

ARROW ELECTRONICS INC
Form 10-Q
May 03, 2010

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 April 3, 2010

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

Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

There were 120,432,961 shares of Common Stock outstanding as of April 28, 2010.

ARROW ELECTRONICS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | Quarter Ended | |
|-----------------------------------------------|------------------|------------------|
| | April 3, 2010 | April 4, 2009 |
| Sales | \$ 4,235,366 | \$ 3,417,428 |
| Costs and expenses: | | |
| Cost of sales | 3,697,433 | 2,986,432 |
| Selling, general and administrative expenses | 366,749 | 329,114 |
| Depreciation and amortization | 18,477 | 16,627 |
| Restructuring, integration, and other charges | 7,437 | 24,018 |
| | 4,090,096 | 3,356,191 |
| Operating income | 145,270 | 61,237 |
| Equity in earnings of affiliated companies | 1,148 | 323 |
| Interest and other financing expense, net | 19,086 | 23,035 |
| Income before income taxes | 127,332 | 38,525 |
| Provision for income taxes | 40,291 | 11,789 |
| Consolidated net income | 87,041 | 26,736 |
| Noncontrolling interests | (5) | (5) |
| Net income attributable to shareholders | \$ 87,046 | \$ 26,741 |
| Net income per share: | | |
| Basic | \$.72 | \$.22 |
| Diluted | \$.71 | \$.22 |
| Average number of shares outstanding: | | |
| Basic | 120,223 | 119,570 |
| Diluted | 121,906 | 120,133 |

See accompanying notes.

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

| | April 3, 2010 (Unaudited) | December 31, 2009 |
|---------------------------------------------------------------------------------|---------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 810,051 | \$ 1,137,007 |
| Accounts receivable, net | 3,081,692 | 3,136,141 |
| Inventories | 1,476,648 | 1,397,668 |
| Other current assets | 182,836 | 168,812 |
| Total current assets | 5,551,227 | 5,839,628 |
| Property, plant and equipment, at cost: | | |
| Land | 23,494 | 23,584 |
| Buildings and improvements | 133,264 | 137,539 |
| Machinery and equipment | 794,509 | 779,105 |
| | 951,267 | 940,228 |
| Less: Accumulated depreciation and amortization | (484,801) | (479,522) |
| Property, plant and equipment, net | 466,466 | 460,706 |
| Investments in affiliated companies | 54,298 | 53,010 |
| Cost in excess of net assets of companies acquired | 915,555 | 926,296 |
| Other assets | 466,986 | 482,726 |
| Total assets | \$ 7,454,532 | \$ 7,762,366 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,460,494 | \$ 2,763,237 |
| Accrued expenses | 425,853 | 445,914 |
| Short-term borrowings, including current portion of long-term debt | 129,159 | 123,095 |
| Total current liabilities | 3,015,506 | 3,332,246 |
| Long-term debt | 1,262,840 | 1,276,138 |
| Other liabilities | 234,290 | 236,685 |
| Equity: | | |
| Shareholders' equity: | | |
| Common stock, par value \$1: | | |
| Authorized – 160,000 shares in 2010 and 2009 | | |
| Issued – 125,337 and 125,287 shares in 2010 and 2009, respectively | 125,337 | 125,287 |
| Capital in excess of par value | 1,040,958 | 1,056,704 |
| Treasury stock (4,931 and 5,459 shares in 2010 and 2009, respectively), at cost | (160,824) | (179,152) |
| Retained earnings | 1,781,563 | 1,694,517 |
| Foreign currency translation adjustment | 164,705 | 229,019 |
| Other | (9,843) | (9,415) |
| Total shareholders' equity | 2,941,896 | 2,916,960 |
| Noncontrolling interests | - | 337 |

| | | |
|------------------------------|--------------|--------------|
| Total equity | 2,941,896 | 2,917,297 |
| Total liabilities and equity | \$ 7,454,532 | \$ 7,762,366 |

See accompanying notes.

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

| | Quarter Ended | |
|-------------------------------------------------------------------------------------------------|------------------|------------------|
| | April 3, 2010 | April 4, 2009 |
| Cash flows from operating activities: | | |
| Consolidated net income | \$ 87,041 | \$ 26,736 |
| Adjustments to reconcile consolidated net income to net cash provided by (used for) operations: | | |
| Depreciation and amortization | 18,477 | 16,627 |
| Amortization of stock-based compensation | 8,467 | 5,357 |
| Amortization of deferred financing costs and discount on notes | 558 | 547 |
| Equity in earnings of affiliated companies | (1,148) | (323) |
| Deferred income taxes | 15,091 | 10,508 |
| Restructuring, integration, and other charges | 5,545 | 16,069 |
| Excess tax benefits from stock-based compensation arrangements | (1,762) | 2,158 |
| Change in assets and liabilities, net of effects of acquired businesses: | | |
| Accounts receivable | 8,094 | 603,992 |
| Inventories | (99,247) | 161,195 |
| Accounts payable | (272,909) | (448,384) |
| Accrued expenses | (26,951) | (145,855) |
| Other | (23,473) | (17,976) |
| Net cash provided by (used for) operating activities | (282,217) | 230,651 |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (27,514) | (36,812) |
| Cash consideration paid for acquired businesses | (3,060) | - |
| Proceeds from sale of facilities | 6,806 | - |
| Other | - | (89) |
| Net cash used for investing activities | (23,768) | (36,901) |
| Cash flows from financing activities: | | |
| Change in short-term borrowings | 14,160 | (12,322) |
| Repayment of long-term bank borrowings | - | (29,400) |
| Proceeds from long-term bank borrowings | - | 29,400 |
| Proceeds from exercise of stock options | 1,579 | 554 |
| Excess tax benefits from stock-based compensation arrangements | 1,762 | (2,158) |
| Repurchases of common stock | (6,185) | (2,073) |
| Net cash provided by (used for) financing activities | 11,316 | (15,999) |
| Effect of exchange rate changes on cash | (32,287) | (10,518) |
| Net increase (decrease) in cash and cash equivalents | (326,956) | 167,233 |
| Cash and cash equivalents at beginning of period | 1,137,007 | 451,272 |
| Cash and cash equivalents at end of period | \$ 810,051 | \$ 618,505 |

See accompanying notes.

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

Note A – Basis of Presentation

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

These consolidated financial statements do not include all of the information or notes necessary for a complete presentation and, accordingly, should be read in conjunction with the company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, as filed in the company's Annual Report on Form 10-K.

