

ARROW ELECTRONICS INC

Form 10-Q

October 23, 2007

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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 September 30, 2007  
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)

**50 Marcus Drive, Melville, New York**  
(Address of principal executive offices)

**11747**  
(Zip Code)

**(631) 847-2000**  
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 122,740,415 shares of Common Stock outstanding as of October 19, 2007.

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

|  | <b>Three Months Ended</b> |              | <b>Nine Months Ended</b> |               |
|--|---------------------------|--------------|--------------------------|---------------|
|  | <b>September 30,</b>      |              | <b>September 30,</b>     |               |
|  | <b>2007</b>               | <b>2006</b>  | <b>2007</b>              | <b>2006</b>   |
| Sales  | \$ 4,030,363              | \$ 3,454,297 | \$ 11,566,010            | \$ 10,083,792 |
| Costs and expenses:                              |                           |              |                          |               |
| Cost of products sold                            | 3,477,806                 | 2,946,214    | 9,894,852                | 8,563,742     |
| Selling, general and administrative expenses     | 373,796                   | 342,951      | 1,127,958                | 1,015,607     |
| Depreciation and amortization                    | 16,740                    | 10,881       | 48,088                   | 33,179        |
| Restructuring and integration charges            | 4,512                     | 1,779        | 1,790                    | 6,418         |
|  | 3,872,854                 | 3,301,825    | 11,072,688               | 9,618,946     |
| Operating income                                 | 157,509                   | 152,472      | 493,322                  | 464,846       |
| Equity in earnings of affiliated companies       | 2,172                     | 1,550        | 5,842                    | 3,540         |
| Loss on prepayment of debt                       | -                         | -            | -                        | 2,605         |
| Interest expense, net                            | 24,273                    | 25,869       | 75,376                   | 73,831        |
| Income before income taxes and minority interest | 135,408                   | 128,153      | 423,788                  | 391,950       |
| Provision for income taxes                       | 36,554                    | 42,097       | 127,593                  | 130,834       |
| Income before minority interest                  | 98,854                    | 86,056       | 296,195                  | 261,116       |
| Minority interest                                | 530                       | 138          | 2,366                    | 856           |
| Net income                                       | \$ 98,324                 | \$ 85,918    | \$ 293,829               | \$ 260,260    |
| Net income per share:                            |                           |              |                          |               |
| Basic  | \$ .80                    | \$ .70       | \$ 2.38                  | \$ 2.14       |

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|         |    |     |    |     |    |      |    |      |
|---------|----|-----|----|-----|----|------|----|------|
| Diluted | \$ | .79 | \$ | .70 | \$ | 2.36 | \$ | 2.12 |
|---------|----|-----|----|-----|----|------|----|------|

Average number of shares outstanding:

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | 123,161 | 122,053 | 123,321 | 121,493 |
| Diluted | 124,292 | 122,850 | 124,598 | 123,179 |

See accompanying notes.

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**ARROW ELECTRONICS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands except par value)

|  | <b>September<br/>30,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|--|-----------------------------------|----------------------------------|
|  | (Unaudited)                       |                                  |
| <b>ASSETS</b>  |                                   |                                  |
| Current assets:  |                                   |                                  |
| Cash and cash equivalents  | \$ 317,607                        | \$ 337,730                       |
| Accounts receivable, net   | 3,101,272                         | 2,710,321                        |
| Inventories  | 1,624,958                         | 1,691,536                        |
| Prepaid expenses and other assets                                  | 170,293                           | 156,034                          |
| Total current assets   | 5,214,130                         | 4,895,621                        |
| Property, plant and equipment, at cost:                            |                                   |                                  |
| Land   | 41,378                            | 41,810                           |
| Buildings and improvements   | 175,133                           | 167,157                          |
| Machinery and equipment  | 554,089                           | 481,689                          |
|  | 770,600                           | 690,656                          |
| Less: Accumulated depreciation and amortization                    | (434,345)                         | (428,283)                        |
| Property, plant and equipment, net                                 | 336,255                           | 262,373                          |
| Investments in affiliated companies                                | 47,009                            | 41,960                           |
| Cost in excess of net assets of companies acquired                 | 1,787,128                         | 1,231,281                        |
| Other assets   | 269,454                           | 238,337                          |
| Total assets   | \$ 7,653,976                      | \$ 6,669,572                     |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                         |                                   |                                  |
| Current liabilities:   |                                   |                                  |
| Accounts payable   | \$ 2,245,026                      | \$ 1,795,089                     |
| Accrued expenses   | 462,741                           | 402,536                          |
| Short-term borrowings, including current portion of long-term debt | 57,746                            | 262,783                          |
| Total current liabilities  | 2,765,513                         | 2,460,408                        |

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|  |              |              |
|--|--------------|--------------|
| Long-term debt   | 1,208,403    | 976,774      |
| Other liabilities  | 256,279      | 235,831      |
| Shareholders' equity:  |              |              |
| Common stock, par value \$1:   |              |              |
| Authorized 160,000 shares in 2007 and 2006   |              |              |
| Issued 124,900 and 122,626 shares in 2007 and 2006, respectively                       | 124,900      | 122,626      |
| Capital in excess of par value   | 1,017,668    | 943,958      |
| Retained earnings  | 2,070,781    | 1,787,746    |
| Foreign currency translation adjustment  | 285,465      | 155,166      |
| Other  | 4,641        | (7,407)      |
|  | 3,503,455    | 3,002,089    |
| Less: Treasury stock (2,031 and 207 shares in 2007 and 2006, respectively),<br>at cost | (79,674)     | (5,530)      |
| Total shareholders' equity   | 3,423,781    | 2,996,559    |
| Total liabilities and shareholders' equity   | \$ 7,653,976 | \$ 6,669,572 |

See accompanying notes.

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**ARROW ELECTRONICS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

|  | <b>Nine Months Ended</b> |             |
|--|--------------------------|-------------|
|  | <b>September 30,</b>     |             |
|  | <b>2007</b>              | <b>2006</b> |
| Cash flows from operating activities:  |                          |             |
| Net income   | \$ 293,829               | \$ 260,260  |
| Adjustments to reconcile net income to net cash provided by (used for) operations: |                          |             |
| Depreciation and amortization  | 48,088                   | 33,179      |
| Amortization of deferred financing costs and discount on notes                     | 1,609                    | 2,152       |
| Amortization of stock-based compensation   | 17,212                   | 16,302      |
| Accretion of discount on zero coupon convertible debentures                        | -                        | 876         |
| Excess tax benefits from stock-based compensation arrangements                     | (7,315)                  | (6,486)     |
| Deferred income taxes  | (465)                    | (20,235)    |
| Restructuring and integration charges  | 438                      | 3,915       |
| Equity in earnings of affiliated companies   | (5,842)                  | (3,540)     |
| Loss on prepayment of debt   | -                        | 1,558       |
| Minority interest  | 2,366                    | 856         |
| Change in assets and liabilities, net of effects of acquired businesses:           |                          |             |
| Accounts receivable  | (114,763)                | (267,820)   |
| Inventories  | 159,609                  | (102,568)   |
| Prepaid expenses and other assets  | (12,379)                 | (10,739)    |
| Accounts payable   | 200,615                  | (122,696)   |
| Accrued expenses   | 51,065                   | 38,652      |
| Other  | (3,805)                  | 9,373       |
| Net cash provided by (used for) operating activities                               | 630,262                  | (166,961)   |
| Cash flows from investing activities:  |                          |             |
| Acquisition of property, plant and equipment                                       | (102,894)                | (41,670)    |
| Cash consideration paid for acquired businesses                                    | (539,315)                | (19,460)    |
| Proceeds from sale of facilities   | 12,996                   | -           |
| Other  | 178                      | 3,593       |
| Net cash used for investing activities   | (629,035)                | (57,537)    |
| Cash flows from financing activities:  |                          |             |
| Change in short-term borrowings  | (40,663)                 | 9,449       |
| Repayment of long-term borrowings  | (1,791,351)              | (15,632)    |
| Proceeds from long-term borrowings   | 1,989,900                | -           |
| Repurchase/repayment of senior notes   | (169,136)                | (4,268)     |
| Redemption of zero coupon convertible debentures                                   | -                        | (156,330)   |
| Proceeds from exercise of stock options  | 51,118                   | 53,705      |



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|  |            |            |
|--|------------|------------|
| Excess tax benefits from stock-based compensation arrangements | 7,315      | 6,486      |
| Repurchases of common stock                                    | (75,684)   | -          |
| Net cash used for financing activities                         | (28,501)   | (106,590)  |
| Effect of exchange rate changes on cash                        | 7,151      | 3,278      |
| Net decrease in cash and cash equivalents                      | (20,123)   | (327,810)  |
| Cash and cash equivalents at beginning of period               | 337,730    | 580,661    |
| Cash and cash equivalents at end of period                     | \$ 317,607 | \$ 252,851 |

See accompanying notes.

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**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 the information or notes necessary for a complete presentation and, accordingly, should be read in conjunction with the company's Forms 10-Q for the quarterly periods ended June 30, 2007 and March 31, 2007, as well as the audited consolidated financial statements and accompanying notes for the year ended December 31, 2006, as filed in the company's Annual Report on Form 10-K.

