management, necessary for a fair presentation of the consolidated financial position and results of operations at and for the periods presented. The consolidated results of operations for the interim periods are not necessarily indicative of results for the full year.

These consolidated financial statements do not include all of the information or notes necessary for a complete presentation and, accordingly, should be read in conjunction with the company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2013, as filed in the company's Annual Report on Form 10-K.

Quarter End

The company operates on a quarterly reporting calendar that closes on the Saturday closest to the end of the calendar quarter.

Reclassification

Certain prior period amounts were reclassified to conform to the current period presentation.

Note B – Impact of Recently Issued Accounting Standards

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU No. 2014-08"). ASU No. 2014-08 amends the requirements for reporting and disclosing discontinued operations. Under ASU No. 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. ASU No. 2014-08 is effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted and is to be applied prospectively. The adoption of the provisions of ASU No. 2014-08 is not expected to have a material impact on the company's financial position or results of operations.

Note C – Acquisitions

The company accounts for acquisitions using the acquisition method of accounting. The results of operations of acquisitions are included in the company's consolidated results from their respective dates of acquisition. The company allocates the purchase price of each acquisition to the tangible assets, liabilities, and identifiable intangible assets acquired based on their estimated fair values. In certain circumstances, a portion of purchase price may be contingent upon the achievement of certain operating results. The fair values assigned to identifiable intangible assets acquired and contingent consideration were determined primarily by using an income approach which was based on assumptions and estimates made by management. Significant assumptions utilized in the income approach were based on company specific information and projections, which are not observable in the market and are thus considered

Level 3 measurements by authoritative guidance (see Note H). The excess of the purchase price over the fair value of the identified assets and liabilities has been recorded as goodwill. Any change in the estimated fair value of the net assets prior to the finalization of the allocation for acquisitions could change the amount of the purchase price allocable to goodwill. The company is not aware of any information that indicates the final purchase price allocations will differ materially from the preliminary estimates.

#### 2014 Acquisition

During the first quarter of 2014, the company completed one acquisition. The aggregate consideration for this acquisition was \$66,287, net of cash acquired, and included \$5,853 of contingent consideration and \$210 of other amounts withheld. The impact of this acquisition was not material to the company's consolidated financial position or results of operations. The pro forma impact of the 2014 acquisition on the consolidated results of operations of the company for the first quarters of 2014 and 2013 as though this acquisition occurred on January 1, 2013 was also not material.

ARROW ELECTRONICS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollars in thousands except per share data)  
 (Unaudited)

### 2013 Acquisitions

On October 28, 2013, the company acquired CSS Computer Security Solutions Holding GmbH, doing business as ComputerLinks AG ("ComputerLinks"), for a purchase price of \$313,209, which included \$20,981 of cash acquired. ComputerLinks is a value-added distributor of enterprise computing solutions with a comprehensive offering of IT solutions from many of the world's leading technology suppliers. ComputerLinks has operations in EMEA (Europe, Middle East, and Africa), North America, and select countries within the Asia Pacific region.

During 2013, the company completed four additional acquisitions. The aggregate consideration for these four acquisitions was \$80,210, net of cash acquired, and included \$4,498 of contingent consideration. The impact of these acquisitions was not material, individually or in the aggregate, to the company's consolidated financial position or results of operations.

The following table summarizes the company's unaudited consolidated results of operations for 2013, as well as the unaudited pro forma consolidated results of operations of the company, as though the 2013 acquisitions occurred on January 1:

	For the Quarter Ended March 30, 2013	
	As Reported	Pro Forma
Sales	\$4,849,629	\$5,102,603
Net income attributable to shareholders	77,875	80,667
Net income per share:		
Basic	\$0.74	\$0.76
Diluted	\$0.72	\$0.75

The unaudited pro forma consolidated results of operations do not purport to be indicative of the results obtained had these acquisitions occurred as of the beginning of 2013, or of those results that may be obtained in the future. Additionally, the above table does not reflect any anticipated cost savings or cross-selling opportunities expected to result from these acquisitions.

### Note D – Cost in Excess of Net Assets of Companies Acquired and Intangible Assets, Net

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. The company tests goodwill and other indefinite-lived intangible assets for impairment annually as of the first day of the fourth quarter, or more frequently if indicators of potential impairment exist.

Cost in excess of net assets of companies acquired, allocated to the company's business segments, is as follows:

	Global Components	Global ECS	Total
Balance as of December 31, 2013 (a)	\$1,000,860	\$1,038,433	\$2,039,293
Acquisitions	45,652	—	45,652
Foreign currency translation adjustment	662	(1,715)	(1,053)
Balance as of March 29, 2014 (a)	\$1,047,174	\$1,036,718	\$2,083,892

The total carrying value of cost in excess of net assets of companies acquired for all periods in the table above is (a) reflected net of \$1,018,780 of accumulated impairment charges, of which \$716,925 was recorded in the global components business segment and \$301,855 was recorded in the global ECS business segment.

## ARROW ELECTRONICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(Unaudited)

Intangible assets, net, are comprised of the following as of March 29, 2014:

	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	indefinite	\$ 179,000	\$—	\$ 179,000
Customer relationships	10 years	389,576	(144,813	) 244,763
Developed technology	5 years	9,778	(4,609	) 5,169
Other intangible assets	(b)	2,908	(1,365	) 1,543
		\$581,262	\$(150,787	) \$430,475

Intangible assets, net, are comprised of the following as of December 31, 2013:

	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	indefinite	\$ 179,000	\$—	\$ 179,000
Customer relationships	10 years	374,244	(134,817	) 239,427
Developed technology	5 years	9,625	(4,051	) 5,574
Other intangible assets	(b)	4,609	(2,541	) 2,068
		\$567,478	\$(141,409	) \$426,069

(b) Consists of non-competition agreements and sales backlog with useful lives ranging from one to three years.

During the first quarters of 2014 and 2013, the company recorded amortization expense related to identifiable intangible assets of \$10,947 (\$8,907 net of related taxes or \$.09 per share on both a basic and diluted basis) and \$8,957 (\$7,116 net of related taxes or \$.07 per share on both a basic and diluted basis), respectively.

## Note E – Investments in Affiliated Companies

The company owns a 50% interest in several joint ventures with Marubun Corporation (collectively "Marubun/Arrow") and a 50% interest in Arrow Altech Holdings (Pty.) Ltd. ("Altech Industries"), a joint venture with Allied Technologies Limited. These investments are accounted for using the equity method.

The following table presents the company's investment in Marubun/Arrow and the company's investment and long-term note receivable in Altech Industries:

	March 29, 2014	December 31, 2013
Marubun/Arrow	\$55,825	\$54,672
Altech Industries	12,539	12,557
	\$68,364	\$67,229



ARROW ELECTRONICS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollars in thousands except per share data)  
 (Unaudited)

The equity in earnings of affiliated companies consists of the following:

	Quarter Ended	
	March 29, 2014	March 30, 2013
Marubun/Arrow	\$1,148	\$1,633
Altech Industries	269	350
	\$1,417	\$1,983

Under the terms of various joint venture agreements, the company is required to pay its pro-rata share of the third party debt of the joint ventures in the event that the joint ventures are unable to meet their obligations. At March 29, 2014, the company's pro-rata share of this debt was approximately \$350. The company believes that there is sufficient equity in each of the joint ventures to meet their obligations.

Note F – Accounts Receivable

Accounts receivable, net, consists of the following:

	March 29, 2014	December 31, 2013
Accounts receivable	\$4,908,862	\$5,833,888
Allowances for doubtful accounts	(62,513)	(64,129)
Accounts receivable, net	\$4,846,349	\$5,769,759

The company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowances for doubtful accounts are determined using a combination of factors, including the length of time the receivables are outstanding, the current business environment, and historical experience.

Note G – Debt

At March 29, 2014 and December 31, 2013, short-term borrowings of \$16,452 and \$23,878, were primarily utilized to support the working capital requirements of certain international operations. The weighted average interest rate on these borrowings at March 29, 2014 and December 31, 2013 were 4.3% and 4.5%, respectively.

Long-term debt consists of the following:

	March 29, 2014	December 31, 2013
Asset securitization program	\$335,000	\$420,000
3.375% notes, due 2015	254,321	255,004
6.875% senior debentures, due 2018	199,131	199,078
3.00% notes, due 2018	298,765	298,691
6.00% notes, due 2020	299,947	299,945
5.125% notes, due 2021	249,455	249,435
4.50% notes, due 2023	297,815	297,767
7.50% senior debentures, due 2027	198,205	198,170

Edgar Filing: ARROW ELECTRONICS INC - Form 10-Q

Other obligations with various interest rates and due dates	10,348	8,042
	\$2,142,987	\$2,226,132

10

---



ARROW ELECTRONICS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollars in thousands except per share data)  
 (Unaudited)

The 7.50% senior debentures are not redeemable prior to their maturity. The 3.375% notes, 6.875% senior debentures, 3.00% notes, 6.00% notes, 5.125% notes, and 4.50% notes may be called at the option of the company subject to "make whole" clauses.