Quarter End

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

Reclassification

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

Note B – Impact of Recently Issued Accounting Standards

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2009-13, "Multiple-Deliverable Revenue Arrangements" ("ASU No. 2009-13"). ASU No. 2009-13 amends guidance included within Accounting Standards Codification ("ASC") Topic 605-25 to require an entity to use an estimated selling price when vendor specific objective evidence or acceptable third party evidence does not exist for any products or services included in a multiple element arrangement. The arrangement consideration should be allocated among the products and services based upon their relative selling prices, thus eliminating the use of the residual method of allocation. ASU No. 2009-13 also requires expanded qualitative and quantitative disclosures regarding significant judgments made and changes in applying this guidance. ASU No. 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption and retrospective application are also permitted. The company is currently evaluating the impact of adopting the provisions of ASU No. 2009-13.

In October 2009, the FASB issued Accounting Standards Update No. 2009-14, "Certain Revenue Arrangements That Include Software Elements" ("ASU No. 2009-14"). ASU No. 2009-14 amends guidance included within ASC Topic 985-605 to exclude tangible products containing software components and non-software components that function together to deliver the product's essential functionality. Entities that sell joint hardware and software products that meet this scope exception will be required to follow the guidance of ASU No. 2009-13. ASU No. 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption and retrospective application are also permitted. The company is currently evaluating the impact of adopting the provisions of ASU No. 2009-14.

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

Note C – Acquisitions

The results of operations of the below acquisitions were included in the company's consolidated results from their respective dates of acquisition.

2010

On April 5, 2010, the company announced that it acquired Verical, Inc., an ecommerce business geared towards meeting the end-of-life components and parts shortage needs of customers.

In April 2010, the company announced an agreement to acquire Converge, a leading provider of reverse logistics services, headquartered in Peabody, Massachusetts. Converge, with approximately 350 employees, also has offices in Singapore and Amsterdam, with support centers throughout Europe, Asia, and the Americas. This transaction is subject to regulatory approvals and is expected to be completed in the second quarter of 2010.

2009

On December 20, 2009, the company acquired A.E. Petsche Company, Inc. ("Petsche"), a leading provider of interconnect products, including specialty wire, cable, and harness management solutions, to the aerospace and defense markets. Petsche provides value-added distribution services to over 3,500 customers in the United States, Canada, Mexico, the United Kingdom, France, and Belgium. Total Petsche sales for 2009 were approximately \$190,000.

The following table summarizes the company's unaudited consolidated results of operations for the first quarter of 2009, as well as the unaudited pro forma consolidated results of operations of the company, as though the Petsche acquisition occurred on January 1, 2009:

| | Quarter Ended April 4, 2009 | |
|-----------------------------------------|--------------------------------|--------------|
| | As Reported | Pro Forma |
| Sales | \$ 3,417,428 | \$ 3,468,935 |
| Net income attributable to shareholders | 26,741 | 30,245 |
| Net income per share: | | |
| Basic | \$.22 | \$.25 |
| Diluted | \$.22 | \$.25 |

The unaudited pro forma consolidated results of operations does not purport to be indicative of the results obtained had the Petsche acquisition occurred as of the beginning of 2009, or of those results that may be obtained in the future. Additionally, the above table does not reflect any anticipated cost savings or cross-selling opportunities expected to result from this acquisition.

Other

Amortization expense related to identifiable intangible assets was \$4,644 and \$3,824 for the first quarters of 2010 and 2009, respectively.

In March 2010, the company made a payment of \$3,060 to increase its ownership in a majority-owned subsidiary. The payment was recorded as a reduction to capital in excess of par value, partially offset by the carrying value of the noncontrolling interest.

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

Note D – 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, is as follows:

| | Global Components | Global ECS | Total |
|------------------------------|----------------------|------------|------------|
| December 31, 2009 | \$ 473,421 | \$ 452,875 | \$ 926,296 |
| Foreign currency translation | (5) | (10,736) | (10,741) |
| April 3, 2010 | \$ 473,416 | \$ 442,139 | \$ 915,555 |

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

Note E – Investments in Affiliated Companies

The company owns a 50% interest in several joint ventures with Marubun Corporation (collectively "Marubun/Arrow") and a 50% interest in 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 and the company's investment and long-term note receivable in Altech Industries:

| | April 3, 2010 | December 31, 2009 |
|-------------------|------------------|----------------------|
| Marubun/Arrow | \$ 38,588 | \$ 37,649 |
| Altech Industries | 15,710 | 15,361 |
| | \$ 54,298 | \$ 53,010 |

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

| | Quarter Ended | |
|-------------------|------------------|------------------|
| | April 3, 2010 | April 4, 2009 |
| Marubun/Arrow | \$ 915 | \$ 113 |
| Altech Industries | 233 | 221 |
| Other | - | (11) |
| | \$ 1,148 | \$ 323 |

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 April 3,

2010, the company's pro-rata share of this debt was approximately \$6,800. The company believes that there is sufficient equity in the joint ventures to meet their obligations.

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

Note F – Accounts Receivable

Accounts receivable, net, consists of the following:

| | April 3, 2010 | December 31, 2009 |
|----------------------------------|------------------|----------------------|
| Accounts receivable | \$ 3,118,697 | \$ 3,175,815 |
| Allowances for doubtful accounts | (37,005) | (39,674) |
| Accounts receivable, net | \$ 3,081,692 | \$ 3,136,141 |

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

Note G – Debt

Short-term borrowings, including current portion of long-term debt, consist of the following:

| | April 3, 2010 | December 31, 2009 |
|-----------------------------------------------------|------------------|----------------------|
| 9.15% senior notes, due 2010 | \$ 69,544 | \$ 69,544 |
| Cross-currency swap, due 2010 | 27,917 | 41,943 |
| Interest rate swaps designated as fair value hedges | 1,405 | 2,036 |
| Short-term borrowings in various countries | 30,293 | 9,572 |
| | \$ 129,159 | \$ 123,095 |

Short-term borrowings in various countries are primarily utilized to support the working capital requirements of certain international operations. The weighted average interest rates on these borrowings at April 3, 2010 and December 31, 2009 were 2.1% and 3.5%, respectively.

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

Long-term debt consists of the following:

| | April 3, 2010 | December 31, 2009 |
|-------------------------------------------------------------|------------------|----------------------|
| Bank term loan, due 2012 | \$ 200,000 | \$ 200,000 |
| 6.875% senior notes, due 2013 | 349,783 | 349,765 |
| 6.875% senior debentures, due 2018 | 198,293 | 198,241 |
| 6.00% notes, due 2020 | 299,911 | 299,909 |
| 7.5% senior debentures, due 2027 | 197,645 | 197,610 |
| Cross-currency swap, due 2011 | 6,177 | 12,497 |
| Interest rate swaps designated as fair value hedges | 10,086 | 9,556 |
| Other obligations with various interest rates and due dates | 945 | 8,560 |
| | \$ 1,262,840 | \$ 1,276,138 |

The 7.5% senior debentures are not redeemable prior to their maturity. The 9.15% senior notes, 6.875% senior notes, 6.875% senior debentures, and 6.00% notes may be called at the option of the company subject to "make whole" clauses.