**Reclassification**

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

**Note B Impact of Recently Issued Accounting Standards**

Effective January 1, 2007, the company adopted Emerging Issues Task Force (EITF) Issue No. 06-2, Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, (EITF Issue No. 06-2). EITF Issue No. 06-2 requires that compensation expense associated with a sabbatical leave, or other similar benefit arrangements, be accrued over the requisite service period during which an employee earns the benefit. Upon adoption, the company recognized a liability of \$18,048 and a cumulative-effect adjustment to retained earnings of \$10,794, net of related taxes.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, Fair Value Measurements (Statement No. 157) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. Statement No. 157 is effective for fiscal years beginning after November 15, 2007, and should be applied prospectively, except for the provisions for certain financial instruments that should be applied retrospectively as of the beginning of the year of adoption. The transition adjustment of the difference between the carrying amounts and the fair values of those financial instruments should be recognized as a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The company is currently evaluating the impact of adopting the provisions of Statement No. 157.

**Note C Income Taxes**

**Uncertain Tax Positions**

Effective January 1, 2007, the company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. There was no material impact on the company's consolidated financial position and results of operations as a result of adopting provisions of FIN 48. At January 1, 2007, the company had a liability for unrecognized tax benefits of \$43,308 (of which \$42,631, if recognized, would favorably affect the company's effective tax rate) and a liability of \$6,167 for the payment of related interest.

Interest costs related to unrecognized tax benefits are classified as a component of Interest expense, net in the accompanying consolidated statements of operations. Penalties, if any, are recognized as a

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**(Dollars in thousands except per share data)**  
**(Unaudited)**

component of Selling, general and administrative expenses. The company recognized \$276 of interest income and \$1,326 of interest expense related to unrecognized tax benefits for the third quarter and first nine months of 2007, respectively.

In many cases, the company's uncertain tax positions are related to tax years that remain subject to examination by tax authorities. The following describes the open tax years, by major tax jurisdiction, as of January 1, 2007:

|                |         |      |         |
|----------------|---------|------|---------|
| United States  | Federal | 2001 | present |
| United States  | State   | 1998 | present |
| Germany (a)    |         | 2003 | present |
| Hong Kong      |         | 2001 | present |
| Italy (a)      |         | 2002 | present |
| Sweden         |         | 2001 | present |
| United Kingdom |         | 2002 | present |

(a) Includes federal as well as local jurisdictions, as applicable.

**Effective Tax Rate**

The company recorded a provision for income taxes of \$36,554 and \$127,593 (an effective tax rate of 27.0% and 30.1%) for the third quarter and first nine months of 2007, respectively. During the third quarter and first nine months of 2007, the company recorded an income tax benefit of \$6,024, net, (\$.05 per share on both a basic and diluted basis) principally due to a reduction in deferred income taxes as a result of the statutory tax rate change in Germany. These deferred income taxes primarily related to the amortization of intangible assets for income tax purposes, which are not amortized for accounting purposes. The company's provision for income taxes and effective tax rate for the third quarter and first nine months of 2007 were impacted by the aforementioned income tax benefit in addition to restructuring and integration charges. Excluding the impact of the aforementioned income tax benefit and restructuring and integration charges, the company's effective tax rate was 31.7% for both the third quarter and first nine months of 2007.

The company recorded a provision for income taxes of \$42,097 and \$130,834 (an effective tax rate of 32.8% and 33.4%) for the third quarter and first nine months of 2006, respectively. The company's provision for income taxes and effective tax rate for the third quarter and first nine months of 2006 were impacted by restructuring and integration charges, and the company's provision for income taxes and effective tax rate for the first nine months of 2006 were impacted by a loss on prepayment of debt. Excluding the impact of restructuring and integration charges and loss on prepayment of debt, the company's effective tax rate for the third quarter and first nine months of 2006 was 32.9% and 33.5%, respectively.

The company's provision for income taxes and effective tax rate is 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.

**Note D Acquisitions**

The following acquisitions were accounted for as purchase transactions and, accordingly, results of operations were included in the company's consolidated results from the dates of acquisition.

**2007**

On March 31, 2007, the company acquired from Agilysys, Inc. ( Agilysys ) substantially all of the assets and operations of their KeyLink Systems Group business ( KeyLink ) for a purchase price of \$480,640 in cash, which included acquisition costs and final adjustments based upon a closing audit. The company also entered into a long-term procurement agreement with Agilysys. KeyLink, a leading enterprise

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**(Dollars in thousands except per share data)**  
**(Unaudited)**

computing solutions distributor, provides complex solutions from industry leading manufacturers to more than 800 reseller partners. KeyLink has long-standing reseller relationships that provide the company with significant cross-selling opportunities. KeyLink's highly experienced sales and marketing professionals strengthen the company's existing relationships with value-added resellers (VARs) and position the company to attract new relationships. The integration of KeyLink into the company's global enterprise computing solutions (ECS) business segment is expected to provide opportunities for synergies and cost savings. Total KeyLink sales for 2006, including estimated revenues associated with the above-mentioned procurement agreement, were approximately \$1,600,000.

The following table summarizes the preliminary allocation of the net consideration paid to the fair value of the assets acquired and liabilities assumed for the KeyLink acquisition:

|  |                |
|--|----------------|
| Accounts receivable, net                           | \$ 168,958     |
| Inventories  | 47,471         |
| Prepaid expenses and other assets                  | 2,981          |
| Property, plant and equipment                      | 10,745         |
| Cost in excess of net assets of companies acquired | 451,615        |
| Accounts payable                                   | (197,879)      |
| Accrued expenses                                   | (3,251)        |
| <br>Net consideration paid                         | <br>\$ 480,640 |

The preliminary allocation is subject to refinement as the company has not yet completed its evaluation of the fair value of the assets acquired and liabilities assumed, including the final valuation of any potential intangible assets created through this acquisition.

The cost in excess of net assets of companies acquired related to the KeyLink acquisition was recorded in the company's global ECS business segment. Substantially all of the intangible assets related to the KeyLink acquisition are expected to be deductible for income tax purposes.

The following table summarizes the company's unaudited consolidated results of operations for the first nine months of 2007, as well as the unaudited pro forma consolidated results of operations of the company, as though the KeyLink acquisition occurred on January 1, 2007:

|                       | <b>For the Nine Months Ended</b> |                  |
|-----------------------|----------------------------------|------------------|
|                       | <b>September 30, 2007</b>        |                  |
|                       | <b>As Reported</b>               | <b>Pro Forma</b> |
| Sales                 | \$ 11,566,010                    | \$ 11,862,533    |
| Net income            | 293,829                          | 295,215          |
| Net income per share: |                                  |                  |
| Basic                 | \$ 2.38                          | \$ 2.39          |
| Diluted               | \$ 2.36                          | \$ 2.37          |

The unaudited pro forma consolidated results of operations does not purport to be indicative of the results obtained if the above acquisition had occurred as of the beginning of 2007, or of those results that may be obtained in the future, and does not include any impact from the procurement agreement with Agilysys.

In June 2007, the company acquired the component distribution business of Adilam Pty. Ltd. (Adilam), a leading electronic component distributor in Australia and New Zealand. Total Adilam sales for 2006 were approximately \$18,000. The impact of the acquisition of the component distribution business of Adilam was not material to the company's consolidated financial position and results of operations.



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In September 2007, the company acquired Centia Group Limited and AKS Group AB ( Centia/AKS ), specialty distributors of access infrastructure, security, and virtualization software solutions in Europe. Total Centia/AKS sales for the full year of 2007 are expected to exceed \$120,000. The impact of the Centia/AKS acquisitions was not material to the company's consolidated financial position and results of operations.

In October 2007, the company signed a definitive agreement to acquire Universe Electron Corporation ( UEC ), a distributor of semiconductor and multimedia products to Japanese manufacturers and firms. UEC is based in Tokyo, Japan. This transaction is expected to be completed in the fourth quarter of 2007. The impact of the acquisition of UEC is not expected to be material to the company's consolidated financial position and results of operations.

**2006**

On November 30, 2006, the company acquired Alternative Technology, Inc. ( Alternative Technology ), which supports VARs in delivering solutions that optimize, accelerate, monitor, and secure end-user's networks. Total Alternative Technology sales for 2006 were approximately \$250,000.

On December 29, 2006, the company acquired InTechnology plc's storage and security distribution business ( InTechnology ), which delivers storage and security solutions to VARs in the United Kingdom. Total InTechnology sales for 2006 were approximately \$320,000.

The preliminary allocation of the net consideration paid for the Alternative Technology and InTechnology acquisitions ( 2006 acquisitions ) is subject to refinement as the company has not yet completed its evaluation of the fair value of the assets acquired and liabilities assumed, including the valuation of any identifiable intangible assets acquired through these acquisitions.