The estimated fair market value, using quoted market prices, is as follows:

	March 29, 2014	December 31, 2013
3.375% notes, due 2015	\$255,000	\$260,000
6.875% senior debentures, due 2018	224,000	228,000
3.00% notes, due 2018	297,000	300,000
6.00% notes, due 2020	330,000	330,000
5.125% notes, due 2021	262,500	260,000
4.50% notes, due 2023	306,000	291,000
7.50% senior debentures, due 2027	238,000	232,000

The carrying amount of the company's short-term borrowings in various countries, revolving credit facility, asset securitization program, and other obligations approximate their fair value.

The company has a \$1,500,000 revolving credit facility, maturing in December 2018. This facility may be used by the company for general corporate purposes including working capital in the ordinary course of business, letters of credit, repayment, prepayment or purchase of long-term indebtedness and acquisitions, and as support for the company's commercial paper program, as applicable. Interest on borrowings under the revolving credit facility is calculated using a base rate or a euro currency rate plus a spread (1.30% at March 29, 2014) based on the company's credit ratings. The facility fee is .20%. There were no outstanding borrowings under the revolving credit facility at March 29, 2014 and December 31, 2013.

The company has an asset securitization program collateralized by accounts receivable of certain of its subsidiaries. In March 2014, the company amended its asset securitization program and, among other things, increased its borrowing capacity from \$775,000 to \$900,000 and extended its term to mature in March 2017. The asset securitization program is conducted through Arrow Electronics Funding Corporation ("AFC"), a wholly-owned, bankruptcy remote subsidiary. The asset securitization program does not qualify for sale treatment. Accordingly, the accounts receivable and related debt obligation remain on the company's consolidated balance sheets. Interest on borrowings is calculated using a base rate or a commercial paper rate plus a spread (.40% at March 29, 2014), which is based on the company's credit ratings, or an effective interest rate of .59% at March 29, 2014. The facility fee is .40%.

At March 29, 2014 and December 31, 2013, the company had \$335,000 and \$420,000, respectively, in outstanding borrowings under the asset securitization program, which was included in "Long-term debt" in the company's consolidated balance sheets, and total collateralized accounts receivable of approximately \$1,440,753 and \$1,867,552, respectively, were held by AFC and were included in "Accounts receivable, net" in the company's consolidated balance sheets. Any accounts receivable held by AFC would likely not be available to other creditors of the company in the event of bankruptcy or insolvency proceedings before repayment of any outstanding borrowings under the asset securitization program.

Both the revolving credit facility and asset securitization program include terms and conditions that limit the incurrence of additional borrowings, limit the company's ability to pay cash dividends or repurchase stock, and require

that certain financial ratios be maintained at designated levels. The company was in compliance with all covenants as of March 29, 2014 and is currently not aware of any events that would cause non-compliance with any covenants in the future.

During the first quarter of 2013, the company completed the sale of \$300,000 principal amount of 3.00% notes due in 2018 and \$300,000 principal amount of 4.50% notes due in 2023. The net proceeds of the offering of \$591,156 were used to refinance the company's 6.875% senior notes due July 2013 and for general corporate purposes.

During the first quarter of 2013, the company redeemed \$332,107 principal amount of its 6.875% senior notes due July 2013. The related loss on the redemption for the first quarter of 2013 aggregated \$4,277 (\$2,627 net of related taxes or \$.02 per share on both a basic and diluted basis) and was recognized as a loss on prepayment of debt in the company's consolidated statements of operations.

ARROW ELECTRONICS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands except per share data)  
(Unaudited)

Interest and other financing expense, net, includes interest and dividend income of \$779 and \$571 for the first quarters of 2014 and 2013, respectively.

Note H – Financial Instruments Measured at Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The company utilizes a fair value hierarchy, which maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The fair value hierarchy has three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The following table presents assets (liabilities) measured at fair value on a recurring basis at March 29, 2014:

	Level 1	Level 2	Level 3	Total
Available-for-sale securities	\$70,910	\$—	\$—	\$70,910
Foreign exchange contracts	—	1,003	—	1,003
Contingent consideration	—	—	(11,606)	(11,606)
	\$70,910	\$1,003	\$(11,606)	\$60,307

The following table presents assets (liabilities) measured at fair value on a recurring basis at December 31, 2013:

	Level 1	Level 2	Level 3	Total
Available-for-sale securities	\$69,857	\$—	\$—	\$69,857
Foreign exchange contracts	—	(654)	—	(654)
Contingent consideration	—	—	(5,845)	(5,845)
	\$69,857	\$(654)	\$(5,845)	\$63,358

The following table summarizes the Level 3 activity for the first quarter of 2014:

Balance as of December 31, 2013	\$(5,845)
Fair value of initial contingent consideration	(5,853)
Change in fair value of contingent consideration included in earnings	138
Foreign currency translation adjustment	(46)
Balance as of March 29, 2014	\$(11,606)

The change in the fair value of contingent consideration is included in "Restructuring, integration, and other charges," in the company's consolidated statements of operations.

During the first quarters of 2014 and 2013, there were no transfers of assets (liabilities) measured at fair value between the three levels of the fair value hierarchy.

12

---

## ARROW ELECTRONICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(Unaudited)

## Available-For-Sale Securities

The company has an 8.4% equity ownership interest in Marubun Corporation ("Marubun"), a 1.9% equity ownership interest in WPG Holdings Co., Ltd. ("WPG"), and a portfolio of mutual funds with quoted market prices, all of which are accounted for as available-for-sale securities.

The fair value of the company's available-for-sale securities at March 29, 2014 is as follows:

	Marubun	WPG	Mutual Funds
Cost basis	\$10,016	\$10,798	\$15,690
Unrealized holding gain	1,957	26,521	5,928
Fair value	\$11,973	\$37,319	\$21,618

The fair value of the company's available-for-sale securities at December 31, 2013 is as follows:

	Marubun	WPG	Mutual Funds
Cost basis	\$10,016	\$10,798	\$15,614
Unrealized holding gain	2,709	24,903	5,817
Fair value	\$12,725	\$35,701	\$21,431

The fair value of these investments are included in "Other assets" in the company's consolidated balance sheets, and the related unrealized holding gains or losses are included in "Accumulated other comprehensive income" in the shareholders' equity section in the company's consolidated balance sheets.

## Derivative Instruments

The company uses various financial instruments, including derivative instruments, for purposes other than trading. Certain derivative instruments are designated at inception as hedges and measured for effectiveness both at inception and on an ongoing basis. Derivative instruments not designated as hedges are marked-to-market each reporting period with any unrealized gains or losses recognized in earnings.

## Interest Rate Swaps

The company occasionally enters into interest rate swap transactions that convert certain fixed-rate debt to variable-rate debt or variable-rate debt to fixed-rate debt in order to manage its targeted mix of fixed- and floating-rate debt. The company uses the hypothetical derivative method to assess the effectiveness of its interest rate swaps on a quarterly basis. The effective portion of the change in the fair value of interest rate swaps designated as fair value hedges is recorded as a change to the carrying value of the related hedged debt, and the effective portion of the change in fair value of interest rate swaps designated as cash flow hedges is recorded in the shareholders' equity section in the company's consolidated balance sheets in "Accumulated other comprehensive income." The ineffective portion of the interest rate swap, if any, is recorded in "Interest and other financing expense, net" in the company's consolidated statements of operations.

In September 2011, the company entered into a ten-year forward-starting interest rate swap (the "2011 swap") which locked in a treasury rate of 2.63% on an aggregate notional amount of \$175,000. This swap managed the risk associated with changes in treasury rates and the impact of future interest payments. The 2011 swap related to the

interest payments for anticipated debt issuances to replace the company's 6.875% senior notes due to mature in July 2013. The 2011 swap was classified as a cash flow hedge. In the first quarter of 2013, the company paid \$7,700 to terminate the 2011 swap upon issuance of the ten-year notes due in 2023. The fair value of the 2011 swap is recorded in the shareholders' equity section in the company's consolidated balance sheets in "Accumulated other comprehensive income" and is being reclassified into income over the ten-year term of the notes due in 2023. During the first quarters of 2014 and 2013, the company reclassified \$(161) and \$292, respectively, into income relating to the 2011 swap.

ARROW ELECTRONICS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollars in thousands except per share data)  
 (Unaudited)

Foreign Exchange Contracts

The company enters into foreign exchange forward, option, or swap contracts (collectively, the "foreign exchange contracts") to mitigate the impact of changes in foreign currency exchange rates. These contracts are executed to facilitate the hedging of foreign currency exposures resulting from inventory purchases and sales and generally have terms of no more than six months. Gains or losses on these contracts are deferred and recognized when the underlying future purchase or sale is recognized or when the corresponding asset or liability is revalued. The company does not enter into foreign exchange contracts for trading purposes. The risk of loss on a foreign exchange contract is the risk of nonperformance by the counterparties, which the company minimizes by limiting its counterparties to major financial institutions. The fair value of the foreign exchange contracts are estimated using market quotes. The notional amount of the foreign exchange contracts at March 29, 2014 and December 31, 2013 was \$362,489 and \$445,684, respectively.