The estimated fair market value is as follows:

| | April 3, 2010 | December 31, 2009 |
|------------------------------------|------------------|----------------------|
| 9.15% senior notes, due 2010 | \$ 72,000 | \$ 73,000 |
| 6.875% senior notes, due 2013 | 385,000 | 378,000 |
| 6.875% senior debentures, due 2018 | 214,000 | 214,000 |
| 6.00% notes, due 2020 | 303,000 | 300,000 |
| 7.5% senior debentures, due 2027 | 208,000 | 208,000 |

The carrying amount of the company's short-term borrowings, bank term loan, and other obligations approximate their fair value.

The company has an \$800,000 revolving credit facility with a group of banks that matures in January 2012. Interest on borrowings under the revolving credit facility is calculated using a base rate or a euro currency rate plus a spread based on the company's credit ratings (.425% at April 3, 2010). The facility fee related to the credit facility is .125%.

The company has a \$300,000 asset securitization program collateralized by accounts receivables of certain of its North American subsidiaries which expires in March 2011. The asset securitization program is conducted through Arrow Electronics Funding Corporation, a wholly-owned, bankruptcy remote subsidiary. The asset securitization program does not qualify for sale treatment. Accordingly, the accounts receivable and related debt obligation remain on the company's consolidated balance sheet. Interest on borrowings is calculated using a base rate or commercial paper rate plus a spread, which is based on the company's credit ratings (.60% at April 3, 2010). The facility fee is .50%.

The company had no outstanding borrowings under its revolving credit facility or asset securitization program at April 3, 2010 and December 31, 2009. Both programs 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

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

compliance with all covenants as of April 3, 2010 and is currently not aware of any events that would cause non-compliance with any covenants in the future.

Interest and other financing expense, net, includes interest income of \$339 and \$1,631 for the first quarters of 2010 and 2009, respectively.

Note H – Financial Instruments Measured at Fair Value

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

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

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

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

The following table presents assets/(liabilities) measured at fair value on a recurring basis at April 3, 2010:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|-----------|------------|---------|------------|
| Cash equivalents | \$ - | \$ 566,701 | \$ - | \$ 566,701 |
| Available-for-sale securities | 55,301 | - | - | 55,301 |
| Interest rate swaps | - | 11,491 | - | 11,491 |
| Cross-currency swaps | - | (34,094) | - | (34,094) |
| | \$ 55,301 | \$ 544,098 | \$ - | \$ 599,399 |

The following table presents assets/(liabilities) measured at fair value on a recurring basis at December 31, 2009:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|-----------|------------|---------|------------|
| Cash equivalents | \$ - | \$ 744,125 | \$ - | \$ 744,125 |
| Available-for-sale securities | 56,464 | - | - | 56,464 |
| Interest rate swaps | - | 11,592 | - | 11,592 |
| Cross-currency swaps | - | (54,440) | - | (54,440) |
| | \$ 56,464 | \$ 701,277 | \$ - | \$ 757,741 |

Available-For-Sale Securities

The company has a 2.7% equity ownership interest in WPG Holdings Co., Ltd. ("WPG") and an 8.4% equity ownership interest in Marubun Corporation ("Marubun"), which are accounted for as available-for-sale securities.

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

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

| | April 3, 2010 | | December 31, 2009 | |
|-------------------------|---------------|-----------|-------------------|-----------|
| | Marubun | WPG | Marubun | WPG |
| Cost basis | \$ 10,016 | \$ 10,798 | \$ 10,016 | \$ 10,798 |
| Unrealized holding gain | 4,148 | 30,339 | 4,408 | 31,242 |
| Fair value | \$ 14,164 | \$ 41,137 | \$ 14,424 | \$ 42,040 |

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

Derivative Instruments

The company uses various financial instruments, including derivative financial instruments, for purposes other than trading. Derivatives used as part of the company's risk management strategy are designated at inception as hedges and measured for effectiveness both at inception and on an ongoing basis.

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

| | Balance Sheet Location | Asset/(Liability) Derivatives | |
|----------------------------------------------------------------|---------------------------|-------------------------------|----------------------|
| | | Fair Value | |
| | | April 3, 2010 | December 31, 2009 |
| Derivative instruments designated as hedges: | | | |
| Interest rate swaps designated as fair value hedges | Prepaid expenses | \$ 1,405 | \$ 2,036 |
| Interest rate swaps designated as fair value hedges | Other assets | 10,086 | 9,556 |
| Cross-currency swaps designated as net investment hedges | Short-term borrowings | (27,917) | (41,943) |
| Cross-currency swaps designated as net investment hedges | Long-term debt | (6,177) | (12,497) |
| Foreign exchange contracts designated as cash flow hedges | Prepaid expenses | 118 | 406 |
| Foreign exchange contracts designated as cash flow hedges | Accrued expenses | (235) | (272) |
| Total derivative instruments designated as hedging instruments | | (22,720) | (42,714) |
| Derivative instruments not designated as hedges: | | | |
| Foreign exchange contracts | Prepaid expenses | 1,582 | 2,362 |
| Foreign exchange contracts | Accrued expenses | (2,910) | (1,952) |

| | | | | |
|--------------------------------------------------------------------|----|----------|----|----------|
| Total derivative instruments not designated as hedging instruments | | (1,328) | | 410 |
| Total | \$ | (24,048) | \$ | (42,304) |

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

The effect of derivative instruments on the consolidated statement of operations is as follows:

| | Gain/(Loss) Recognized in Income Quarter Ended | |
|---------------------------------------------------------|------------------------------------------------------|-------------------|
| | April 3, 2010 | April 4, 2009 |
| Fair value hedges: | | |
| Interest rate swaps (a) | \$ - | \$ - |
| Total | \$ - | \$ - |
| Derivative instruments not designated as hedges: | | |
| Foreign exchange contracts (b) | \$ 2,029 | \$ (3,934) |
| Total | \$ 2,029 | \$ (3,934) |

| | Quarter Ended April 3, 2010 | | |
|--------------------------------|---------------------------------------------------------------------------------------|--------------------------------------------|------------------------------------------------------------------|
| | Effective Portion Gain/(Loss) Recognized in Other Comprehensive Income | Gain/(Loss) Reclassified into Income | Ineffective Portion Gain/(Loss) Recognized in Income |
| Cash Flow Hedges: | | | |
| Foreign exchange contracts (d) | \$ (154) | \$ (92) | \$ - |
| Total | \$ (154) | \$ (92) | \$ - |
| Net Investment Hedges: | | | |
| Cross-currency swaps (c) | \$ 20,346 | \$ - | \$ 86 |
| Total | \$ 20,346 | \$ - | \$ 86 |