The following tables summarize the company's unaudited consolidated results of operations for the third quarter and first nine months of 2006, as well as the unaudited pro forma consolidated results of operations of the company as though the KeyLink acquisition and the 2006 acquisitions occurred on January 1, 2006:

|                       | <b>For the Three Months Ended</b> |                  | <b>For the Nine Months Ended</b> |                  |
|-----------------------|-----------------------------------|------------------|----------------------------------|------------------|
|                       | <b>September 30, 2006</b>         |                  | <b>September 30, 2006</b>        |                  |
|                       | <b>As Reported</b>                | <b>Pro Forma</b> | <b>As Reported</b>               | <b>Pro Forma</b> |
| Sales                 | \$3,454,297                       | \$3,879,705      | \$10,083,792                     | \$11,329,922     |
| Net income            | 85,918                            | 87,799           | 260,260                          | 265,302          |
| Net income per share: |                                   |                  |                                  |                  |
| Basic                 | \$ .70                            | \$ .72           | \$ 2.14                          | \$ 2.18          |
| Diluted               | \$ .70                            | \$ .71           | \$ 2.12                          | \$ 2.16          |

The unaudited pro forma consolidated results of operations does not purport to be indicative of the results obtained if the above acquisitions had occurred as of the beginning of 2006, or of those results that may be obtained in the future, and does not include any impact from the procurement agreement with Agilysys.

**Other**

Amortization expense related to identifiable intangible assets for the third quarter and first nine months of 2007 was \$4,008 and \$9,687, respectively.

In July 2007, the company made a payment of \$32,685 that was capitalized as cost in excess of net assets of companies acquired, partially offset by the carrying value of the related minority interest, to increase its ownership interest in Ultra Source Technology Corp. ( Ultra Source ) from 70.7% to 92.8%. The company intends to increase its ownership interest in Ultra Source to 100%, subject to obtaining necessary regulatory approvals.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data)**  
**(Unaudited)**

The company intends to increase its ownership interest in Ultra Source to 100%, subject to obtaining necessary regulatory approvals.

During the first quarter of 2006, the company made a payment of \$3,400 that was capitalized as cost in excess of net assets of companies acquired, partially offset by the carrying value of the related minority interest, to increase its ownership interest in a majority-owned subsidiary.

**Note E Cost in Excess of Net Assets of Companies Acquired**

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

|  | <b>Global<br/>Components</b> | <b>Global ECS</b> | <b>Total</b> |
|--|------------------------------|-------------------|--------------|
| December 31, 2006                              | \$ 1,014,307                 | \$ 216,974        | \$ 1,231,281 |
| Acquisitions                                   | 19,491                       | 483,019           | 502,510      |
| Other (primarily foreign currency translation) | 42,510                       | 10,827            | 53,337       |
| September 30, 2007                             | \$ 1,076,308                 | \$ 710,820        | \$ 1,787,128 |

All existing and future costs in excess of net assets of companies acquired are subject to an annual impairment test as of the first day of the fourth quarter of each year, or earlier if indicators of potential impairment exist.

**Note F Investments****Affiliated Companies**

The company has a 50% interest in two joint ventures with Marubun Corporation (collectively Marubun/Arrow) and a 50% interest in Altech Industries (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, the company's investment and long-term note receivable in Altech Industries, and the company's other equity investments at September 30, 2007 and December 31, 2006:

|                   | <b>September<br/>30,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|-------------------|-----------------------------------|----------------------------------|
| Marubun/Arrow     | \$ 31,441                         | \$ 27,283                        |
| Altech Industries | 15,366                            | 14,419                           |
| Other             | 202                               | 258                              |
|                   | \$ 47,009                         | \$ 41,960                        |

The equity in earnings (loss) of affiliated companies consist of the following:

|                   | <b>For the Three<br/>Months Ended<br/>September 30,</b> |             | <b>For the Nine<br/>Months Ended<br/>September 30,</b> |             |
|-------------------|---|-------------|--|-------------|
|                   | <b>2007</b>   | <b>2006</b> | <b>2007</b>  | <b>2006</b> |
| Marubun/Arrow     | \$ 1,763  | \$ 1,326    | \$ 4,698   | \$ 2,326    |
| Altech Industries | 444   | 235         | 1,203  | 1,244       |
| Other             | (35)  | (11)        | (59)   | (30)        |

\$ 2,172    \$ 1,550    \$ 5,842    \$ 3,540



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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 September 30, 2007, the company's pro-rata share of this debt was approximately \$6,500. The company believes there is sufficient equity in the joint ventures to meet their obligations.

**Investment Securities**

The company has a 3.3% ownership interest in WPG Holdings Co., Ltd. ( WPG ) and an 8.4% ownership interest in Marubun Corporation ( Marubun ), which are accounted for as available-for-sale securities.

The fair value of the company's available-for-sale securities are as follows:

|                         | <b>September 30, 2007</b> |            | <b>December 31, 2006</b> |            |
|-------------------------|---------------------------|------------|--------------------------|------------|
|                         | <b>Marubun</b>            | <b>WPG</b> | <b>Marubun</b>           | <b>WPG</b> |
| Cost basis              | \$ 20,046                 | \$ 10,798  | \$ 20,046                | \$ 10,798  |
| Unrealized holding gain | 6,392                     | 20,289     | 12,173                   | 1,496      |
| Fair value              | \$ 26,438                 | \$ 31,087  | \$ 32,219                | \$ 12,294  |

The fair value of these investments are included in Other assets in the accompanying consolidated balance sheets, and the related unrealized holding gains are included in Other in the shareholders' equity section in the accompanying consolidated balance sheets.

**Note G Accounts Receivable**

The company has an asset securitization program collateralized by accounts receivables of certain of its North American subsidiaries. In March 2007, the company renewed the asset securitization program and, among other things, increased its size from \$550,000 to \$600,000 and extended its term to a three-year commitment maturing in March 2010. 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 under FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Accordingly, the accounts receivable and related debt obligation remain on the company's consolidated balance sheet. Interest on borrowings is based on a base rate or a commercial paper rate plus a spread, which is based on the company's credit ratings (.225% at September 30, 2007). The facility fee is .125%.

The company had no outstanding borrowings under the program at September 30, 2007 and December 31, 2006. Accounts receivable, net, consists of the following at September 30, 2007 and December 31, 2006:

|                                 | <b>September<br/>30,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|---------------------------------|-----------------------------------|----------------------------------|
| Accounts receivable             | \$ 3,173,371                      | \$ 2,785,725                     |
| Allowance for doubtful accounts | (72,099)                          | (75,404)                         |
| Accounts receivable, net        | \$ 3,101,272                      | \$ 2,710,321                     |

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.



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**Note H Debt**

The company had no outstanding borrowings under its revolving credit facility at September 30, 2007 and December 31, 2006.

The revolving credit facility and the 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 of the covenants as of September 30, 2007. The company is not aware of any events that would cause non-compliance in the future.

**Loss on Prepayment of Debt**

During the first nine months of 2006, the company redeemed the total amount outstanding of \$283,184 principal amount (\$156,354 accreted value) of its zero coupon convertible debentures due in 2021 ( convertible debentures ) and repurchased \$4,125 principal amount of its 7% senior notes due in January 2007. The related loss on the redemption and repurchase, including any related premium paid, write-off of deferred financing costs, and cost of terminating a portion of the related interest rate swaps, aggregated \$2,605 (\$1,558 net of related taxes or \$.01 per share on both a basic and diluted basis) and was recognized as a loss on prepayment of debt. As a result of these transactions, net interest expense was reduced by approximately \$2,600 from the date of redemption and repurchase through the respective maturity dates.

**Cross-Currency Swaps**

In May 2006, the company entered into a cross-currency swap, which has a maturity date of July 2013, for approximately \$100,000 or 78,281 (the 2006 cross-currency swap ) to hedge a portion of its net investment in euro-denominated net assets. The 2006 cross-currency swap is designated as a net investment hedge and effectively converts the interest expense on \$100,000 of long-term debt from U.S. dollars to euros. As the notional amount of the 2006 cross-currency swap is expected to equal a comparable amount of hedged net assets, no material ineffectiveness is expected. The 2006 cross-currency swap had a negative fair value of \$11,570 and \$3,218 at September 30, 2007 and December 31, 2006, respectively.

In October 2005, the company entered into a cross-currency swap, which has a maturity date of October 2010, for approximately \$200,000 or 168,384 (the 2005 cross-currency swap ) to hedge a portion of its net investment in euro-denominated net assets. The 2005 cross-currency swap is designated as a net investment hedge and effectively converts the interest expense on \$200,000 of long-term debt from U.S. dollars to euros. As the notional amount of the 2005 cross-currency swap is expected to equal a comparable amount of hedged net assets, no material ineffectiveness is expected. The 2005 cross-currency swap had a negative fair value of \$40,464 and \$21,729 at September 30, 2007 and December 31, 2006, respectively.

The related unrealized gains and losses on these net investment hedges are recorded in Foreign currency translation adjustment, which is included in the shareholders' equity section in the accompanying consolidated balance sheets.

**Interest Rate Swaps**

The company utilizes interest rate swaps to manage its targeted mix of fixed and floating rate debt. The fair value of the interest rate swaps are included in Other liabilities, and the offsetting adjustment to the carrying value of the debt is included in Long-term debt in the accompanying consolidated balance sheets.

In June 2004, the company entered into a series of interest rate swaps (the 2004 swaps ), with an aggregate notional amount of \$300,000. The 2004 swaps modify the company's interest rate exposure

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by effectively converting the fixed 9.15% senior notes to a floating rate, based on the six-month U.S. dollar LIBOR plus a spread (an effective rate of 9.68% and 9.73% at September 30, 2007 and December 31, 2006, respectively), and a portion of the fixed 6.875% senior notes to a floating rate also based on the six-month U.S. dollar LIBOR plus a spread (an effective rate of 7.24% and 7.50% at September 30, 2007 and December 31, 2006, respectively), through their maturities. The 2004 swaps are classified as fair value hedges and had a fair value of \$334 and a negative fair value of \$3,245 at September 30, 2007 and December 31, 2006, respectively.