The fair values of derivative instruments in the company's consolidated balance sheets are as follows:

	Asset (Liability) Derivatives		
	Balance Sheet Location	Fair Value March 29, 2014	December 31, 2013
Derivative instruments designated as hedges:			
Foreign exchange contracts designated as cash flow hedges	Other current assets	\$253	\$368
Foreign exchange contracts designated as cash flow hedges	Accrued expenses	(510)	(203)
Total derivative instruments designated as hedging instruments		(257)	165
Derivative instruments not designated as hedges:			
Foreign exchange contracts	Other current assets	2,001	1,275
Foreign exchange contracts	Accrued expenses	(741)	(2,094)
Total derivative instruments not designated as hedging instruments		1,260	(819)
Total		\$1,003	\$(654)

The effect of derivative instruments on the company's consolidated statements of operations is as follows:

	Gain (Loss) Recognized in Income Quarter Ended	
	March 29, 2014	March 30, 2013
Derivative instruments not designated as hedges:		
Foreign exchange contracts (a)	\$1,913	\$(1,134)

ARROW ELECTRONICS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollars in thousands except per share data)  
 (Unaudited)

	Cash Flow Hedges	
	Interest Rate Swaps (b)	Foreign Exchange Contracts (c)
Quarter Ended March 29, 2014		
Effective portion:		
Gain (loss) recognized in other comprehensive income	\$—	\$(368 )
Gain (loss) reclassified into income	\$(161	) \$136
Ineffective portion:		
Gain (loss) recognized in income	\$—	\$—
Quarter Ended March 30, 2013		
Effective portion:		
Gain (loss) recognized in other comprehensive income	\$3,132	\$(59 )
Gain (loss) reclassified into income	\$—	\$252
Ineffective portion:		
Gain (loss) recognized in income	\$292	\$—

- (a) The amount of gain (loss) recognized in income on derivatives is recorded in "Cost of sales" in the company's consolidated statements of operations.
- (b) Both the effective and ineffective portions of any gain (loss) reclassified or recognized in income are recorded in "Interest and other financing expense, net" in the company's consolidated statements of operations.
- (c) Both the effective and ineffective portions of any gain (loss) reclassified or recognized in income are recorded in "Cost of sales" in the company's consolidated statements of operations.

#### Contingent Consideration

In connection with the 2014 acquisition, payment of a portion of the respective purchase price is contingent upon the achievement of certain operating results, with maximum possible payouts of \$9,000 over an eighteen-month period. Additionally, in connection with three acquisitions prior to 2014, payment of a portion of the respective purchase price is contingent upon the achievement of certain operating results, with maximum possible payouts of \$6,000 over a two-year period and \$23,400 at the end of a three-year period. The company estimated the fair value of the contingent consideration as the present value of the expected contingent payments, determined using the weighted probabilities of the possible payments. The company reassesses the fair value of the contingent consideration on a quarterly basis. Contingent consideration of \$3,657 and \$7,949 was included in "Accrued Expenses" and "Other liabilities" in the company's consolidated balance sheets as of March 29, 2014, respectively. Contingent consideration of \$2,123 and \$3,722 was included in "Accrued Expenses" and "Other liabilities" in the company's consolidated balance sheets as of December 31, 2013, respectively. A twenty percent increase or decrease in projected operating performance over the remaining performance period would not result in a material change in the fair value of the contingent consideration recorded as of March 29, 2014.

#### Other

The carrying amount of cash and cash equivalents, accounts receivable, net, and accounts payable approximate their fair value due to the short maturities of these financial instruments.



Note I – Restructuring, Integration, and Other Charges

During the first quarters of 2014 and 2013, the company recorded restructuring, integration, and other charges of \$11,614 (\$8,020 net of related taxes or \$.08 per share on both a basic and diluted basis) and \$21,610 (\$15,495 net of related taxes or \$.15 and \$.14 per share on a basic and diluted basis, respectively), respectively.

ARROW ELECTRONICS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands except per share data)  
(Unaudited)

The following table presents the components of the restructuring, integration, and other charges:

	Quarter Ended	
	March 29, 2014	March 30, 2013
Restructuring and integration charge - current period actions	\$10,169	\$18,559
Restructuring and integration charges - actions taken in prior periods	162	210
Acquisition-related expenses	1,283	2,841
	\$11,614	\$21,610

#### 2014 Restructuring and Integration Charge

The following table presents the components of the 2014 restructuring and integration charge of \$10,169 and activity in the related restructuring and integration accrual for the first quarter of 2014:

	Personnel Costs	Facilities Costs	Other	Total
Restructuring and integration charge	\$8,281	\$1,453	\$435	\$10,169
Payments	(3,901)	) (166	) (435	) (4,502)
Foreign currency translation	14	(1	) —	13
Balance as of March 29, 2014	\$4,394	\$1,286	\$—	\$5,680

The restructuring and integration charge of \$10,169 for the first quarter of 2014 includes personnel costs of \$8,281, facilities costs of \$1,453, and other costs of \$435. The personnel costs are related to the elimination of approximately 50 positions within the global components business segment and approximately 50 positions within the global ECS business segment. The facilities costs are related to exit activities for six vacated facilities in the Americas and EMEA due to the company's continued efforts to streamline its operations and reduce real estate costs. These restructuring initiatives are due to the company's continued efforts to lower cost and drive operational efficiency. Integration costs are primarily related to the integration of acquired businesses within the company's pre-existing business and the consolidation of certain operations.

#### 2013 Restructuring and Integration Charge

The following table presents the activity in the restructuring and integration accrual for the first quarter of 2014 related to the 2013 restructuring and integration:

	Personnel Costs	Facilities Costs	Other	Total
Balance as of December 31, 2013	\$25,721	\$5,808	\$208	\$31,737
Restructuring and integration charge (credit)	(116)	) 131	—	15
Payments	(6,909)	) (1,644	) (23	) (8,576)
Foreign currency translation	(38)	) —	(1	) (39)
Balance as of March 29, 2014	\$18,658	\$4,295	\$184	\$23,137



ARROW ELECTRONICS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands except per share data)  
(Unaudited)

Restructuring and Integration Accruals Related to Actions Taken Prior to 2013

The following table presents the activity in the restructuring and integration accruals for the first quarter of 2014 related to restructuring and integration actions taken prior to 2013:

	Personnel Costs	Facilities Costs	Total
Balance as of December 31, 2013	\$1,822	\$2,592	\$4,414
Restructuring and integration charges	121	26	147
Payments	(307	) (685	) (992
Foreign currency translation	(4	) 6	2
Balance as of March 29, 2014	\$1,632	\$1,939	\$3,571

Restructuring and Integration Accrual Summary

In summary, the restructuring and integration accruals aggregate \$32,388 at March 29, 2014, all of which are expected to be spent in cash, and are expected to be utilized as follows:

The accruals for personnel costs totaling \$24,684 to cover the termination of personnel are primarily expected to be spent within one year.

The accruals for facilities totaling \$7,520 relate to vacated leased properties that have scheduled payments of \$5,267 in 2014, \$1,297 in 2015, \$580 in 2016, \$139 in 2017, and \$237 in 2018.

Other accruals of \$184 is expected to be spent within one year.

Acquisition-Related Expenses

Included in restructuring, integration, and other charges for the first quarter of 2014 are acquisition-related expenses of \$1,283, primarily consisting of professional fees directly related to recent acquisition activity.

Included in restructuring, integration, and other charges for the first quarter of 2013 are acquisition-related expenses of \$2,841, primarily consisting of charges related to contingent consideration for acquisitions completed in prior years which were conditional upon the financial performance of the acquired companies and the continued employment of the selling shareholders, as well as professional fees directly related to recent acquisition activity.

Note J – Net Income per Share

The following table presents the computation of net income per share on a basic and diluted basis (shares in thousands):

	Quarter Ended	
	March 29, 2014	March 30, 2013
Net income attributable to shareholders	\$107,120	\$77,875
Weighted-average shares outstanding - basic	99,948	105,889

Edgar Filing: ARROW ELECTRONICS INC - Form 10-Q

Net effect of various dilutive stock-based compensation awards	1,451	1,935
Weighted-average shares outstanding - diluted	101,399	107,824
Net income per share:		
Basic	\$1.07	\$.74
Diluted (a)	\$1.06	\$.72

17

---

ARROW ELECTRONICS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands except per share data)  
(Unaudited)

Stock-based compensation awards for the issuance of 492 and 1,360 shares for the first quarters of 2014 and 2013, (a) respectively, were excluded from the computation of net income per share on a diluted basis as their effect was anti-dilutive.