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

| | Quarter Ended April 4, 2009 | | |
|--------------------------------|-----------------------------|----------------|---------------------|
| | Effective Portion | | Ineffective Portion |
| | Gain/(Loss) | | |
| | Recognized in | | |
| | Other | Gain/(Loss) | Gain/(Loss) |
| | Comprehensive | Reclassified | Recognized in |
| | Income | into Income | Income |
| Cash Flow Hedges: | | | |
| Interest rate swaps (c) | \$ 743 | \$ - | \$ - |
| Foreign exchange contracts (d) | (1,359) | (49) | - |
| Total | \$ (616) | \$ (49) | \$ - |

Net Investment Hedges:

| | | | |
|--------------------------|------------------|-------------|----------------|
| Cross-currency swaps (c) | \$ 11,966 | \$ - | \$ (84) |
| Total | \$ 11,966 | \$ - | \$ (84) |

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

Interest Rate Swaps

The company enters into interest rate swap transactions that convert certain fixed-rate debt to variable-rate debt or variable-rate debt to fixed-rate debt in order to manage its targeted mix of fixed- and floating-rate debt. The effective portion of the change in the fair value of interest rate swaps designated as fair value hedges are recorded as a change to the carrying value of the related hedged debt, and the effective portion of the change in fair value of interest rate swaps designated as cash flow hedges are recorded in the shareholders' equity section in the accompanying consolidated balance sheets in "Other." The ineffective portion of the interest rate swap, if any, is recorded in "Interest and other financing expense, net" in the accompanying consolidated statements of operations.

In June 2004, the company entered into interest rate swaps, with an aggregate notional amount of \$200,000, of which \$130,455 was terminated in 2009 upon the repayment of a portion of the underlying debt. The swaps modify the

company's interest rate exposure 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 4.75% and 4.94% at April 3, 2010 and December 31, 2009, respectively), through its maturity. The swaps are classified as fair value hedges and had a fair value of \$1,405 and \$2,036 at April 3, 2010 and December 31, 2009, respectively.

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In June 2004 and November 2009, the company entered into interest rate swaps, with an aggregate notional amount of \$275,000. The swaps modify the company's interest rate exposure by effectively converting a portion of the fixed 6.875% senior notes to a floating rate, based on the six-month U.S. dollar LIBOR plus a spread (an effective rate of 4.04% and 4.18% at April 3, 2010 and December 31, 2009, respectively), through its maturity. The swaps are classified as fair value hedges and had a fair value of \$10,086 and \$9,556 at April 3, 2010 and December 31, 2009, respectively.

Cross-Currency Swaps

The company enters into cross-currency swaps to hedge a portion of its net investment in euro-denominated net assets. The company's cross-currency swaps are derivatives designated as net investment hedges. The effective portion of the change in the fair value of derivatives designated as net investment hedges is recorded in "Foreign currency translation adjustment" included in the accompanying consolidated balance sheets and any ineffective portion is recorded in "Interest and other financing expense, net" in the accompanying consolidated statements of operations. As the notional amounts of the company's cross-currency swaps are expected to equal a comparable amount of hedged net assets, no material ineffectiveness is expected. The company uses the hypothetical derivative method to assess the effectiveness of its net investment hedges on a quarterly basis.

In May 2006, the company entered into a cross-currency swap, with a maturity date of July 2011, 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 effectively converts the interest expense on \$100,000 of long-term debt from U.S. dollars to euros. The 2006 cross-currency swap had a negative fair value of \$6,177 and \$12,497 at April 3, 2010 and December 31, 2009, respectively.

In October 2005, the company entered into a cross-currency swap, with 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 effectively converts the interest expense on \$200,000 of long-term debt from U.S. dollars to euros. The 2005 cross-currency swap had a negative fair value of \$27,917 and \$41,943 at April 3, 2010 and December 31, 2009, respectively.

Foreign Exchange Contracts

The company enters into foreign exchange forward, option, or swap contracts (collectively, the "foreign exchange contracts") to mitigate the impact of changes in foreign currency exchange rates. These contracts are executed to facilitate the hedging of foreign currency exposures resulting from inventory purchases and sales and generally have terms of no more than six months. Gains or losses on these contracts are deferred and recognized when the underlying future purchase or sale is recognized or when the corresponding asset or liability is revalued. The company does not enter into foreign exchange contracts for trading purposes. The risk of loss on a foreign exchange contract is the risk of nonperformance by the counterparties, which the company minimizes by limiting its counterparties to major financial institutions. The fair value of the foreign exchange contracts, which are nominal, are estimated using market quotes. The notional amount of the foreign exchange contracts at April 3, 2010 and December 31, 2009 was \$322,997 and \$294,928, respectively.

Other

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

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Cash equivalents consist primarily of overnight time deposits and institutional money market funds with quality financial institutions. These financial institutions are located in many different geographical regions, and the company's policy is designed to limit exposure with any one institution. As part of its cash and risk management processes, the company performs periodic evaluations of the relative credit standing of these financial institutions.

Note I – Restructuring, Integration, and Other Charges

During the first quarters of 2010 and 2009, the company recorded restructuring, integration, and other charges of \$7,437 (\$5,545 net of related taxes or \$.05 per share on both a basic and diluted basis) and \$24,018 (\$16,069 net of related taxes or \$.13 per share on both a basic and diluted basis), respectively.

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

| | Quarter Ended | |
|----------------------------------------------------------------|------------------|------------------|
| | April 3, 2010 | April 4, 2009 |
| Restructuring charges – 2010 actions | \$ 5,189 | \$ 23,472 |
| Restructuring and integration charges – 2009 and prior actions | 2,149 | 546 |
| Acquisition-related expenses | 99 | - |
| | \$ 7,437 | \$ 24,018 |

2010 Restructuring Charge

The following table presents the components of the 2010 restructuring charge of \$5,189 and activity in the restructuring accrual for the first quarter of 2010:

| | Personnel Costs | Facilities | Other | Total |
|------------------------------|--------------------|------------|--------|----------|
| Restructuring charge | \$ 4,844 | \$ 201 | \$ 144 | \$ 5,189 |
| Payments | (2,613) | (114) | - | (2,727) |
| Non-cash usage | - | - | (144) | (144) |
| Foreign currency translation | 108 | 12 | - | 120 |
| April 3, 2010 | \$ 2,339 | \$ 99 | \$ - | \$ 2,438 |

The restructuring charge of \$5,189 for the first quarter of 2010 primarily includes personnel costs of \$4,844 and facilities costs of \$201. The personnel costs are related to the elimination of approximately 55 positions within the global components business segment and approximately 10 positions within the global ECS business segment. The facilities costs are related to exit activities for 4 vacated facilities in Europe due to the company's continued efforts to streamline its operations and reduce real estate costs. These initiatives are due to the company's continued efforts to lower cost and drive operational efficiency.