In November 2003, the company entered into a series of interest rate swaps (the 2003 swaps), with an aggregate notional amount of \$200,000. The 2003 swaps modified the company's interest rate exposure by effectively converting the fixed 7% senior notes to a floating rate, based on the six-month U.S. dollar LIBOR plus a spread (an effective rate of 9.55% at December 31, 2006), through their maturities. The 2003 swaps were classified as fair value hedges and had a negative fair value of \$185 at December 31, 2006. The 2003 swaps expired in January 2007 upon the repayment of the 7% senior notes.

**Other**

Interest expense, net, includes interest income of \$589 and \$2,510 for the third quarter and first nine months of 2007, respectively, and \$592 and \$4,099 for the third quarter and first nine months of 2006, respectively.

**Note I Restructuring and Integration Charges**

The company recorded restructuring and integration charges of \$4,512 (\$2,674 net of related taxes or \$.02 per share on both a basic and diluted basis) and \$1,790 (\$438 net of related taxes) for the third quarter and first nine months of 2007, respectively, and restructuring and integration charges of \$1,779 (\$1,101 net of related taxes or \$.01 per share on both a basic and diluted basis) and \$6,418 (\$3,915 net of related taxes or \$.03 per share on both a basic and diluted basis) for the third quarter and first nine months of 2006, respectively.

**2007 Restructuring**

During the third quarter of 2007, the company took a series of steps to make its organizational structure more efficient. These actions are expected to reduce costs by approximately \$30,000 per annum in North America, of which approximately \$3,000 was realized in the third quarter of 2007 and approximately \$7,000 is expected to be realized in the fourth quarter of 2007. The estimated restructuring charges to be recorded over the next several quarters associated with these actions total approximately \$8,000.

Included in the restructuring and integration charges referenced above for the third quarter of 2007 is \$3,066 related to initiatives taken by the company during 2007 to improve operating efficiencies. Included in the restructuring and integration charges referenced above for the first nine months of 2007 is an \$8,506 gain on the sale of a facility, offset, in part, by restructuring charges of \$7,407 for the first nine months of 2007 related to initiatives taken by the company during 2007 to improve operating efficiencies.

At September 30, 2007, the restructuring accrual related to the 2007 restructuring was \$3,094 and was comprised of the following:

|                                       | <b>Personnel<br/>Costs</b> | <b>Facilities</b> | <b>Other</b> | <b>Total</b> |
|---------------------------------------|----------------------------|-------------------|--------------|--------------|
| Restructuring charge (credit) (a) (b) | \$ 6,047                   | \$ (7,933)        | \$ 787       | \$ (1,099)   |
| Payments (c)                          | (4,164)                    | 8,491             | (70)         | 4,257        |
| Foreign currency translation          | 42                         | (44)              | (62)         | (64)         |
| September 30, 2007                    | \$ 1,925                   | \$ 514            | \$ 655       | \$ 3,094     |



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- (a) Personnel costs associated with the elimination of approximately 240 positions in the first nine months of 2007 across various geographic regions.
- (b) Facilities include a pre-tax gain of \$8,506 related to the sale of the Harlow, England facility in the first nine months of 2007.
- (c) Facilities include cash proceeds received in excess of the related net assets of \$8,506 related to the sale of the Harlow, England facility in the first nine months of 2007.

**2001 through 2006 Restructurings**

During 2001 through 2006, the company took a number of steps related to cost containment and cost reduction actions and to make its organizational structure more efficient. Included in the restructuring and integration charges referenced above for the third quarter of 2007 is \$1,239 related to these actions. Included in the restructuring and integration charges referenced above for the first nine months of 2007 is \$620 related to these actions, offset, in part, by a \$548 gain on the sale of a facility. Included in the restructuring and integration charges referenced above for the third quarter and first nine months of 2006 are \$1,779 and \$6,418, respectively, related to these actions. The cumulative restructuring charges recorded as of September 30, 2007 related to the 2001 through 2006 restructurings total \$303,647 and cumulative cash payments of \$96,265 and non-cash usage of \$201,627 were recorded against the

accrual.

At September 30, 2007, the restructuring accrual related to the 2001 through 2006 restructurings was \$5,755 and was comprised of the following:

|                                    | <b>Personnel<br/>Costs</b> | <b>Facilities</b> | <b>Other</b> | <b>Total</b> |
|------------------------------------|----------------------------|-------------------|--------------|--------------|
| December 31, 2006                  | \$ 2,601                   | \$ 3,051          | \$ 2,806     | \$ 8,458     |
| Restructuring charges (credit) (a) | (60)                       | 863               | (731)        | 72           |
| Payments (b)                       | (2,132)                    | (744)             | -            | (2,876)      |
| Reclassification                   | (94)                       | 94                | -            | -            |
| Foreign currency translation       | 29                         | (28)              | 100          | 101          |
| September 30, 2007                 | \$ 344                     | \$ 3,236          | \$ 2,175     | \$ 5,755     |

(a) Facilities include a pre-tax gain of \$548 related to the sale of the Lenexa, Kansas facility in the first nine months of 2007.

(b) Facilities include cash proceeds received in excess of the related net assets of \$548 related to the sale of the Lenexa, Kansas facility in the first nine months of 2007.

#### Integration

Included in the restructuring and integration charges referenced above is \$207 and \$2,817 for the third quarter and first nine months of 2007, respectively, primarily related to the acquisition of KeyLink.

At September 30, 2007, the integration accrual of \$5,507 related to the acquisition of KeyLink in the first quarter of 2007 and certain acquisitions made prior to 2005 was comprised of the following:

|                       | <b>Personnel<br/>Costs</b> | <b>Facilities</b> | <b>Other</b> | <b>Total</b> |
|-----------------------|----------------------------|-------------------|--------------|--------------|
| December 31, 2006     | \$ -                       | \$ 2,735          | \$ 658       | \$ 3,393     |
| Integration costs (a) | 1,425                      | (535)             | 2,723        | 3,613        |
| Payments              | (755)                      | (581)             | (251)        | (1,587)      |

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|                              |        |          |          |          |
|------------------------------|--------|----------|----------|----------|
| Foreign currency translation | -      | 88       | -        | 88       |
| September 30, 2007           | \$ 670 | \$ 1,707 | \$ 3,130 | \$ 5,507 |



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- (a) Integration costs include \$2,817 recorded as an integration charge and \$796 recorded as additional costs in excess of net assets of companies acquired associated with the acquisition of KeyLink, primarily impacting the Americas geographic region. The integration charge is net of a \$689 reversal of excess facilities-related accruals in connection with certain acquisitions made prior to 2005. Personnel costs associated with the elimination of approximately 40 positions in North America related to the acquisition of KeyLink.

**Restructuring and Integration Summary**

The remaining balances of the restructuring and integration accruals aggregate \$14,356 at September 30, 2007, of which \$12,036 is expected to be spent in cash, and are expected to be utilized as follows:

- The personnel costs accruals of \$2,939 to cover costs associated with the termination of personnel, which are primarily expected to be spent within one year.

- The facilities accruals totaling \$5,457 relate to vacated leases with scheduled payments of \$1,322 in 2007, \$1,688 in 2008, \$1,523 in 2009, and \$924 in 2010.
- The customer termination accrual of \$2,175 relates to costs associated with the termination of certain customer programs primarily associated with services not traditionally provided by the company and is expected to be utilized over several years.
- Other accruals of \$3,785 are expected to be utilized over several years.

**Note J Net Income per Share**

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

|  | <b>For the Three<br/>Months Ended<br/>September 30,</b> |             | <b>For the Nine<br/>Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2007</b>   | <b>2006</b> | <b>2007</b>  | <b>2006</b> |
| Net income, as reported  | \$ 98,324   | \$ 85,918   | \$ 293,829   | \$ 260,260  |
| Adjustment for interest expense on convertible debentures,<br>net of tax | -   | -           | -  | 524         |
| Net income, as adjusted  | \$ 98,324   | \$ 85,918   | \$ 293,829   | \$ 260,784  |
| Net income per share:  |   |             |  |             |
| Basic  | \$ .80  | \$ .70      | \$ 2.38  | \$ 2.14     |
| Diluted (a)  | \$ .79  | \$ .70      | \$ 2.36  | \$ 2.12     |
| Weighted average shares outstanding basic                                | 123,161   | 122,053     | 123,321  | 121,493     |
| Net effect of various dilutive stock-based compensation<br>awards        | 1,131   | 797         | 1,277  | 1,063       |
| Net effect of dilutive convertible debentures                            | -   | -           | -  | 623         |
| Weighted average shares outstanding diluted                              | 124,292   | 122,850     | 124,598  | 123,179     |

(a) The effect of options to purchase 43 shares for both the third quarter and first nine months of 2007, respectively, and the effect of options to purchase 1,698 and 1,134 shares

for the third quarter and first nine months of 2006, respectively, was excluded from the computation of net income per share on a diluted basis as their effect is anti-dilutive.