Note K – Shareholders' Equity

Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income:

	Quarter Ended	
	March 29, 2014	March 30, 2013
Foreign Currency Translation Adjustments:		
Other comprehensive loss before reclassifications (a)	\$(10,371 )	\$(65,918 )
Amounts reclassified into income	(136 )	(252 )
Unrealized Gain (Loss) on Investment Securities, Net:		
Other comprehensive income (loss) before reclassifications	596	(1,978 )
Amounts reclassified into income	—	—
Unrealized Gain (Loss) on Interest Rate Swaps Designated as Cash Flow Hedges, Net:		
Other comprehensive income before reclassifications	—	1,923
Amounts reclassified into income	99	(179 )
Employee Benefit Plan Items, Net:		
Other comprehensive income before reclassifications	36	4
Amounts reclassified into income	517	795
Net change in accumulated other comprehensive income (loss)	\$(9,259 )	\$(65,605 )

(a) Includes intra-entity foreign currency transactions that are of a long-term investment nature of \$6,397 and \$4,622 for the first quarters of 2014 and 2013, respectively.

Share-Repurchase Program

In July 2013, the company's Board of Directors approved the repurchase of up to \$200,000 of the company's common stock through a share-repurchase program. As of March 29, 2014, the company repurchased 2,294,163 shares under this program with a market value of \$123,571 at the dates of repurchase.



ARROW ELECTRONICS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollars in thousands except per share data)  
 (Unaudited)

Note L – Employee Benefit Plans

The company maintains an unfunded Arrow supplemental executive retirement plan ("SERP") under which the company will pay supplemental pension benefits to certain employees upon retirement. Additionally, as part of the company's acquisition of Wyle Electronics ("Wyle") in 2000, the company acquired a defined benefit plan from Wyle which provided retirement benefits for certain employees. Benefits under this plan were frozen as of December 31, 2000. The components of the net periodic benefit costs for the Arrow SERP and Wyle benefit plan are as follows:

	Quarter Ended	
	March 29, 2014	March 30, 2013
Components of net periodic benefit costs:		
Service cost	\$333	\$532
Interest cost	2,205	1,967
Expected return on plan assets	(1,756	) (1,629
Amortization of net loss	821	1,147
Amortization of prior service cost	11	11
Net periodic benefit costs	\$1,614	\$2,028

Note M – Contingencies

Environmental Matters

In connection with the purchase of Wyle in August 2000, the company acquired certain of the then outstanding obligations of Wyle, including Wyle's indemnification obligations to the purchasers of its Wyle Laboratories division for environmental clean-up costs associated with any then existing contamination or violation of environmental regulations. Under the terms of the company's purchase of Wyle from the sellers, the sellers agreed to indemnify the company for certain costs associated with the Wyle environmental obligations, among other things. During 2012, the company entered into a settlement agreement with the sellers pursuant to which the sellers paid \$110,000 and the company released the sellers from their indemnification obligation. As part of the settlement agreement the company accepted responsibility for any potential subsequent costs incurred related to the Wyle matters. The company is aware of two Wyle Laboratories facilities (in Huntsville, Alabama and Norco, California) at which contaminated groundwater was identified and will require environmental remediation. In addition, the company was named as a defendant in several lawsuits related to the Norco facility and a third site in El Segundo, California which have now been settled to the satisfaction of the parties.

The company expects these environmental liabilities to be resolved over an extended period of time. Costs are recorded for environmental matters when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Accruals for environmental liabilities are adjusted periodically as facts and circumstances change, assessment and remediation efforts progress, or as additional technical or legal information becomes available. Environmental liabilities are difficult to assess and estimate due to various unknown factors such as the timing and extent of remediation, improvements in remediation technologies, and the extent to which environmental laws and regulations may change in the future. Accordingly the company cannot presently fully estimate the ultimate potential costs related to these sites until such time as a substantial portion of the investigation at the sites is completed and remedial action plans are developed and, in some instances implemented. To the extent that future environmental costs exceed amounts currently accrued by the company, net income would be adversely impacted and such impact could be material.



Accruals for environmental liabilities are included in "Accrued expenses" and "Other liabilities" in the company's consolidated balance sheets.

As successor-in-interest to Wyle, the company is the beneficiary of various Wyle insurance policies that covered liabilities arising out of operations at Norco and Huntsville. To date, the company has recovered approximately \$33,000 from certain insurance carriers. The company continues to seek recovery from an umbrella liability policy carrier for its proportional share of the total Norco liability. The company is considering the best way to pursue its potential claims against insurers regarding liabilities arising out of operations at Huntsville. The resolution of these matters will likely take several years. The company has not recorded a

ARROW ELECTRONICS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands except per share data)  
(Unaudited)

receivable for any potential future insurance recoveries related to the Norco and Huntsville environmental matters, as the realization of the claims for recovery are not deemed probable at this time.

The company believes the settlement amount together with potential recoveries from various insurance policies covering environmental remediation and related litigation will be sufficient to cover any potential future costs related to the Wyle acquisition; however, it is possible unexpected costs beyond those anticipated could occur.

#### Environmental Matters - Huntsville

Characterization of the extent of contaminated soil and groundwater continues at the site in Huntsville, Alabama. Under the direction of the Alabama Department of Environmental Management, approximately \$4,000 was spent to date. The pace of the ongoing remedial investigations, project management, and regulatory oversight is likely to increase somewhat and though the complete scope of the activities is not yet known, the company currently estimates additional investigative and related expenditures at the site of approximately \$500 to \$750. The nature and scope of both feasibility studies and subsequent remediation at the site has not yet been determined, but assuming the outcome includes source control and certain other measures, the cost is estimated to be between \$3,000 and \$4,000.

Despite the amount of work undertaken and planned to date, the company is unable to estimate any potential costs in addition to those discussed above because the complete scope of the work is not yet known, and, accordingly, the associated costs have yet to be determined.

#### Environmental Matters - Norco

In October 2003, the company entered into a consent decree with Wyle Laboratories and the California Department of Toxic Substance Control (the "DTSC") in connection with the Norco site. In April 2005, a Remedial Investigation Work Plan was approved by DTSC that provided for site-wide characterization of known and potential environmental issues. Investigations performed in connection with this work plan and a series of subsequent technical memoranda continued until the filing of a final Remedial Investigation Report early in 2008. Work is under way pertaining to the remediation of contaminated groundwater at certain areas on the Norco site and of soil gas in a limited area immediately adjacent to the site. In 2008, a hydraulic containment system was installed to capture and treat groundwater before it moves into the adjacent offsite area. In September 2013, the DTSC approved the final Remedial Action Plan ("RAP") and work is currently progressing under the RAP. The approval of the RAP includes the potential for additional remediation action after the five year review of the hydraulic containment system if the review finds that contaminants have not been sufficiently reduced in the offsite area.

Approximately \$45,000 was spent to date on remediation, project management, regulatory oversight, and investigative and feasibility study activities. The company currently estimates that these activities will give rise to an additional \$16,950 to \$24,500. Project management and regulatory oversight include costs incurred by project consultants for project management and costs billed by DTSC to provide regulatory oversight.

Despite the amount of work undertaken and planned to date, the company is unable to estimate any potential costs in addition to those discussed above because the complete scope of the work under the RAP is not yet known, and, accordingly, the associated costs have yet to be determined.

#### Tekelec Matter

In 2000, the company purchased Tekelec Europe SA ("Tekelec") from Tekelec Airtronic SA and certain other selling shareholders. Subsequent to the closing of the acquisition, Tekelec received a product liability claim in the amount of €11,333. The product liability claim was the subject of a French legal proceeding started by the claimant in 2002, under which separate determinations were made as to whether the products that are subject to the claim were defective and the amount of damages sustained by the purchaser. The manufacturer of the products also participated in this proceeding. The claimant commenced legal proceedings against Tekelec and its insurers to recover damages in the amount of €3,742 and expenses of €312 plus interest. In May 2012, the French court ruled in favor of Tekelec and dismissed the plaintiff's claims. However, that decision has been appealed by the plaintiff. The company believes that any amount in addition to the amount accrued by the company would not materially adversely impact the company's consolidated financial position, liquidity, or results of operations.

ARROW ELECTRONICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(Unaudited)

## Antitrust Investigation

On January 21, 2014, the company received a Civil Investigative Demand in connection with an investigation by the Federal Trade Commission ("FTC") relating generally to the use of a database program (the "database program") that has operated for more than ten years under the auspices of the Global Technology Distribution Council ("GTDC"), a trade group of which the company is a member. Under the database program, certain members of the GTDC who participate in the program provide sales data to a third party independent contractor chosen by the GTDC. The data is aggregated by the third party and the aggregated data is made available to the program participants. The company understands that other members participating in the database program have received similar Civil Investigative Demands.