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2009 Restructuring Charge

The following table presents the activity in the restructuring accrual for the first quarter of 2010 related to the 2009 restructuring:

| | Personnel Costs | Facilities | Other | Total |
|------------------------------|--------------------|------------|--------|-----------|
| December 31, 2009 | \$ 25,380 | \$ 6,287 | \$ 224 | \$ 31,891 |
| Restructuring charge | 1,450 | 146 | - | 1,596 |
| Payments | (16,552) | (722) | - | (17,274) |
| Foreign currency translation | (1,031) | (364) | (10) | (1,405) |
| April 3, 2010 | \$ 9,247 | \$ 5,347 | \$ 214 | \$ 14,808 |

Restructuring and Integration Accruals Related to Actions Taken Prior to 2009

The following table presents the activity in the restructuring and integration accruals for the first quarter of 2010 related to restructuring and integration actions taken prior to 2009:

| | Personnel Costs | Facilities | Other | Total |
|---------------------------------------|--------------------|------------|----------|-----------|
| December 31, 2009 | \$ 1,728 | \$ 6,676 | \$ 1,822 | \$ 10,226 |
| Restructuring and integration charges | 15 | 556 | (18) | 553 |
| Payments | (508) | (672) | - | (1,180) |
| Non-cash usage | - | (582) | - | (582) |
| Foreign currency translation | (12) | (271) | (12) | (295) |
| April 3, 2010 | \$ 1,223 | \$ 5,707 | \$ 1,792 | \$ 8,722 |

Restructuring and Integration Accrual Summary

In summary, the restructuring and integration accruals aggregate \$25,968 at April 3, 2010, of which \$25,558 is expected to be spent in cash, and are expected to be utilized as follows:

- The accruals for personnel costs of \$12,809 to cover the termination of personnel are primarily expected to be spent within one year.
- The accruals for facilities totaling \$11,153 relate to vacated leased properties that have scheduled payments of \$4,364 in 2010, \$2,835 in 2011, \$1,589 in 2012, \$1,270 in 2013, \$614 in 2014, and \$481 thereafter.
- Other accruals of \$2,006 are expected to be utilized over several years.

Acquisition-Related Expenses

Included in restructuring, integration, and other charges is \$99 of other acquisition-related expenses for the first quarter of 2010 primarily consisting of professional fees directly related to recent acquisition activity.

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Note J – Net Income per Share

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

| | Quarter Ended | |
|----------------------------------------------------------------|------------------|------------------|
| | April 3, 2010 | April 4, 2009 |
| Net income attributable to shareholders | \$ 87,046 | \$ 26,741 |
| Weighted average shares outstanding - basic | 120,223 | 119,570 |
| Net effect of various dilutive stock-based compensation awards | 1,683 | 563 |
| Weighted average shares outstanding - diluted | 121,906 | 120,133 |
| Net income per share: | | |
| Basic | \$.72 | \$.22 |
| Diluted (a) | \$.71 | \$.22 |

(a) Stock-based compensation awards for the issuance of 2,776 and 3,967 shares for the first quarters of 2010 and 2009, respectively, were excluded from the computation of net income per share on a diluted basis as their effect was anti-dilutive.

Note K – Shareholders' Equity

Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows:

| | Quarter Ended | |
|----------------------------------------------------------------------|------------------|------------------|
| | April 3, 2010 | April 4, 2009 |
| Consolidated net income | \$ 87,041 | \$ 26,736 |
| Foreign currency translation adjustments (a) | (64,314) | (40,142) |
| Other (b) | (428) | 1,456 |
| Comprehensive income (loss) | 22,299 | (11,950) |
| Comprehensive income (loss) attributable to noncontrolling interests | - | (3) |
| Comprehensive income (loss) attributable to shareholders | \$ 22,299 | \$ (11,947) |

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

(b)

Other includes unrealized gains or losses on securities, unrealized gains or losses on interest rate swaps designated as cash flow hedges, and other employee benefit plan items. Each of these items is net of related taxes.

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Share-Repurchase Program

In March 2010, the company announced its Board of Directors approved the repurchase of up to \$100,000 of the company's common stock in such amounts as to offset the dilution from the granting of equity-based compensation awards. As of April 3, 2010, the company has not repurchased any common stock under the plan.

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:

| | Quarter Ended | |
|--------------------------------------------------|------------------|------------------|
| | April 3, 2010 | April 4, 2009 |
| Components of net periodic benefit costs: | | |
| Service cost | \$ 411 | \$ 442 |
| Interest cost | 2,248 | 2,244 |
| Expected return on plan assets | (1,498) | (1,266) |
| Amortization of unrecognized net loss | 967 | 876 |
| Amortization of prior service cost | 20 | 137 |
| Amortization of transition obligation | 7 | 103 |
| Net periodic benefit costs | \$ 2,155 | \$ 2,536 |

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 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 the Wyle sites in Huntsville, Alabama and Norco, California.

Characterization of the extent of contaminated soil and groundwater continues at the site in Huntsville, and approximately \$3,000 was spent to date. The company currently estimates additional investigative and related expenditures at the site of approximately \$500 to \$1,000, depending on the results of which the cost of subsequent remediation is estimated to be between \$2,500 and \$4,000.

At the Norco site, approximately \$29,000 was expended to date on project management, regulatory oversight, and investigative and feasibility study activities, providing the technical basis for a final Remedial Investigation Report that was submitted to California oversight authorities during the first quarter of 2008.

Remedial activities underway include the remediation of contaminated groundwater at certain areas on the Norco site and of soil gas in a limited area immediately adjacent to the site, and a hydraulic containment system that captures and treats groundwater before it moves into the adjacent offsite area. Approximately \$8,000 was spent on these activities to date, and it is anticipated that these activities, along with the initial

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phases of the treatment of contaminated groundwater offsite and remaining Remedial Action Work Plan costs, will cost an additional \$9,650 to \$19,250.

The company currently estimates that the additional cost of project management and regulatory oversight on the Norco site will range from \$500 to \$750. Ongoing remedial investigations (including costs related to soil and groundwater investigations), and the preparation of a final remedial investigation report are projected to cost between \$400 to \$700.

Despite the amount of work undertaken and planned to date, the complete scope of work in connection with the Norco site is not yet known, and, accordingly, the associated costs not yet determined.