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**Note K Shareholders Equity****Comprehensive Income**

The components of comprehensive income are as follows:

|   | <b>For the Three<br/>Months Ended<br/>September 30,</b> |             | <b>For the Nine<br/>Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2007</b>   | <b>2006</b> | <b>2007</b>  | <b>2006</b> |
| Net income  | \$ 98,324   | \$ 85,918   | \$ 293,829   | \$ 260,260  |
| Foreign currency translation adjustments (a)                          | 94,193  | (7,120)     | 130,299  | 79,341      |
| Unrealized gain on securities and employee benefit plan related items | 12,519  | 1,703       | 12,048   | 511         |
| Comprehensive income  | \$ 205,036  | \$ 80,501   | \$ 436,176   | \$ 340,112  |

- (a) Except for unrealized gains or losses resulting from the company's cross-currency swaps, foreign currency translation adjustments are not tax effected as investments in international affiliates are deemed to be permanent.

**Share-Repurchase Program**

In February 2006, the Board of Directors authorized the company to repurchase up to \$100,000 of the company's outstanding common stock through a share-repurchase program (the "program"). In March 2007, the company announced a rule 10b5-1 plan to facilitate repurchases under the program with the intention of minimizing earnings per share dilution caused by the issuance of common stock upon the exercise of stock options. Repurchases were funded with cash received from the exercise of stock options in the previous quarter. In August 2007, the company replaced the then existing rule 10b5-1 plan with a new 10b5-1 plan intended to completely offset the dilution caused by the issuance of common stock upon the exercise of stock options. Repurchases will be funded with cash flows from operations and cash received from the exercise of stock options in the previous quarter. As of September 30, 2007, the company has repurchased 1,877,563 shares under this program, which represents the number of shares issued in connection with the exercise of stock options for the first nine months of 2007. These shares had a market value of \$75,684 at the dates of repurchase.

**Note L Employee Benefit Plans**

The company maintains supplemental executive retirement plans and a defined benefit plan. The components of the net periodic benefit costs for these plans are as follows:

|   | <b>For the Three<br/>Months Ended<br/>September 30,</b> |             | <b>For the Nine<br/>Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2007</b>   | <b>2006</b> | <b>2007</b>  | <b>2006</b> |
| Components of net periodic benefit costs: |   |             |  |             |
| Service cost                              | \$ 661  | \$ 604      | \$ 1,983   | \$ 1,812    |
| Interest cost                             | 2,069   | 1,977       | 6,207  | 5,931       |
| Expected return on plan assets            | (1,639)   | (1,586)     | (4,917)  | (4,758)     |
| Amortization of unrecognized net loss     | 414   | 539         | 1,242  | 1,617       |
| Amortization of prior service cost        | 137   | 137         | 411  | 411         |
| Amortization of transition obligation     | 103   | 103         | 309  | 309         |
| Net periodic benefit costs                | \$ 1,745  | \$ 1,774    | \$ 5,235   | \$ 5,322    |

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**Note M Contingencies**

**Environmental and Related Matters**

In 2000, the company assumed certain of the then outstanding obligations of Wyle Electronics ( Wyle ), including Wyle s obligation to indemnify the purchasers of its Laboratories division for environmental clean-up costs associated with any pre-1995 contamination or violation of environmental regulations. Under the terms of the company s purchase of Wyle from the VEBA Group ( VEBA ), VEBA agreed to indemnify the company for, among other things, costs related to environmental pollution associated with Wyle, including those associated with Wyle s sale of its Laboratories division. The company is currently engaged in clean up and/or investigative activities at Wyle sites in Huntsville, Alabama and Norco, California.

Characterization of the extent of contaminated groundwater continues at the site in Huntsville and approximately \$1,500 has been spent to date. Though the complete scope of the characterization effort and the design of any remedial action are not yet known, the additional expenditures at the site are estimated between \$3,400 and \$5,500.

Regarding the Norco site, work under the May 2004 Removal Action Work Plan pertaining to the remediation of contaminated groundwater at certain previously identified areas of the site continues. The company currently estimates that additional cost of interim remediation under the Removal Action Work Plan ranges from \$130 to \$250. Work under a second Removal Action Work Plan, pertaining to the interim remediation of certain areas immediately adjacent to the site, is also under way, with a total completion cost currently estimated at between \$340 and \$400.

Additional characterization activities also continue at Norco, with estimated remaining implementation costs of \$1,700 to \$2,500. Current estimates for the expense of activities such as onsite and offsite groundwater monitoring, regulatory oversight, and project management during 2008 are between \$3,500 to \$4,100.

Plans for a system to hydraulically control the flow of contamination offsite have been approved by the California Department of Toxic Substance Control and design and development of the system has begun. The cost of its installation and operation is estimated between \$1,500 and \$2,000. The cost of additional future offsite remediation of the groundwater plume is currently estimated at between \$1,000 and \$3,500.

Despite the amount of work undertaken and planned to date, the complete scope of work under the consent decree is not yet known, and, accordingly, the associated costs not yet determined.

The litigation associated with these environmental liabilities (Gloria Austin, et al. v. Wyle Laboratories, Inc. et al., and the other claims of plaintiff Norco landowners and residents which were consolidated with it; Arrow s actions against E.ON AG, successor to VEBA, and Wyle for the judicial enforcement of the various indemnification provisions; and Arrow s claim against a number of insurers on policies relevant to the Wyle sites) is ongoing and unresolved. The litigation is described more fully in Note 15 and Item 3 of Part I of the company s Annual Report on Form 10-K for the year ended December 31, 2006. The company has received an opinion of counsel that the recovery of costs incurred to date which are covered under the contractual indemnifications associated with the environmental clean-up costs related to the Norco and Huntsville sites, is probable. Based on the opinion of counsel, the company increased the receivable for amounts due from E.ON AG by \$5,405 during the first nine months of 2007 to \$23,105. The company s net costs for such indemnified matters may vary from period to period as estimates of recoveries are not always recognized in the same period as the accrual of estimated expenses.

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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, 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 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 enterprise computing solutions to VARs 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.

Effective April 1, 2007, the company's business segments were realigned as part of the company's continued efforts to strengthen its market leadership position, streamline the business, and further leverage cost synergies globally. The company's global components business segment was formed to bring a single, global organization to leverage the collective enterprise to speed services and solutions to customers and suppliers. The company's global ECS business segment was formed to bring a single organization with an expanded geographic reach, increased exposure in faster growing product segments, and a more robust customer and supplier base. As a result, the UK Microtronica, ATD (in Spain), and Arrow Computer Products (in France) businesses, previously included in the computer products business segment, were transitioned into the company's global components business segment. As a result of this realignment, global components and global ECS are the business segments upon which management primarily evaluates the operations of the company and upon which it bases its operating decisions. Prior period segment data was adjusted to conform to the current period presentation.

Effective January 1, 2007, stock option expense, which was previously included in corporate, is allocated to global components, global ECS, and corporate. Prior period segment data was adjusted to conform with the current period presentation.

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

|                          | <b>For the Three<br/>Months Ended<br/>September 30,</b> |              | <b>For the Nine<br/>Months Ended<br/>September 30,</b> |               |
|--------------------------|---|--------------|--|---------------|
|                          | <b>2007</b>   | <b>2006</b>  | <b>2007</b>  | <b>2006</b>   |
| Sales:                   |   |              |  |               |
| Global components        | \$ 2,859,264  | \$ 2,860,258 | \$ 8,413,191   | \$ 8,353,608  |
| Global ECS               | 1,171,099   | 594,039      | 3,152,819  | 1,730,184     |
| Consolidated             | \$ 4,030,363  | \$ 3,454,297 | \$ 11,566,010  | \$ 10,083,792 |
| Operating income (loss): |   |              |  |               |
| Global components        | \$ 151,663  | \$ 146,781   | \$ 458,388   | \$ 451,368    |
| Global ECS               | 38,338  | 27,664       | 118,347  | 80,619        |
| Corporate (a)            | (32,492)  | (21,973)     | (83,413)   | (67,141)      |

|              |            |            |            |            |
|--------------|------------|------------|------------|------------|
| Consolidated | \$ 157,509 | \$ 152,472 | \$ 493,322 | \$ 464,846 |
|--------------|------------|------------|------------|------------|

(a) Includes restructuring and integration charges of \$4,512 and \$1,790 for the third quarter and first nine months of 2007, respectively, and restructuring and integration charges of \$1,779 and \$6,418 for the third quarter and first nine months of 2006, respectively.



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Total assets, by segment, are as follows:

|                   | <b>September<br/>30,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|-------------------|-----------------------------------|----------------------------------|
| Global components | \$ 5,265,810                      | \$ 4,973,797                     |
| Global ECS        | 1,830,247                         | 1,063,907                        |
| Corporate         | 557,919                           | 631,868                          |
| Consolidated      | \$ 7,653,976                      | \$ 6,669,572                     |

Sales, by geographic area, are as follows:

|                   | <b>For the Three<br/>Months Ended<br/>September 30,</b> |              | <b>For the Nine<br/>Months Ended<br/>September 30,</b> |               |
|-------------------|---|--------------|--|---------------|
|                   | <b>2007</b>   | <b>2006</b>  | <b>2007</b>  | <b>2006</b>   |
| North America (b) | \$ 2,139,976  | \$ 1,717,728 | \$ 6,084,980   | \$ 5,072,211  |
| EMEASA            | 1,203,505   | 1,081,253    | 3,686,841  | 3,256,162     |
| Asia/Pacific      | 686,882   | 655,316      | 1,794,189  | 1,755,419     |
| Consolidated      | \$ 4,030,363  | \$ 3,454,297 | \$ 11,566,010  | \$ 10,083,792 |

(b) Includes sales related to the United States of \$1,961,854 and \$5,631,772 for the third quarter and first nine months of 2007, respectively, and \$1,590,194 and \$4,694,112 for the third quarter and first nine months of 2006, respectively.