The company is in the process of responding to the Civil Investigative Demand. The Civil Investigative Demand merely seeks information, and no proceedings have been instituted against any person. The company has conducted a preliminary review, and does not have any reason to believe that there has been any conduct by the company or its employees that would be actionable under the antitrust laws in connection with its participation in the database program. Since this matter is at a preliminary stage, it is not possible to predict the potential impact, if any, of the Civil Investigative Demand or whether any actions may be instituted by the FTC against any person.

## Other

From time to time, in the normal course of business, the company may become liable with respect to other pending and threatened litigation, environmental, regulatory, labor, product, and tax matters. While such matters are subject to inherent uncertainties, it is not currently anticipated that any such matters will materially impact the company's consolidated financial position, liquidity, or results of operations.

## Note N – Segment and Geographic Information

The company is a global provider of products, services, and solutions to industrial and commercial users of electronic components and enterprise computing solutions. The company distributes electronic components to original equipment manufacturers and contract manufacturers through its global components business segment and provides enterprise computing solutions to value-added resellers through its global ECS business segment. As a result of the company's philosophy of maximizing operating efficiencies through the centralization of certain functions, selected fixed assets and related depreciation, as well as borrowings, are not directly attributable to the individual operating segments and are included in the corporate business segment.

Sales and operating income (loss), by segment, are as follows:

	Quarter Ended	
	March 29, 2014	March 30, 2013
Sales:		
Global components	\$3,421,181	\$3,192,580
Global ECS	1,660,859	1,657,049
Consolidated	\$5,082,040	\$4,849,629
Operating income (loss):		
Global components	\$161,146	\$128,280
Global ECS	64,158	61,591

Edgar Filing: ARROW ELECTRONICS INC - Form 10-Q

Corporate (a)	(47,564	) (52,319	)
Consolidated	\$177,740	\$137,552	

(a) Includes restructuring, integration, and other charges of \$11,614 and \$21,610 for the first quarters of 2014 and 2013, respectively.

## ARROW ELECTRONICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(Unaudited)

Total assets, by segment, are as follows:

	March 29, 2014	December 31, 2013
Global components	\$6,773,585	\$6,596,255
Global ECS	3,606,986	4,807,400
Corporate	652,345	657,228
Consolidated	\$11,032,916	\$12,060,883

Sales, by geographic area, are as follows:

	Quarter Ended	
	March 29, 2014	March 30, 2013
Americas (b)	\$2,397,432	\$2,486,147
EMEA	1,653,912	1,442,171
Asia/Pacific	1,030,696	921,311
Consolidated	\$5,082,040	\$4,849,629

(b) Includes sales related to the United States of \$2,174,665 and \$2,265,377 for the first quarters of 2014 and 2013, respectively.

Net property, plant, and equipment, by geographic area, is as follows:

	March 29, 2014	December 31, 2013
Americas (c)	\$537,522	\$526,640
EMEA	82,616	84,383
Asia/Pacific	21,383	21,366
Consolidated	\$641,521	\$632,389

(c) Includes net property, plant, and equipment related to the United States of \$535,919 and \$525,080 at March 29, 2014 and December 31, 2013, respectively.

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

Overview

Arrow Electronics, Inc. (the "company") is a global provider of products, services, and solutions to industrial and commercial users of electronic components and enterprise computing solutions. The company provides one of the broadest product offerings in the electronic components and enterprise computing solutions distribution industries and a wide range of value-added services to help customers introduce innovative products, reduce their time to market, and enhance their overall competitiveness. The company has two business segments, the global components business segment and the global enterprise computing solutions ("ECS") business segment. The company distributes electronic components to original equipment manufacturers and contract manufacturers through its global components business segment and provides enterprise computing solutions to value-added resellers through its global ECS business segment. For the first quarter of 2014, approximately 67% of the company's sales were from the global components business segment, and approximately 33% of the company's sales were from the global ECS business segment.

The company's financial objectives are to grow sales faster than the market, increase the markets served, grow profits faster than sales, and increase return on invested capital. To achieve its objectives, the company seeks to capture significant opportunities to grow across products, markets, and geographies. To supplement its organic growth strategy, the company continually evaluates strategic acquisitions to broaden its product and value-added service offerings, increase its market penetration, and/or expand its geographic reach.

During the first quarter of 2014, the company completed one acquisition. During 2013, the company completed five acquisitions, including the acquisition of CSS Computer Security Solutions Holding GmbH, doing business as ComputerLinks AG. Refer to Note C, "Acquisitions," of the Notes to the Consolidated Financial Statements for further discussion of the company's recent acquisition activity.

Executive Summary

Consolidated sales for the first quarter of 2014 increased by 4.8%, compared with the year-earlier period, due to a 7.2% increase in the global components business segment sales while global ECS business segment sales remained relatively flat. The translation of the company's international financial statements into U.S. dollars resulted in an increase in consolidated sales of .9% for the first quarter of 2014, compared with the year-earlier period, due to a weaker U.S. dollar.

Net income attributable to shareholders increased to \$107.1 million in the first quarter of 2014, compared with net income attributable to shareholders of \$77.9 million in the year-earlier period. The following items impacted the comparability of the company's results for the first quarters of 2014 and 2013:

- restructuring, integration, and other charges of \$11.6 million (\$8.0 million net of related taxes) in 2014 and \$21.6 million (\$15.5 million net of related taxes) in 2013;
- identifiable intangible asset amortization of \$10.9 million (\$8.9 million net of related taxes) in 2014 and \$9.0 million (\$7.1 million net of related taxes) in 2013; and
- a loss on prepayment of debt of \$4.3 million (\$2.6 million net of related taxes) in 2013.

Excluding the aforementioned items, net income attributable to shareholders for the first quarter of 2014 increased compared to the year-earlier period, primarily due to an increase in sales in the global components business segment, an increase in gross profit margins, and the impact of a weaker U.S. dollar on the translation of the company's financial statements. This was partially offset by an increase in operating expenses (which include both selling,

general, and administrative expenses and depreciation and amortization expense), primarily due to recent acquisitions.

#### Certain Non-GAAP Financial Information

In addition to disclosing financial results that are determined in accordance with accounting principles generally accepted in the United States ("GAAP"), the company also discloses certain non-GAAP financial information, including:

Sales, income, or expense items as adjusted for the impact of changes in foreign currencies (referred to as "impact of changes in foreign currencies") and the impact of acquisitions by adjusting the company's prior periods to include the operating results of businesses acquired, including the amortization expense related to acquired intangible assets, as if the acquisitions had occurred at the beginning of the period presented (referred to as "impact of acquisitions");

- Operating income as adjusted to exclude identifiable intangible asset amortization and restructuring, integration, and other charges; and



Net income attributable to shareholders as adjusted to exclude identifiable intangible asset amortization, restructuring, integration, and other charges, and loss on prepayment of debt.

Management believes that providing this additional information is useful to the reader to better assess and understand the company's operating performance, especially when comparing results with previous periods, primarily because management typically monitors the business adjusted for these items in addition to GAAP results. However, analysis of results on a non-GAAP basis should be used as a complement to, and in conjunction with, data presented in accordance with GAAP.

## Sales

Substantially all of the company's sales are made on an order-by-order basis, rather than through long-term sales contracts. As such, the nature of the company's business does not provide for the visibility of material forward-looking information from its customers and suppliers beyond a few months.

Following is an analysis of net sales by reportable segment (in millions):

	Quarter Ended		% Change
	March 29, 2014	March 30, 2013	
Consolidated sales, as reported	\$5,082	\$4,850	4.8 %
Impact of changes in foreign currencies	—	45	
Impact of acquisitions	—	258	
Consolidated sales, as adjusted	\$5,082	\$5,153	(1.4 )%
Global components sales, as reported	\$3,421	\$3,193	7.2 %
Impact of changes in foreign currencies	—	29	
Impact of acquisitions	—	56	
Global components sales, as adjusted	\$3,421	\$3,278	4.4 %
Global ECS sales, as reported	\$1,661	\$1,657	.2 %
Impact of changes in foreign currencies	—	16	
Impact of acquisitions	—	202	
Global ECS sales, as adjusted	\$1,661	\$1,875	(11.4 )%

Consolidated sales for the first quarter of 2014 increased by \$232.4 million, or 4.8%, compared with the year-earlier period. The increase for the first quarter of 2014 was driven by an increase in global components business segment sales of \$228.6 million, or 7.2%. Global ECS business segment sales increased \$3.8 million. The translation of the company's international financial statements into U.S. dollars resulted in an increase in consolidated sales of .9% for the first quarter of 2014, compared with the year-earlier period, due to a weaker U.S. dollar. Adjusted for the impact of changes in foreign currencies and acquisitions, the company's consolidated sales decreased by 1.4% for the first quarter of 2014, compared with the year-earlier period.