In October 2005, the company filed suit against E.ON AG in the Frankfurt am Main Regional Court in Germany. The suit seeks indemnification, contribution, and a declaration of the parties' respective rights and obligations in connection with the related litigation and other costs associated with the Norco site. In its answer to the company's claim filed in March 2009 in the German proceedings, E.ON AG filed a counterclaim against the company for approximately \$16,000. The litigation is currently suspended while the company engages in a court-facilitated mediation with E.ON AG. The mediation commenced in December 2009 and will continue well into 2010. The company believes it has reasonable defenses to the counterclaim and plans to defend its position vigorously. The company believes that the ultimate resolution of the counterclaim will not have a material adverse impact on the company's consolidated financial position, liquidity, or results of operations.

During the second quarter of 2009, the company entered into binding settlement agreements resolving several of the lawsuits associated with the above-mentioned environmental liabilities (Gloria Austin, et al. v. Wyle Laboratories, Inc. et al., the other claims of plaintiff Norco landowners and residents which were consolidated with it, and an action by Wyle Laboratories, Inc. for defense and indemnification in connection with the Austin and related cases). Arrow's actions against E.ON AG, successor to VEBA, 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 are 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, 2009.

The company believes that the recovery of costs incurred to date associated with the environmental clean-up costs related to the Norco and Huntsville sites is probable. Accordingly, the company increased the receivable for indemnified amounts due from E.ON AG by \$902 during the first quarter of 2010 to \$41,814. 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.

Other

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

Note N – Segment and Geographic Information

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

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are included in the corporate business segment.

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

| | Quarter Ended | |
|---------------------------------|------------------|------------------|
| | April 3, 2010 | April 4, 2009 |
| Sales: | | |
| Global components | \$ 3,128,022 | \$ 2,345,012 |
| Global ECS | 1,107,344 | 1,072,416 |
| Consolidated | \$ 4,235,366 | \$ 3,417,428 |
| Operating income (loss): | | |
| Global components | \$ 154,108 | \$ 76,098 |
| Global ECS | 23,913 | 32,026 |
| Corporate (a) | (32,751) | (46,887) |
| Consolidated | \$ 145,270 | \$ 61,237 |

(a) Includes restructuring, integration, and other charges of \$7,437 and \$24,018 for the first quarters of 2010 and 2009, respectively.

Total assets, by segment, are as follows:

| | April 3, 2010 | December 31, 2009 |
|-------------------|------------------|----------------------|
| Global components | \$ 4,840,555 | \$ 4,512,141 |
| Global ECS | 1,765,831 | 2,258,803 |
| Corporate | 848,146 | 991,422 |
| Consolidated | \$ 7,454,532 | \$ 7,762,366 |

Sales, by geographic area, are as follows:

| | Quarter Ended | |
|--------------|------------------|------------------|
| | April 3, 2010 | April 4, 2009 |
| Americas (b) | \$ 1,891,756 | \$ 1,582,173 |
| EMEA | 1,317,354 | 1,094,603 |
| Asia/Pacific | 1,026,256 | 740,652 |
| Consolidated | \$ 4,235,366 | \$ 3,417,428 |

(b) Includes sales related to the United States of \$1,681,573 and \$1,423,665 for the first quarters of 2010 and 2009, respectively.

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

| | April 3, 2010 | December 31, 2009 |
|--------------|------------------|----------------------|
| Americas (c) | \$ 392,819 | \$ 381,827 |
| EMEA | 56,815 | 61,960 |
| Asia/Pacific | 16,832 | 16,919 |
| Consolidated | \$ 466,466 | \$ 460,706 |

(c) Includes net property, plant and equipment related to the United States of \$391,553 and \$380,576 at April 3, 2010 and December 31, 2009, respectively.

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

Overview

Arrow Electronics, Inc. (the "company") is a global provider of products, services, and solutions to industrial and commercial users of electronic components and enterprise computing solutions. The company provides one of the broadest product offerings in the electronic components and enterprise computing solutions distribution industries and a wide range of value-added services to help customers reduce time to market, lower their total cost of ownership, introduce innovative products through demand creation opportunities, and enhance their overall competitiveness. The company has two business segments, the global components business segment and the global enterprise computing solutions ("ECS") business segment. The company distributes electronic components to original equipment manufacturers ("OEMs") and contract manufacturers ("CMs") through its global components business segment and provides enterprise computing solutions to value-added resellers ("VARs") through its global ECS business segment. For the first quarter of 2010, approximately 74% of the company's sales were from the global components business segment, and approximately 26% of the company's sales were from the global ECS business segment.

Operating efficiency and working capital management remain a key focus of the company's business initiatives to grow sales faster than the market, grow profits faster than sales, and increase return on invested capital. To achieve its financial objectives, the company seeks to capture significant opportunities to grow across products, markets, and geographies. To supplement its organic growth strategy, the company continually evaluates strategic acquisitions to broaden its product offerings, increase its market penetration, and/or expand its geographic reach. Cash flow needed to fund this growth is primarily expected to be generated through continuous corporate-wide initiatives to improve profitability and increase effective asset utilization.

On December 20, 2009, the company acquired A.E. Petsche Company, Inc. ("Petsche"). Results of operations of Petsche were included in the company's consolidated results from the date of acquisition within the company's global components business segment.

Consolidated sales for the first quarter of 2010 increased by 23.9%, compared with the year-earlier period, due to a 33.4% increase in the global components business segment sales and a 3.3% increase in the global ECS business segment sales. On a proforma basis, which includes Petsche as though this acquisition occurred on January 1, 2009, consolidated sales increased 22.1%. The translation of the company's international financial statements into U.S. dollars resulted in increased consolidated sales of \$75.4 million for the first quarter of 2010, compared with the year-earlier period, due to a weaker U.S. dollar. Excluding the impact of foreign currency, the company's consolidated sales increased by 21.3% for the first quarter of 2010.

Net income attributable to shareholders increased to \$87.0 million in the first quarter of 2010, compared with net income attributable to shareholders of \$26.7 million in the year-earlier period. The following items impacted the comparability of the company's results for the first quarters of 2010 and 2009:

- restructuring, integration, and other charges of \$7.4 million (\$5.5 million net of related taxes) in 2010 and \$24.0 million (\$16.1 million net of related taxes) in 2009.

Excluding the above-mentioned items, the increase in net income attributable to shareholders for the first quarter of 2010 was primarily the result of the sales increases in both the global components business segment and the global ECS business segment, increased gross profit margins, reduced selling, general and administrative expenses as a percentage of sales due to the company's continuing efforts to streamline and simplify processes, as well as decreased net interest and other financing expense.

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

with Oracle Corporation's recently completed acquisition of Sun Microsystems, Inc., Oracle has publicly announced that it intends to transition Sun's indirect sales model to a mixed direct and indirect sales model. The company is currently evaluating the potential effects of this change and is prepared to take the necessary steps to align its operating structure and costs in the event there is a meaningful change in business.