Total assets, by geographic area, are as follows:

|                   | <b>September<br/>30,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|-------------------|-----------------------------------|----------------------------------|
| North America (c) | \$ 4,053,541                      | \$ 3,468,583                     |
| EMEASA            | 2,830,966                         | 2,407,074                        |
| Asia/Pacific      | 769,469                           | 793,915                          |
| Consolidated      | \$ 7,653,976                      | \$ 6,669,572                     |

(c) Includes total assets related to the United States of \$3,918,768 and \$3,338,499 at September 30, 2007 and December 31, 2006, respectively.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.****Overview**

The company has two business segments: global components and global enterprise computing solutions ( ECS ). Consolidated sales for the third quarter of 2007 grew by 16.7%, compared with the year-earlier period, primarily as a result of the impact of acquisitions, the company's increased focus on sales-related initiatives, and the impact of a weaker U.S. dollar on the translation of the company's international financial statements. This increase was offset, in part, by continued weakness at large electronic manufacturing services ( EMS ) customers in the global components segment. The company acquired Alternative Technology, Inc. ( Alternative Technology ) and InTechnology plc's storage and security distribution business ( InTechnology ) in the fourth quarter of 2006 and acquired from Agilysys, Inc. ( Agilysys ) substantially all of the assets and operations of their KeyLink Systems Group business ( KeyLink ) on March 31, 2007. On a pro forma basis, which includes Alternative Technology, InTechnology, and KeyLink in the third quarter of 2006, consolidated sales for the third quarter of 2007 increased by 3.9%. In the global ECS business segment, sales for the third quarter of 2007 grew by 97.1%, compared with the year-earlier period, primarily due to the acquisitions of Alternative Technology, InTechnology, and KeyLink. On a pro forma basis, which includes Alternative Technology, InTechnology, and KeyLink for the third quarter of 2006, the global ECS business segment sales for the third quarter of 2007 grew by 14.9%, compared with the year-earlier period, primarily due to growth in storage, software, and industry standard servers due to the company's increased focus on sales-related initiatives. In the global components business segment, sales for the third quarter of 2007 were flat, compared with the year-earlier period, primarily due to continued weakness at large EMS customers and the company's initiative to exit lower-margin business in the Asia Pacific region, offset, in part, by the company's increased focus on sales-related initiatives and the impact of a weaker U.S. dollar on the translation of the company's international financial statements.

The company acquired KeyLink from Agilysys for a purchase price of \$480.6 million in cash, which included acquisition costs and final adjustments based upon a closing audit. The company also entered into a long-term procurement agreement with Agilysys. KeyLink, a leading enterprise computing solutions distributor, provides complex solutions from industry leading manufacturers to more than 800 reseller partners. KeyLink has long-standing reseller relationships that provide the company with significant cross-selling opportunities. KeyLink's highly experienced sales and marketing professionals strengthen the company's existing relationships with value-added resellers and position the company to attract new relationships. The integration of KeyLink into the company's global ECS business segment is expected to provide opportunities for synergies and cost savings. Total KeyLink sales for 2006, including estimated revenues associated with the above-mentioned procurement agreement, were approximately \$1.6 billion. The company's consolidated results of operations include the results of operations of KeyLink subsequent to March 31, 2007.

Net income increased to \$98.3 million in the third quarter of 2007, compared with net income of \$85.9 million in the third quarter of 2006. The increase in net income was due to increased gross profit on higher sales and a lower effective tax rate, offset, in part, by increased selling, general and administrative expenses to support the increase in sales, and higher depreciation and amortization expense, primarily related to acquisitions, in the third quarter of 2007, compared with the year-earlier period. The following items also impacted the comparability of the company's results:

**Third quarter of 2007 and 2006:**

- restructuring and integration charges of \$4.5 million (\$2.7 million net of related taxes) in 2007 and \$1.8 million (\$1.1 million net of related taxes) in 2006; and
- a net income tax benefit of \$6.0 million, net, principally due to a reduction in deferred income taxes as a result of the statutory rate change in Germany in 2007.

**First nine months of 2007 and 2006:**

- restructuring and integration charges of \$1.8 million (\$.4 million net of related taxes) in 2007 and a restructuring charge of \$6.4 million (\$3.9 million net of related taxes) in 2006;

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a loss on the prepayment of debt of \$2.6 million (\$1.6 million net of related taxes) in 2006; and a net income tax benefit of \$6.0 million, net, principally due to a reduction in deferred income taxes as a result of the statutory tax rate change in Germany in 2007.

**Sales**

Consolidated sales for the third quarter and first nine months of 2007 increased by \$576.1 million, or 16.7%, and \$1.48 billion, or 14.7%, respectively, compared with the year-earlier periods. The increase in consolidated sales over the third quarter of 2006 was driven by an increase of \$577.1 million, or 97.1%, in the global ECS business segment. The increase in consolidated sales over the first nine months of 2006 was driven by an increase of \$1.42 billion, or 82.2%, in the global ECS business segment and an increase of \$59.6 million, or .7%, in the global components business segment.

In the global ECS business segment, sales for the third quarter of 2007 increased by 97.1%, compared with the year-earlier period, primarily due to the acquisitions of Alternative Technology, InTechnology, and KeyLink. On a pro forma basis, which includes Alternative Technology, InTechnology, and KeyLink in the third quarter of 2006, the global ECS business segment sales for the third quarter of 2007 grew by 14.9%, compared with the year-earlier period, primarily due to the growth in storage, software, and industry standard servers due to the company's increased focus on sales-related initiatives. In the global ECS business segment, sales for the first nine months of 2007 increased by 82.2%, compared with the year-earlier period, primarily due to the acquisitions of Alternative Technology, InTechnology, and KeyLink. On a pro forma basis, which includes Alternative Technology, InTechnology, and KeyLink in the first nine months of 2006, the global ECS business segment sales for the first nine months of 2007 grew by 15.9%, compared with the year-earlier period, primarily due to the growth in storage, software, and industry standard servers due to the company's increased focus on sales-related initiatives.

In the global components business segment, sales for the third quarter and first nine months of 2007 were essentially flat, compared with the year-earlier periods, primarily due to continued weakness at large EMS customers and the company's initiative to exit lower-margin business in the Asia Pacific region, offset, in part, by the company's increased focus on sales-related initiatives and the impact of a weaker U.S. dollar on the translation of the company's international financial statements.

The translation of the company's international financial statements into U.S. dollars resulted in increased sales of \$85.2 million and \$265.0 million for the third quarter and first nine months of 2007, respectively, compared with the year-earlier periods, due to a weaker U.S. dollar. Excluding the impact of foreign currency, the company's sales increased by 14.2% and 12.1% for the third quarter and first nine months of 2007, respectively.

**Gross Profit**

The company recorded gross profit of \$552.6 million and \$1.67 billion in the third quarter and first nine months of 2007, compared with \$508.1 million and \$1.52 billion in the year-earlier periods. The gross profit margin for the third quarter and first nine months of 2007 decreased by approximately 100 and 60 basis points, respectively, compared with the year-earlier periods. The decrease in gross profit margin was primarily due to the acquisitions of Alternative Technology, InTechnology, and KeyLink, which have lower gross profit margins. On a pro forma basis, which includes Alternative Technology, InTechnology, and KeyLink for the third quarter and first nine months of 2006, the gross profit margin for the third quarter and first nine months of 2007 decreased by approximately 50 and 20 basis points, respectively, compared with the year-earlier periods, primarily due to a change in the mix of the enterprise computing solutions business in North America and increased competitive pressures in the marketplace in the global components business segment.

**Restructuring and Integration Charges**

The company recorded restructuring and integration charges of \$4.5 million (\$2.7 million net of related taxes or \$.02 per share on both a basic and diluted basis) and \$1.8 million (\$.4 million net of related taxes) for the third quarter and first nine months of 2007, respectively, and restructuring and integration charges of \$1.8 million (\$1.1 million net of related taxes or \$.01 per share on both a basic and diluted basis) and \$6.4 million (\$3.9 million net of related taxes or \$.03 per share on both a basic and diluted basis) for the third quarter and first nine months of 2006, respectively.

**Table of Contents****2007 Restructuring**

During the third quarter of 2007, the company took a series of steps to make its organizational structure more efficient. These actions are expected to reduce costs by approximately \$30 million per annum in North America, of which approximately \$3 million was realized in the third quarter of 2007 and approximately \$7 million is expected to be realized in the fourth quarter of 2007. The estimated restructuring charges to be recorded over the next several quarters associated with these actions total approximately \$8 million.

Included in the restructuring and integration charges referenced above for the third quarter of 2007 is \$3.1 million related to initiatives taken by the company during 2007 to improve operating efficiencies. Included in the restructuring and integration charges referenced above for the first nine months of 2007 is an \$8.5 million gain on the sale of a facility, offset, in part, by restructuring charges of \$7.4 million for the first nine months of 2007 related to initiatives taken by the company during 2007 to improve operating efficiencies.