In the global components business segment, sales for the first quarter of 2014 increased 7.2%, compared with the year-earlier period primarily due to an increase in demand for products worldwide, the impact of recently acquired businesses, and the impact of a weaker U.S. dollar on the translation of the company's international financial statements. Sales for the first quarter of 2014 increased 11.9% in the Asia Pacific region, 11.5% in the EMEA (Europe, Middle East, and Africa) region, and 1.2% in the Americas region, compared with the year-earlier period. Adjusted for the impact of changes in foreign currencies and acquisitions, the company's global components business

segment sales increased by 4.4% for the first quarter of 2014, compared with the year-earlier period.

In the global ECS business segment, sales for the first quarter of 2014 remained relatively flat compared with the year-earlier period. Adjusted for the impact of changes in foreign currencies and acquisitions, the company's global ECS business segment sales decreased by 11.4% for the first quarter of 2014, compared with the year-earlier period, primarily due to the timing of the quarter-end cut off, as well as decline in demand for storage and servers.

## Gross Profit

Following is an analysis of gross profit (in millions):

	Quarter Ended			Change	
	March 29, 2014	March 30, 2013			
Consolidated gross profit, as reported	\$704	\$642	9.6	%	
Impact of changes in foreign currencies	—	8			
Impact of acquisitions	—	40			
Consolidated gross profit, as adjusted	\$704	\$690	2.0	%	
Consolidated gross profit as a percentage of sales, as reported	13.8	% 13.2	% 60		bps
Consolidated gross profit as a percentage of sales, as adjusted	13.8	% 13.4	% 40		bps

The company recorded gross profit of \$703.8 million in the first quarter of 2014, compared with \$642.1 million in the year-earlier period. The increase in gross profit was primarily due to the aforementioned 4.8% increase in sales during the first quarter of 2014. Gross profit margins for the first quarter of 2014 increased by approximately 60 basis points, compared with the year-earlier period. Adjusted for the impact of changes in foreign currencies and acquisitions, the company's consolidated gross profit margin increased approximately 40 basis points in the first quarter of 2014, compared with the year-earlier period. This increase is primarily due to a higher percentage of the company's sales derived from its global components business segment, as well as a more favorable product mix in the global ECS business segment, as compared with the prior year.

## Selling, General, and Administrative Expenses and Depreciation and Amortization

Following is an analysis of operating expenses (in millions):

	Quarter Ended			Change	
	March 29, 2014	March 30, 2013	%		
Selling, general, and administrative expenses, as reported	\$478	\$451	5.9	%	
Depreciation and amortization, as reported	37	32	16.1	%	
Operating expenses, as reported	515	483	6.5	%	
Impact of changes in foreign currencies	—	5			
Impact of acquisitions	—	35			
Operating expenses, as adjusted	\$515	\$523	(1.6)	)%	

Selling, general, and administrative expenses increased by \$26.5 million, or 5.9%, in the first quarter of 2014 on a sales increase of 4.8%, compared with the year-earlier period, primarily due to recent acquisitions. Selling, general, and administrative expenses, as a percentage of sales was 9.4% and 9.3% for the first quarters ended 2014 and 2013, respectively.

Depreciation and amortization expense increased by \$5.1 million, or 16.1%, for the first quarter of 2014, compared with the year-earlier period, primarily due to increased depreciation and amortization associated with recent acquisitions. Included in depreciation and amortization expense for the first quarters of 2014 and 2013 was \$10.9 million (\$8.9 million net of related taxes or \$.09 per share on both a basic and diluted basis) and \$9.0 million (\$7.1 million net of related taxes or \$.07 per share on both a basic and diluted basis), respectively, related to identifiable intangible asset amortization.

Adjusted for the impact of changes in foreign currencies and acquisitions, operating expenses for the first quarter of 2014 decreased 1.6%, compared with a sales decrease of 1.4%, primarily due to processes and productivity enhancements which were implemented during 2013 to reduce costs.

## Restructuring, Integration, and Other Charges

### 2014 Charges

The company recorded restructuring, integration, and other charges of \$11.6 million (\$8.0 million net of related taxes or \$.08 per share on both a basic and diluted basis) for the first quarter of 2014. Included in the restructuring, integration, and other charges for the first quarter of 2014 is a restructuring and integration charge of \$10.2 million related to initiatives taken by the company to improve operating efficiencies. Also included in the restructuring, integration, and other charges for the first quarter of 2014 are charges of \$.2 million related to restructuring and integration actions taken in prior periods and acquisition-related expenses of \$1.3 million.

The restructuring and integration charge of \$10.2 million for the first quarter of 2014 includes personnel costs of \$8.3 million, facilities costs of \$1.5 million, and other costs of \$.4 million. The personnel costs are related to the elimination of approximately 50 positions within the global components business segment and approximately 50 positions within the global ECS business segment. The facilities costs are related to exit activities for six vacated facilities in the Americas and EMEA due to the company's continued efforts to streamline its operations and reduce real estate costs. These restructuring initiatives are due to the company's continued efforts to lower cost and drive operational efficiency. Integration costs are primarily related to the integration of acquired businesses within the company's pre-existing business and the consolidation of certain operations.

### 2013 Charges

The company recorded restructuring, integration, and other charges of \$21.6 million (\$15.5 million net of related taxes or \$.15 and \$.14 per share on a basic and diluted basis, respectively) for the first quarter of 2013. Included in the restructuring, integration, and other charges for the first quarter of 2013 is a restructuring and integration charge of \$18.6 million related to initiatives taken by the company to improve operating efficiencies. Also included in the restructuring, integration, and other charges for the first quarter of 2013 are charges of \$.2 million related to restructuring and integration actions taken in prior periods and acquisition-related expenses of \$2.8 million.

The restructuring and integration charge of \$18.6 million for the first quarter of 2013 include personnel costs of \$16.9 million and facilities costs of \$1.7 million. The personnel costs are related to the elimination of approximately 280 positions within the global components business segment and approximately 60 positions within the global ECS business segment. The facilities costs are related to exit activities for six vacated facilities in the Americas and EMEA regions due to the company's continued efforts to streamline its operations and reduce real estate costs. These restructuring initiatives are due to the company's continued efforts to lower cost and drive operational efficiency. Integration costs are primarily related to the integration of acquired businesses within the company's pre-existing business and the consolidation of certain operations.

As of March 29, 2014, the company does not anticipate there will be any material adjustments relating to the aforementioned restructuring and integration plans. Refer to Note I, "Restructuring, Integration, and Other Charges," of the Notes to the Consolidated Financial Statements for further discussion of the company's restructuring and integration activities.

## Operating Income

Following is an analysis of operating income (in millions):

Quarter Ended  
March 29, 2014    March 30, 2013

Edgar Filing: ARROW ELECTRONICS INC - Form 10-Q

Consolidated operating income, as reported	\$178		\$138	
Identifiable intangible asset amortization	11		9	
Restructuring, integration, and other charges	12		22	
Consolidated operating income, as adjusted*	\$200		\$168	
Consolidated operating income, as reported as a percentage of sales, as reported	3.5	%	2.8	%
Consolidated operating income, as adjusted as a percentage of sales, as reported	3.9	%	3.5	%

\* The sum of the components for consolidated operating income, as adjusted may not agree to totals, as presented, due to rounding.

The company recorded operating income of \$177.7 million, or 3.5% of sales, in the first quarter of 2014 compared with operating income of \$137.6 million, or 2.8% of sales, in the year-earlier period. Included in operating income for the first quarters of 2014 and 2013 were the previously discussed identifiable intangible asset amortization of \$10.9 million and \$9.0 million, respectively, and restructuring, integration, and other charges of \$11.6 million and \$21.6 million, respectively. Excluding these items operating income, as adjusted was \$200.3 million, or 3.9% of sales, in the first quarter of 2014 compared with operating income, as adjusted of \$168.1 million, or 3.5% of sales, in the first quarter of 2013.

#### Loss on Prepayment of Debt

During the first quarter of 2013, the company recorded a loss on prepayment of debt of \$4.3 million (\$2.6 million net of related taxes or \$.02 per share on both a basic and diluted basis), related to the redemption of \$332.1 million principal amount of its 6.875% senior notes due July 2013.

#### Interest and Other Financing Expense, Net

Net interest and other financing expense of \$29.6 million for the first quarter of 2014 remained relatively flat compared with \$29.5 million in the year-earlier period.

#### Income Taxes

The company recorded a provision for income taxes of \$42.3 million (an effective tax rate of 28.3%) for the first quarter of 2014. The company's provision for income taxes and effective tax rate for the first quarter of 2014 were impacted by the previously discussed restructuring, integration, and other charges. Excluding the impact of the aforementioned items, the company's effective tax rate for the first quarter of 2014 was 28.5%.