Sales

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

| | Quarter Ended | | % Change |
|-------------------|------------------|------------------|----------|
| | April 3, 2010 | April 4, 2009 | |
| Global components | \$ 3,128 | \$ 2,345 | 33.4% |
| Global ECS | 1,107 | 1,072 | 3.3% |
| Consolidated | \$ 4,235 | \$ 3,417 | 23.9% |

Consolidated sales for the first quarter of 2010 increased by \$817.9 million, or 23.9%, compared with the year-earlier period. The increase was driven by an increase in the global components business segment sales of \$783.0 million, or 33.4%, and an increase in the global ECS business segment sales of \$34.9 million, or 3.3%. On a proforma basis, which includes Petsche as though this acquisition occurred on January 1, 2009, consolidated sales for the first quarter of 2010 increased 22.1%. The translation of the company's international financial statements into U.S. dollars resulted in increased consolidated sales of \$75.4 million for the first quarter of 2010, compared with the year-earlier period, due to a weaker U.S. dollar. Excluding the impact of foreign currency, the company's consolidated sales increased by 21.3% for the first quarter of 2010.

In the global components business segment, sales for the first quarter of 2010 increased primarily due to strength in all three of the company's regional businesses as a result of strengthening in the world's economies and, to a lesser extent, the impact of a weaker U.S. dollar on the translation of the company's international financial statements. On a proforma basis, which includes Petsche as though this acquisition occurred on January 1, 2009, global components business segment sales for the first quarter of 2010 increased 30.5%. The growth in the global components business segment for the first quarter of 2010 was primarily driven by the sales increase in the Americas of 29.0%, the sales increase in EMEA of 27.0%, the sales increase in Asia/Pacific of 38.6%, and, to a lesser extent, the acquisition of Petsche. Excluding the impact of foreign currency, the company's global components business segment sales increased by 30.2% for the first quarter of 2010.

In the global ECS business segment, the sales for the first quarter of 2010 increased primarily due to higher demand for products and the impact of a weaker U.S. dollar on the translation of the company's international financial statements. The increase in sales for the first quarter of 2010 was due to growth in storage, software, and services, offset, in part, by declines in proprietary servers. Excluding the impact of foreign currency, the company's global ECS business segment sales increased by 1.6% for the first quarter of 2010.

Gross Profit

The company recorded gross profit of \$537.9 million in the first quarter of 2010, compared with \$431.0 million in the year-earlier period. The increase in gross profit was primary due to the 23.9% increase in sales during the first quarter of 2010. The gross profit margin for the first quarter of 2010 increased by approximately 10 basis points, compared with the year-earlier period. The increase in gross profit as a percent of sales was primarily due to increasing gross profit in the global components business offset, in part, by lower gross profit in the global ECS business, compared

with the year-earlier period. The gross

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profit margins of products sold in the global components business segment are typically higher than the profit margins of products in the global ECS business segment.

Restructuring, Integration, and Other Charges

2010 Charges

The company recorded restructuring, integration, and other charges of \$7.4 million (\$5.5 million net of related taxes or \$.05 per share on both a basic and diluted basis) for the first quarter of 2010. Included in the restructuring, integration, and other charges for the first quarter of 2010 are restructuring charges of \$5.2 million related to initiatives taken by the company to improve operating efficiencies. Also included in the restructuring, integration, and other charges for the first quarter of 2010 is a charge of \$2.1 million related to restructuring and integration actions taken in prior periods and acquisition-related expenses of \$.1 million.

The restructuring charge of \$5.2 million for the first quarter of 2010 primarily includes personnel costs of \$4.8 million and facilities costs of \$.2 million. The personnel costs are related to the elimination of approximately 55 positions within the global components business segment and approximately 10 positions within the global ECS business segment. The facilities costs are related to exit activities for 4 vacated facilities in Europe due to the company's continued efforts to streamline its operations and reduce real estate costs. These initiatives are due to the company's continued efforts to lower cost and drive operational efficiency.

2009 Charges

The company recorded restructuring, integration, and other charges of \$24.0 million (\$16.1 million net of related taxes or \$.13 per share on both a basic and diluted basis) for the first quarter of 2009. Included in the restructuring, integration, and other charges for the first quarter of 2009 are restructuring charges of \$23.5 million related to initiatives taken by the company to improve operating efficiencies. Also included in the restructuring, integration, and other charges for the first quarter of 2009 is a charge of \$.5 million related to restructuring and integration actions taken in prior periods.

The restructuring charge of \$23.5 for the first quarter of 2009 primarily includes personnel costs of \$21.6 million and facilities costs of \$1.8 million. The personnel costs are related to the elimination of approximately 465 positions within the global components business segment and approximately 115 positions within global ECS business segment. The facilities costs are related to exit activities for three vacated facilities in Europe due to the company's continued efforts to streamline its operations and reduce real estate costs. These initiatives are due to the company's continued efforts to lower cost and drive operational efficiency.

Operating Income

The company recorded operating income of \$145.3 million in the first quarter of 2010, as compared with operating income of \$61.2 million in the year-earlier period. Included in operating income for the first quarters of 2010 and 2009 were the previously discussed restructuring, integration, and other charges of \$7.4 million and \$24.0 million, respectively.

Selling, general and administrative expenses increased \$37.6 million, or 11.4%, in the first quarter of 2010 on a sales increase of 23.9% compared with the first quarter of 2009. The dollar increase in selling, general and administrative expenses was primarily due to higher selling, general and administrative expenses to support the increased sales, the impact of foreign exchange rates, and selling, general and administrative expenses incurred by Petsche, which was acquired in December 2009. Selling, general and administrative expenses as a percentage of sales for the first quarter

of 2010 decreased to 8.7% from 9.6% in the year-earlier period, primarily due to the company's continuing efforts to streamline and simplify processes.

Interest and Other Financing Expense

Net interest and other financing expense decreased by 17.1% in the first quarter of 2010 to \$19.1 million compared with \$23.0 million in the first quarter of 2009, primarily due to lower interest rates on the company's variable rate debt.

Income Taxes

The company recorded a provision for income taxes of \$40.3 million (an effective tax rate of 31.6%) for the first quarter of 2010. The company's provision for income taxes and effective tax rate for the first quarter of 2010 was impacted by the previously discussed restructuring, integration, and other charges. Excluding the impact of the previously discussed restructuring, integration, and other charges the company's effective tax rate for the first quarter of 2010 was 31.3%.

The company recorded a provision for income taxes of \$11.8 million (an effective tax rate of 30.6%) for the first quarter of 2009. The company's provision for income taxes and effective tax rate for the first quarter of 2009 was impacted by the previously discussed restructuring, integration, and other charges. Excluding the impact of the previously discussed restructuring, integration, and other charges the company's effective tax rate for the first quarter of 2009 was 31.6%.