**2001 through 2006 Restructurings**

During 2001 through 2006, the company took a number of steps related to cost containment and cost reduction actions and to make its organizational structure more efficient. Included in the restructuring and integration charges referenced above for the third quarter of 2007 is \$1.2 million related to these actions. Included in the restructuring and integration charges referenced above for the first nine months of 2007 is \$.6 million related to these actions, offset, in part, by a \$.5 million gain on the sale of a facility. Included in the restructuring and integration charges referenced above for the third quarter and first nine months of 2006 are \$1.8 million and \$6.4 million, respectively, related to these actions.

**Integration**

Included in the restructuring and integration charges referenced above is \$.2 million and \$2.8 million for the third quarter and first nine months of 2007, respectively, primarily related to the acquisition of KeyLink.

**Operating Income**

The company recorded operating income of \$157.5 million and \$493.3 million in the third quarter and first nine months of 2007, respectively, as compared with operating income of \$152.5 million and \$464.8 million in the year-earlier periods.

Selling, general and administrative expenses increased \$30.8 million, or 9.0%, in the third quarter of 2007 on a sales increase of 16.7% compared with the third quarter of 2006, and \$112.4 million, or 11.1%, in the first nine months of 2007 on a sales increase of 14.7% compared with the first nine months of 2006. The dollar increase in selling, general and administrative expenses in the third quarter and first nine months of 2007 compared with the year-earlier periods, was due to selling, general and administrative expenses incurred by Alternative Technology, InTechnology, and KeyLink, higher selling expenses to support increased sales, and the impact of foreign exchange rates. Selling, general and administrative expenses as a percentage of sales was 9.3% and 9.9% for the third quarter of 2007 and 2006, respectively, and 9.8% and 10.1% for the first nine months of 2007 and 2006, respectively. The decrease in selling, general and administrative expenses as a percentage of sales in the third quarter and first nine months of 2007 compared with the year-earlier periods, was primarily due to the acquisitions of Alternative Technology, InTechnology, and KeyLink, which have lower selling, general and administrative expenses as a percentage of sales.

**Loss on Prepayment of Debt**

During the first nine months of 2006, the company redeemed the total amount outstanding of \$283.2 million principal amount (\$156.4 million accreted value) of its zero coupon convertible debentures due in 2021 ( convertible debentures ) and repurchased \$4.1 million principal amount of its 7% senior notes due in January 2007. The related loss on the redemption and repurchase, including any related premium paid, write-off of deferred financing costs, and cost of terminating a portion of the related interest rate swaps, aggregated \$2.6 million (\$1.6 million net of related taxes or \$.01 per share on both a basic and diluted basis) and was recognized as a loss on prepayment of debt. As a result of these transactions, net

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interest expense was reduced by approximately \$2.6 million from the date of redemption and repurchase through the respective maturity dates.

**Interest Expense**

Net interest expense decreased by \$1.6 million, or 6.2%, and increased by \$1.5 million, or 2.1%, in the third quarter and first nine months of 2007, compared with the year-earlier periods.

**Income Taxes**

The company recorded a provision for income taxes of \$36.6 million and \$127.6 million (an effective tax rate of 27.0% and 30.1%) for the third quarter and first nine months of 2007, respectively. During the third quarter and first nine months of 2007, the company recorded an income tax benefit of \$6.0 million, net, (\$.05 per share on both a basic and diluted basis) principally due to a reduction in deferred income taxes as a result of the statutory tax rate change in Germany. These deferred income taxes primarily related to the amortization of intangible assets for income tax purposes, which are not amortized for accounting purposes. The company's provision for income taxes and effective tax rate for the third quarter and first nine months of 2007 were impacted by the aforementioned income tax benefit in addition to restructuring and integration charges. Excluding the impact of the aforementioned income tax benefit and restructuring and integration charges, the company's effective tax rate was 31.7% for both the third quarter and first nine months of 2007.

The company recorded a provision for income taxes of \$42.1 million and \$130.8 million (an effective tax rate of 32.8% and 33.4%) for the third quarter and first nine months of 2006, respectively. The company's provision for income taxes and effective tax rate for the third quarter and first nine months of 2006 were impacted by restructuring and integration charges, and the company's provision for income taxes and effective tax rate for the first nine months of 2006 were impacted by a loss on prepayment of debt. Excluding the impact of restructuring and integration charges and loss on prepayment of debt, the company's effective tax rate for the third quarter and first nine months of 2006 was 32.9% and 33.5%, respectively.

The company's provision for income taxes and effective tax rate is 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**

The company recorded net income of \$98.3 million and \$293.8 million in the third quarter and first nine months of 2007, respectively, compared with \$85.9 million and \$260.3 million in the comparable year-earlier periods. The increase in net income was due to increased gross profit on higher sales and a lower effective tax rate, offset, in part, by increased selling, general and administrative expenses to support the increase in sales, and higher depreciation and amortization expense, primarily related to acquisitions, in the third quarter and first nine months of 2007, compared with the year-earlier periods. In addition, included in the results for the third quarter and first nine months of 2007 were the previously discussed restructuring and integration charges of \$2.7 million and \$.4 million and income tax benefit of \$6.0 million, net, principally due to a reduction in deferred income taxes as a result of the statutory tax rate change in Germany. Included in the results for the third quarter and first nine months of 2006 were restructuring and integration charges of \$1.1 million and \$3.9 million, respectively. Also included for the first nine months of 2006 was the previously discussed loss on prepayment of debt of \$1.6 million.

**Liquidity and Capital Resources**

At September 30, 2007 and December 31, 2006, the company had cash and cash equivalents of \$317.6 million and \$337.7 million, respectively. The net amount of cash provided by the company's operating activities during the first nine months of 2007 was \$630.3 million. The net amount of cash used for investing activities during the first nine months of 2007 was \$629.0 million. Finally, the net amount of cash used for financing activities during the first nine months of 2007 was \$28.5 million. The effect of exchange rate changes on cash was an increase of \$7.2 million.

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The net amount of cash used in the company's operating activities during the first nine months of 2006 was \$167.0 million. The net amount of cash used for investing activities during the first nine months of 2006 was \$57.5 million. Finally, the net amount of cash used for financing activities during the first nine months of 2006 was \$106.6 million. The effect of exchange rate changes on cash was an increase of \$3.3 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 61.7% and 66.0% at September 30, 2007 and December 31, 2006, respectively.

The net amount of cash provided by the company's operating activities during the first nine months of 2007 was \$630.3 million. Earnings from operations, adjusted for non-cash items, a reduction in inventory, and an increase in accounts payable and accrued expenses were the primary sources of this cash. This was offset, in part, by an increase in accounts receivable supporting increased sales.

The net amount of cash used in the company's operating activities during the first nine months of 2006 was \$167.0 million. Increased inventory purchases, increased accounts receivable supporting increased sales in the worldwide electronic components businesses, and a decrease in accounts payable were the primary uses of this cash. This was offset, in part, by earnings from operations, adjusted for non-cash items, and an increase in accrued expenses.

Working capital as a percentage of sales was 15.4% in the third quarter of 2007 compared with 19.7% in the third quarter of 2006.

**Cash Flows from Investing Activities**

The net amount of cash used for investing activities during the first nine months of 2007 was \$629.0 million reflecting \$539.3 million of cash consideration paid for acquired businesses and \$102.9 million for capital expenditures. This was offset, in part, by \$13.0 million of cash proceeds from the sale of facilities.

The net amount of cash used for investing activities during the first nine months of 2006 was \$57.5 million primarily reflecting \$41.7 million for various capital expenditures and \$19.5 million for cash consideration paid for acquired businesses.

In September 2007, the company acquired Centia Group Limited and AKS Group AB ( Centia/AKS ), specialty distributors of access infrastructure, security, and virtualization software solutions in Europe. Total Centia/AKS sales for the full year of 2007 are expected to exceed \$120.0 million. The impact of the Centia/AKS acquisitions was not material to the company's consolidated financial position and results of operations.

In July 2007, the company made a payment of \$32.7 million that was capitalized as cost in excess of net assets of companies acquired, partially offset by the carrying value of the related minority interest, to increase its ownership interest in Ultra Source Technology Corp. ( Ultra Source ) from 70.7% to 92.8%. The company intends to increase its ownership interest in Ultra Source to 100%, subject to obtaining necessary regulatory approvals.

In June 2007, the company acquired the component distribution business of Adilam Pty. Ltd. ( Adilam ), a leading electronic component distributor in Australia and New Zealand. Total Adilam sales for 2006 were approximately \$18.0 million. The impact of the acquisition of the component distribution business of Adilam was not material to the company's consolidated financial position and results of operations.

In March 2007, the company acquired KeyLink, a leading enterprise computing solutions distributor, for a cash purchase price of \$480.6 million, which included acquisition costs and final adjustments based upon a closing audit.

During the first quarter of 2006, the company made a payment of \$3.4 million that was capitalized as cost in excess of net assets of companies acquired, partially offset by the carrying value of the related minority interest, to increase its ownership interest in a majority-owned subsidiary.

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In February 2006, the company acquired SKYDATA Corporation ( SKYDATA ), a value-added distributor of data storage solutions with sales for 2005 of approximately \$43.0 million. The impact of the SKYDATA acquisition was not material to the company's consolidated financial position and results of operations.