The company recorded a provision for income taxes of \$27.8 million (an effective tax rate of 26.3%) for the first quarter of 2013. The company's provision for income taxes and effective tax rate for the first quarter of 2013 were impacted by the previously discussed restructuring, integration, and other charges and loss on prepayment of debt. Excluding the impact of the aforementioned items, the company's effective tax rate for the first quarter of 2013 was 27.0%.

The company's provision for income taxes and effective tax rate are impacted by, among other factors, the statutory tax rates in the countries in which it operates and the related level of income generated by these operations.

#### Net Income Attributable to Shareholders

Following is an analysis of net income attributable to shareholders (in millions):

	Quarter Ended	
	March 29, 2014	March 30, 2013
Net income attributable to shareholders, as reported	\$107	\$78
Identifiable intangible asset amortization	9	7
Restructuring, integration, and other charges	8	15
Loss on prepayment of debt	—	3
Net income attributable to shareholders, as adjusted*	\$124	\$103

\* The sum of the components for net income attributable to shareholders, as adjusted may not agree to totals, as presented, due to rounding.

The company recorded net income attributable to shareholders of \$107.1 million in the first quarter of 2014, compared with net income attributable to shareholders of \$77.9 million in the year-earlier period. Included in net income attributable to shareholders for the first quarter of 2014 were the previously discussed identifiable intangible asset amortization of \$8.9 million and restructuring, integration, and other charges of \$8.0 million. Included in net income attributable to shareholders for the first quarter of 2013 were the previously discussed identifiable intangible asset amortization of \$7.1 million, restructuring, integration, and other charges of \$15.5 million, and a loss on prepayment of debt of \$2.6 million. Excluding the aforementioned items net income attributable to shareholders, as adjusted was \$124.0 million and \$103.1 million for the first quarters of 2014 and 2013, respectively. The increase in net income attributable to shareholders, as adjusted in the first quarters of 2014 compared with the year-earlier period is primarily



due to an increase in sales in the global components business segment, an increase in gross profit margins, and the impact of a weaker U.S. dollar on the translation of the company's financial statements. This was partially offset by an increase in operating expenses, primarily due to recent acquisitions.

#### Liquidity and Capital Resources

At March 29, 2014 and December 31, 2013, the company had cash and cash equivalents of \$258.3 million and \$390.6 million, respectively, of which \$231.0 million and \$347.4 million, respectively, were held outside the United States. Liquidity is affected by many factors, some of which are based on normal ongoing operations of the company's business and some of which arise from fluctuations related to global economics and markets. Cash balances are generated and held in many locations throughout the world. It is the company's current intent to permanently reinvest these funds outside the United States and its current plans do not demonstrate a need to repatriate them to fund its United States operations. If these funds were to be needed for the company's operations in the United States it would be required to record and pay significant United States income taxes to repatriate these funds. Additionally, local government regulations may restrict the company's ability to move cash balances to meet cash needs under certain circumstances. The company currently does not expect such regulations and restrictions to impact its ability to make acquisitions or to pay vendors and conduct operations throughout the global organization.

During the first quarter of 2014, the net amount of cash provided by the company's operating activities was \$124.0 million, the net amount of cash used for investing activities was \$93.1 million, and the net amount of cash used for financing activities was \$158.8 million. The effect of exchange rate changes on cash was a decrease of \$4.5 million.

During the first quarter of 2013, the net amount of cash used for the company's operating activities was \$179.4 million, the net amount of cash used for investing activities was \$39.1 million, and the net amount of cash provided by financing activities was \$186.5 million. The effect of exchange rate changes on cash was a decrease of \$13.5 million.

#### Cash Flows from Operating Activities

The company maintains a significant investment in accounts receivable and inventories. As a percentage of total assets, accounts receivable and inventories were approximately 62.9% at March 29, 2014 and 65.8% at December 31, 2013.

The net amount of cash provided by the company's operating activities during the first quarter of 2014 was \$124.0 million and was primarily due to earnings from operations, adjusted for non-cash items.

The net amount of cash used for the company's operating activities during the first quarter of 2013 was \$179.4 million and was primarily due to an increase in working capital offset, in part, by earnings from operations, adjusted for non-cash items.

Working capital as a percentage of sales was 16.3% in the first quarter of 2014 compared with 16.9% in the first quarter of 2013.

#### Cash Flows from Investing Activities

The net amount of cash used for investing activities during the first quarter of 2014 was \$93.1 million, reflecting \$60.2 million of cash consideration paid, net of cash acquired, for acquired businesses and \$32.8 million for capital expenditures. Included in capital expenditures for the first quarter of 2014 is \$15.7 million related to the company's global enterprise resource planning ("ERP") initiative.

During the first quarter of 2014, the company completed one acquisition. The aggregate consideration paid for this acquisition was \$60.2 million, net of cash acquired, contingent consideration, and other amounts withheld.

The net amount of cash used for investing activities during the first quarter of 2013 was \$39.1 million, reflecting \$9.4 million of cash consideration paid, net of cash acquired, for acquired businesses, \$26.8 million for capital expenditures, and other cash outflows of \$3.0 million. Included in capital expenditures for the first quarter of 2013 is \$15.1 million related to the company's global ERP initiative.

During the first quarter of 2013, the company completed one acquisition. The aggregate consideration paid for this acquisition was \$9.4 million, net of contingent consideration.

### Cash Flows from Financing Activities

The net amount of cash used for financing activities during the first quarter of 2014 was \$158.8 million. The uses of cash from financing activities included \$88.5 million of repurchases of common stock, \$85.0 million of net repayments of long-term bank borrowings, and a \$7.3 million decrease in short-term and other borrowings. The sources of cash from financing activities during the first quarter of 2014 were \$22.0 million proceeds from the exercise of stock options and other benefits related to stock-based compensation arrangements.

The net amount of cash provided by financing activities during the first quarter of 2013 was \$186.5 million. The sources of cash from financing activities included \$591.2 million of net proceeds from a note offering, \$44.3 million of net proceeds of long-term bank borrowings, \$10.6 million of proceeds from the exercise of stock options, and \$6.5 million related to excess tax benefits from stock-based compensation arrangements. The uses of cash from financing activities included \$338.2 million of redemption of senior notes, \$113.5 million of repurchases of common stock, and a \$14.3 million decrease in short-term and other borrowings.

During the first quarter of 2013, the company completed the sale of \$300.0 million principal amount of 3.00% notes due in 2018 and \$300.0 million principal amount of 4.50% notes due in 2023. The net proceeds of the offering of \$591.2 million were used to refinance the company's 6.875% senior notes due July 2013 and for general corporate purposes.

During the first quarter of 2013, the company redeemed \$332.1 million principal amount of its 6.875% senior notes due July 2013. The related loss on the redemption for the first quarter of 2013 aggregated \$4.3 million (\$2.6 million net of related taxes or \$.02 per share on both a basic and diluted basis) and was recognized as a loss on prepayment of debt.

The company has a \$1.50 billion revolving credit facility, maturing in December 2018. This facility may be used by the company for general corporate purposes including working capital in the ordinary course of business, letters of credit, repayment, prepayment or purchase of long-term indebtedness and acquisitions, and as support for the company's commercial paper program, as applicable. Interest on borrowings under the revolving credit facility is calculated using a base rate or a euro currency rate plus a spread (1.30% at March 29, 2014) based on the company's credit ratings. The facility fee is .20%. There were no outstanding borrowings under the revolving credit facility at March 29, 2014 and December 31, 2013. During the first quarters of 2014 and 2013, the average daily balance outstanding under the revolving credit facility was \$485.2 million and \$364.6 million, respectively.

The company has an asset securitization program collateralized by accounts receivable of certain of its subsidiaries. In March 2014, the company amended its asset securitization program and, among other things, increased its borrowing capacity from \$775.0 million to \$900.0 million and extended its term to mature in March 2017. The asset securitization program is conducted through Arrow Electronics Funding Corporation ("AFC"), a wholly-owned, bankruptcy remote subsidiary. The asset securitization program does not qualify for sale treatment. Accordingly, the accounts receivable and related debt obligation remain on the company's consolidated balance sheets. Interest on borrowings is calculated using a base rate or a commercial paper rate plus a spread (.40% at March 29, 2014), which is based on the company's credit ratings, or an effective interest rate of .59% at March 29, 2014. The facility fee is .40%. The company had \$335.0 million and \$420.0 million in outstanding borrowings under the asset securitization program at March 29, 2014 and December 31, 2013, respectively. During the first quarters of 2014 and 2013, the average daily balance outstanding under the asset securitization program was \$306.8 million and \$291.2 million, respectively.

Both the revolving credit facility and asset securitization program include terms and conditions that limit the incurrence of additional borrowings, limit the company's ability to pay cash dividends or repurchase stock, and require

that certain financial ratios be maintained at designated levels. The company was in compliance with all covenants as of March 29, 2014 and is currently not aware of any events that would cause non-compliance with any covenants in the future.

In the normal course of business certain of the company's subsidiaries have agreements to sell, without recourse, selected trade receivables to financial institutions. The company does not retain financial or legal interests in these receivables, and accordingly they are accounted for as sales of the related receivables and the receivables are removed from the company's consolidated balance sheets. Financing costs related to these transactions were not material and are included in "Interest and other financing expense, net" in the company's consolidated statements of operations.

The company filed a shelf registration statement with the Securities and Exchange Commission in October 2012 registering debt securities, preferred stock, common stock, and warrants of Arrow Electronics, Inc. that may be issued by the company from time to time. As set forth in the shelf registration statement, the net proceeds from the sale of the offered securities may be used by the company for general corporate purposes, including repayment of borrowings, working capital, capital expenditures, acquisitions, and stock repurchases, or for such other purposes as may be specified in the applicable prospectus supplement.

Management believes that the company's current cash availability, its current borrowing capacity under its revolving credit facility, and asset securitization program, its expected ability to generate future operating cash flows, and the company's access to capital markets are sufficient to meet its projected cash flow needs for the foreseeable future. The company continually evaluates its liquidity requirements and would seek to amend its existing borrowing capacity or access the financial markets as deemed necessary.

#### Contractual Obligations

The company has contractual obligations for short-term and long-term debt, interest on short-term and long-term debt, capital leases, operating leases, purchase obligations, and certain other long-term liabilities that were summarized in a table of Contractual Obligations in the company's Annual Report on Form 10-K for the year ended December 31, 2013. Since December 31, 2013, there were no material changes to the contractual obligations of the company, outside the ordinary course of the company's business, except that in March 2014, the company amended its asset securitization program and, among other things, increased its borrowing capacity from \$775.0 million to \$900.0 million and extended its term to mature in March 2017. At March 29, 2014 and December 31, 2013, the company had \$335.0 million and \$420.0 million, respectively, in outstanding borrowings under this program.

#### Share-Repurchase Programs

In July 2013, the company's Board of Directors (the "Board") approved the repurchase of up to \$200 million of the company's common stock through a share-repurchase program. As of March 29, 2014, the company repurchased 2,294,163 shares under this program with a market value of \$123.6 million at the dates of repurchase.

#### Off-Balance Sheet Arrangements

The company has no off-balance sheet financing or unconsolidated special purpose entities.

#### Critical Accounting Policies and Estimates

The company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the company to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. The company evaluates its estimates on an ongoing basis. The company bases its estimates on historical experience and on various other assumptions that are believed reasonable under the circumstances; the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There were no significant changes during the first quarter of 2014 to the items disclosed as Critical Accounting Policies and Estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in the company's Annual Report on Form 10-K for the year ended December 31, 2013.

#### Impact of Recently Issued Accounting Standards

See Note B of the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements, including the anticipated dates of adoption and the effects on the company's consolidated financial position and results of operations.

#### Information Relating to Forward-Looking Statements

This report includes forward-looking statements that are subject to numerous assumptions, risks, and uncertainties, which could cause actual results or facts to differ materially from such statements for a variety of reasons, including, but not limited to: industry conditions, the company's implementation of its new enterprise resource planning system, changes in product supply, pricing and customer demand, competition, other vagaries in the global components and global ECS markets, changes in relationships with key suppliers, increased profit margin pressure, the effects of additional actions taken to become more efficient or lower costs, risks related to the integration of acquired businesses, change in legal and regulatory matters, and the company's ability to generate additional cash flow. Forward-looking statements are those statements, which are not statements of historical fact. These forward-looking statements can be identified by forward-looking words such as "expects," "anticipates," "intends," "plans," "may," "will," "believes," "seeks," "estimates," and similar expressions. Shareholders and other readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. The company undertakes no obligation to update publicly or revise any of the forward-looking statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in market risk for changes in foreign currency exchange rates and interest rates from the information provided in Item 7A – Quantitative and Qualitative Disclosures About Market Risk in the company's Annual Report on Form 10-K for the year ended December 31, 2013, except as follows:

#### Foreign Currency Exchange Rate Risk

The notional amount of the foreign exchange contracts at March 29, 2014 and December 31, 2013 was \$362.5 million and \$445.7 million, respectively. The fair values of foreign exchange contracts, which are nominal, are estimated using market quotes. The translation of the financial statements of the non-United States operations is impacted by fluctuations in foreign currency exchange rates. The change in consolidated sales and operating income was impacted by the translation of the company's international financial statements into U.S. dollars. For the first quarter of 2014, the translation of the company's international financial statements into U.S. dollars resulted in an increase in sales and operating income of \$45.0 million and \$3.7 million, respectively, compared with the year-earlier period. Sales and operating income would decrease by approximately \$165.3 million and \$5.7 million, respectively, if average foreign exchange rates declined by 10% against the U.S. dollar in the first quarter of 2014. These amounts were determined by considering the impact of a hypothetical foreign exchange rate on the sales and operating income of the company's international operations.

#### Interest Rate Risk

At March 29, 2014, approximately 84% of the company's debt was subject to fixed rates, and 16% of its debt was subject to floating rates. A one percentage point change in average interest rates would not materially impact net interest and other financing expense for the first quarter of 2014. This was determined by considering the impact of a hypothetical interest rate on the company's average floating rate on investments and outstanding debt. This analysis does not consider the effect of the level of overall economic activity that could exist. In the event of a change in the level of economic activity, which may adversely impact interest rates, the company could likely take actions to further mitigate any potential negative exposure to the change. However, due to the uncertainty of the specific actions that might be taken and their possible effects, the sensitivity analysis assumes no changes in the company's financial structure.

In September 2011, the company entered into a ten-year forward-starting interest rate swap (the "2011 swap") which locked in a treasury rate of 2.63% on an aggregate notional amount of \$175.0 million. This swap managed the risk associated with changes in treasury rates and the impact of future interest payments. The 2011 swap related to the interest payments for anticipated debt issuances to replace the company's 6.875% senior notes due to mature in July 2013. The 2011 swap was classified as a cash flow hedge. In the first quarter of 2013, the company paid \$7.7 million to terminate the 2011 swap upon issuance of the ten-year notes due in 2023. The fair value of the 2011 swap is recorded in the shareholders' equity section in the company's consolidated balance sheets in "Accumulated other comprehensive income" and is being reclassified into income over the ten-year term of the notes due in 2023. During the first quarters of 2014 and 2013, the company reclassified \$(.2) million and \$.3 million, respectively, into income relating to the 2011 swap.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

The company's management, under the supervision and with the participation of the company's Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the company's disclosure controls and procedures as of March 29, 2014 (the "Evaluation"). Based upon the Evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) are effective.

##### Changes in Internal Control over Financial Reporting

There was no change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

##### Transition of Enterprise Resource Planning System

On April 1, 2014 the company completed the process of installing a new ERP system in select operations in the Asia Pacific region as part of a phased implementation schedule. This new ERP system will replace multiple legacy systems of the company over the next few years, with implementation already completed in Europe. The implementation of this new ERP system involves changes to the company's procedures for internal control over financial reporting. The company follows a system implementation life cycle process that requires significant pre-implementation planning, design, and testing. The company has also conducted and will continue to conduct extensive post-implementation monitoring and process modifications to ensure that internal controls over financial reporting are properly designed. The company has not experienced any significant difficulties to date in connection with the implementation or operation of the new ERP system.



## PART II. OTHER INFORMATION

## Item 1A. Risk Factors

There were no material changes to the company's risk factors as discussed in Item 1A - Risk Factors in the company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

In July 2013, the company's Board approved the repurchase of up to \$200 million of the company's common stock through a share-repurchase program.

The following table shows the share-repurchase activity for the quarter ended March 29, 2014:

Month	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (b)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
January 1 through January 31, 2014	—	\$—	—	\$151,428,586
February 1 through February 28, 2014	1,596,083	55.45	1,355,048	76,428,589
March 1 through March 29, 2014	—	—	—	76,428,589
Total	1,596,083		1,355,048	

Includes share repurchases under the Share-Repurchase Programs and those associated with shares withheld from (a) employees for stock-based awards, as permitted by the Omnibus Incentive Plan, in order to satisfy the required tax withholding obligations.

The difference between the "total number of shares purchased" and the "total number of shares purchased as part of publicly announced program" for the quarter ended March 29, 2014 is 241,035 shares, which relate to shares (b) withheld from employees for stock-based awards, as permitted by the Omnibus Incentive Plan, in order to satisfy the required tax withholding obligations. The purchase of these shares were not made pursuant to any publicly announced repurchase plan.

Item 6. Exhibits

Exhibit Number	Exhibit
31(i)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(ii)	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32(i)	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32(ii)	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Documents.
101.DEF	XBRL Taxonomy Definition Linkbase Document.

SIGNATURE

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.

ARROW ELECTRONICS, INC.

Date: May 6, 2014

By: /s/ Paul J. Reilly  
Paul J. Reilly  
Executive Vice President, Finance and Operations, and  
Chief Financial Officer

35