Capital expenditures were \$102.9 million and \$41.7 million in the first nine months of 2007 and 2006, respectively. During the fourth quarter of 2006, the company initiated a global enterprise resource planning ( ERP ) effort to standardize processes worldwide and adopt best-in-class capabilities. Implementation is expected to be phased-in over the next several years. For the full year 2007, the estimated cash flow impact of this ERP initiative is expected to be in the \$70 to \$80 million range. The company expects to finance this ERP effort with cash flow from operations.

The company received cash proceeds of \$13.0 million during the first nine months of 2007, primarily related to the sale of its Lenexa, Kansas and Harlow, England facilities.

**Cash Flows from Financing Activities**

The net amount of cash used in financing activities during the first nine months of 2007 and 2006 was \$28.5 million and \$106.6 million, respectively. Net proceeds from long-term borrowings were \$198.5 million in the first nine months of 2007, which includes a \$200.0 million term loan due in 2012. Repayments of other long-term borrowings were \$15.6 million in the first nine months of 2006. Net repayments of short-term debt were \$40.7 million and net proceeds of short-term debt were \$9.4 million in the first nine months of 2007 and 2006, respectively. Proceeds from the exercise of stock options were \$51.1 million and \$53.7 million in the first nine months of 2007 and 2006, respectively. Repurchases of common stock were \$75.7 million in the first nine months of 2007.

During the first nine months of 2007, the company repaid \$169.1 million related to its 7% senior notes due in January 2007 in accordance with their terms.

During the first nine months of 2006, the company redeemed the total amount outstanding of \$283.2 million principal amount (\$156.4 million accreted value) of its convertible debentures and repurchased \$4.1 million principal amount of its 7% senior notes due in January 2007. The related loss on the redemption and repurchase, including any related premium paid, write-off of deferred financing costs, and cost of terminating a portion of the related interest rate swaps, aggregated \$2.6 million (\$1.6 million net of related taxes or \$.01 per share on both a basic and diluted basis). As a result of these transactions, net interest expense was reduced by approximately \$2.6 million from the date of redemption and repurchase through the respective maturity dates.

In March 2007, the company renewed its asset securitization program and, among other things, increased its size from \$550.0 million to \$600.0 million and extended its term to a three-year commitment maturing in March 2010. Interest on borrowings is based on a base rate or a commercial paper rate plus a spread, which is based on the company's credit ratings (.225% at September 30, 2007). The facility fee is .125%.

The company had no outstanding borrowings under its asset securitization program or its revolving credit facility at September 30, 2007 and December 31, 2006.

**Contractual Obligations**

The company has contractual obligations for long-term debt, interest on 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, 2006. Since December 31, 2006, there were no material changes to the contractual obligations of the company, outside of the ordinary course of the company's business, except as follows:

the company repaid \$169.1 million related to its 7% senior notes, due in January 2007, in accordance with their terms; and

at September 30, 2007, the company had a \$200.0 million term loan outstanding which is due in 2012.



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In February 2006, the Board of Directors authorized the company to repurchase up to \$100.0 million of the company's outstanding common stock through a share-repurchase program. As of September 30, 2007, the company has repurchased 1,877,563 shares under the share-repurchase program, which represents the number of shares issued in connection with the exercise of stock options for the first nine months of 2007. These shares had a market value of \$75.7 million at the dates of repurchase.

Also, as discussed in Note C of the Notes to Consolidated Financial Statements, the company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48). At January 1, 2007, the company had a liability for unrecognized tax benefits and an accrual for the payment of related interest totaling \$49.5 million, of which approximately \$7 million is expected to be paid within one year. For the remaining liability, the company is unable to make a reasonably reliable estimate when cash settlement with a taxing authority will occur.

### **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, including those related to uncollectible receivables, inventories, intangible assets, income taxes, restructuring and integration costs, and contingencies and litigation, 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.

The company believes there were no significant changes, during the nine-month period ended September 30, 2007, 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, 2006.

### **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 effects on results of operations and financial condition.

### **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 global financial system and the company's planned 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, 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, 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.

**Table of Contents****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, 2006, except as follows:

**Foreign Currency Exchange Rate Risk**

The notional amount of the foreign exchange contracts at September 30, 2007 and December 31, 2006 was \$256.0 million and \$298.0 million, respectively. The carrying amounts, which are nominal, approximated fair value at September 30, 2007 and December 31, 2006. The translation of the financial statements of the non-United States operations is impacted by fluctuations in foreign currency exchange rates. The increase in consolidated sales and operating income was impacted by the translation of the company's international financial statements into U.S. dollars. This resulted in increased sales of \$265.0 million and increased operating income of \$15.9 million for the first nine months of 2007, compared with the year-earlier period, based on 2006 sales at the average rate for 2007. Sales and operating income would have decreased by \$366.2 million and \$21.2 million, respectively, if average foreign exchange rates had declined by 10% against the U.S. dollar in the first nine months of 2007. This amount was determined by considering the impact of a hypothetical foreign exchange rate on the sales and operating income of the company's international operations.

In May 2006, the company entered into a cross-currency swap, which has a maturity date of July 2013, for approximately \$100.0 million or 78.3 million (the 2006 cross-currency swap) to hedge a portion of its net investment in euro-denominated net assets. The 2006 cross-currency swap is designated as a net investment hedge and effectively converts the interest expense on \$100.0 million of long-term debt from U.S. dollars to euros. As the notional amount of the 2006 cross-currency swap is expected to equal a comparable amount of hedged net assets, no material ineffectiveness is expected. The 2006 cross-currency swap had a negative fair value of \$11.6 million and \$3.2 million at September 30, 2007 and December 31, 2006, respectively.

In October 2005, the company entered into a cross-currency swap, which has a maturity date of October 2010, for approximately \$200.0 million or 168.4 million (the 2005 cross-currency swap) to hedge a portion of its net investment in euro-denominated net assets. The 2005 cross-currency swap is designated as a net investment hedge and effectively converts the interest expense on \$200.0 million of long-term debt from U.S. dollars to euros. As the notional amount of the 2005 cross-currency swap is expected to equal a comparable amount of hedged net assets, no material ineffectiveness is expected. The 2005 cross-currency swap had a negative fair value of \$40.5 million and \$21.7 million at September 30, 2007 and December 31, 2006, respectively.

**Interest Rate Risk**

At September 30, 2007, approximately 51% of the company's debt was subject to fixed rates, and 49% of its debt was subject to floating rates. A one percentage point change in average interest rates would not materially impact interest expense, net of interest income, in the third quarter of 2007. 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.

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**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

The company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the Exchange Act)) as of September 30, 2007. Based on such evaluation, they concluded that, as of September 30, 2007, the company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

On March 31, 2007, the company acquired from Agilysys, Inc. substantially all of the assets and operations of their KeyLink Systems Group business (KeyLink). The company has excluded changes resulting from the acquisition of KeyLink from its evaluation of the effectiveness of the company's internal control over financial reporting as of September 30, 2007. KeyLink accounted for 9.9 percent of the company's consolidated assets as of September 30, 2007, and 6.1 percent of the company's consolidated sales for the nine months ended September 30, 2007.

There were no changes in the company's internal control over financial reporting or in other factors that materially affect, or that are reasonably likely to materially affect, the company's internal control over financial reporting during the period covered by this quarterly report.

**Table of Contents****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, 2006.

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

In February 2006, the Board of Directors authorized the company to repurchase up to \$100,000,000 of the company's outstanding common stock through a share-repurchase program (the program). In March 2007, the company announced a rule 10b5-1 plan to facilitate repurchases under the program with the intention of minimizing earnings per share dilution caused by the issuance of common stock upon the exercise of stock options. Repurchases were funded with cash received from the exercise of stock options in the previous quarter. In August 2007, the company replaced the then existing rule 10b5-1 plan with a new 10b5-1 plan intended to completely offset the dilution caused by the issuance of common stock upon the exercise of stock options. Repurchases will be funded with cash flows from operations and cash received from the exercise of stock options in the previous quarter.

The following table shows the share-repurchase activity for each of the three months in the quarter ended September 30, 2007:

| <b>Month</b>                 | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>per<br/>Share</b> | <b>Total Number<br/>of<br/>Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Program</b> | <b>Approximate<br/>Dollar<br/>Value of Shares<br/>that May Yet be<br/>Purchased<br/>Under<br/>the Program<sup>(1)</sup></b> |
|------------------------------|---|---|---|---|
| July 1 through 31, 2007      | 326,500   | \$ 38.73  | 326,500   | \$ 54,595,788   |
| August 1 through 31, 2007    | 748,878   | \$ 40.43  | 748,878   | 24,315,699  |
| September 1 through 30, 2007 | -   | -   | -   | 24,315,699  |
| <b>Total</b>                 | <b>1,075,378</b>                                    |   | <b>1,075,378</b>  |   |

(1) The approximate dollar value of shares reflects the \$100,000,000 authorized for repurchase under the program less the approximate dollar value of the shares that were purchased

under the  
program.

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**Item 6. Exhibits.**

| <b>Exhibit<br/>Number</b> | <b>Exhibit</b>  |
|---------------------------|---|
| 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. |

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**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: October 23, 2007

By: /s/ Paul J. Reilly  
Paul J. Reilly  
Senior Vice President and Chief Financial  
Officer

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