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

Net Income Attributable to Shareholders

The company recorded net income attributable to shareholders of \$87.0 million in the first quarter of 2010, compared with net income attributable to shareholders of \$26.7 million in the year-earlier period. Included in net income attributable to shareholders for the first quarters of 2010 and 2009 were the previously discussed restructuring, integration, and other charges of \$5.5 million and \$16.1 million, respectively. Excluding the above-mentioned items, the increase in net income attributable to shareholders for the first quarter of 2010 was primarily the result of the sales increases in both the global components business segment and the global ECS business segment, increased gross profit margins, reduced selling, general and administrative expenses as a percentage of sales due to the company's continuing efforts to streamline and simplify processes, as well as decreased net interest and other financing expense.

Liquidity and Capital Resources

At April 3, 2010 and December 31, 2009, the company had cash and cash equivalents of \$810.1 million and \$1.14 billion, respectively.

During the first quarter of 2010, the net amount of cash used for the company's operating activities was \$282.2 million, the net amount of cash used for investing activities was \$23.8 million, and the net amount of cash provided by financing activities was \$11.3 million. The effect of exchange rate changes on cash was a decrease of \$32.3 million.

During the first quarter of 2009, the net amount of cash provided by the company's operating activities was \$230.7 million, the net amount of cash used for investing activities was \$36.9 million, and the net amount of cash used for financing activities was \$16.0 million. The effect of exchange rate changes on cash was a decrease of \$10.5 million.

Cash Flows from Operating Activities

The company maintains a significant investment in accounts receivable and inventories. As a percentage of total assets, accounts receivable and inventories were approximately 61.1% and 58.4% at April 3, 2010 and December 31, 2009, respectively.

The net amount of cash used for the company's operating activities during the first quarter of 2010 was \$282.2 million and was primarily due to an increase in inventory and a reduction in accounts payable and accrued expenses offset, in part, by earnings from operations, adjusted for non-cash items.

The net amount of cash provided by the company's operating activities during the first quarter of 2009 was \$230.7 million primarily due to earnings from operations, adjusted for non-cash items, and a reduction in accounts receivable and inventory, offset, in part, by a decrease in accounts payable and accrued expenses.

Working capital as a percentage of sales was 12.4% in the first quarter of 2010 compared with 14.0% in the first quarter of 2009.

Cash Flows from Investing Activities

The net amount of cash used for investing activities during the first quarter of 2010 was \$23.8 million, primarily reflecting \$3.1 million of cash consideration paid for acquired businesses and \$27.5 million for capital expenditures, offset, in part, by proceeds from the sale of facilities of \$6.8 million. Included in capital expenditures is \$16.8 million related to the company's global enterprise resource planning ("ERP") initiative.

The net amount of cash used for investing activities during the first quarter of 2009 was \$36.9 million, primarily reflecting \$36.8 million for capital expenditures, which includes \$26.1 million of capital expenditures related to the company's global ERP initiative.

During 2006, the company initiated a global 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 2010, the estimated cash flow impact of this initiative is expected to be in the \$40 to \$60 million range with the impact decreasing by approximately \$10 million in 2011. The company expects to finance these costs with cash flows from operations.

Cash Flows from Financing Activities

The net amount of cash provided by financing activities during the first quarter of 2010 was \$11.3 million. The primary sources of cash from financing activities during the first quarter of 2010 were \$1.6 million of proceeds from the exercise of stock options, a \$14.2 million increase in short-term borrowings, and \$1.8 million related to excess tax benefits from stock-based compensation arrangements. The primary use of cash for financing activities included \$6.2 million of repurchases of common stock.

The net amount of cash used for financing activities during the first quarter of 2009 was \$16.0 million. The primary use of cash for financing activities during the first quarter of 2009 included an \$12.3 million decrease in short-term borrowings, a \$2.1 million shortfall in tax benefits from stock-based compensation arrangements, and \$2.1 million of repurchases of common stock. The primary source of cash from financing activities was \$.6 million of proceeds from the exercise of stock options.

The company has an \$800.0 million revolving credit facility with a group of banks that matures in January 2012. Interest on borrowings under the revolving credit facility is calculated using a base rate or a euro currency rate plus a spread based on the company's credit ratings (.425% at April 3, 2010). The facility fee related to the credit facility is .125%.

The company has a \$300.0 million asset securitization program collateralized by accounts receivable of certain of its North American subsidiaries which expires in March 2011. Interest on borrowings is calculated using a base rate or a

commercial paper rate plus a spread, which is based on the company's credit ratings (.60% at April 3, 2010). The facility fee is .50%.

The company had no outstanding borrowings under its revolving credit facility or asset securitization program at April 3, 2010 and December 31, 2009. Both programs include terms and conditions that limit

the incurrence of additional borrowings, limit the company's ability to pay cash dividends or repurchase stock, and require that certain financial ratios be maintained at designated levels. The company was in compliance with all covenants as of April 3, 2010 and is currently not aware of any events that would cause non-compliance with any covenants in the future.

Management believes that company's current cash availability, its current borrowing capacity under its revolving credit facility and asset securitization program, its expected ability to generate future operating cash flows, and the company's access to capital markets are sufficient to meet its projected cash flow needs for the foreseeable future.

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, 2009. Since December 31, 2009, there were no material changes to the contractual obligations of the company, outside the ordinary course of the company's business.

Share-Repurchase Program

In March 2010, the company announced its Board of Directors approved the repurchase of up to \$100 million of the company's common stock in such amounts as to offset the dilution from the granting of equity-based compensation awards. As of April 3, 2010, the company has not repurchased any common stock under the plan.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

There were no significant changes during the first quarter of 2010 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, 2009.

Impact of Recently Issued Accounting Standards

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

Information Relating to Forward-Looking Statements

This report includes forward-looking statements that are subject to numerous assumptions, risks, and uncertainties, which could cause actual results or facts to differ materially from such statements for a

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There were no material changes in market risk for changes in foreign currency exchange rates and interest rates from the information provided in Item 7A – Quantitative and Qualitative Disclosures About Market Risk in the company's Annual Report on Form 10-K for the year ended December 31, 2009, except as follows:

Foreign Currency Exchange Rate Risk

The notional amount of the foreign exchange contracts at April 3, 2010 and December 31, 2009 was \$323.0 million and \$294.9 million, respectively. The fair values of foreign exchange contracts, which are nominal, are estimated using market quotes. The translation of the financial statements of the non-United States operations is impacted by fluctuations in foreign currency exchange rates. The change in consolidated sales and operating income was impacted by the translation of the company's international financial statements into U.S. dollars. This resulted in increased sales and operating income of \$75.4 million and \$1.5 million, respectively, for the first quarter of 2010, compared with the year-earlier period, based on 2009 sales and operating income at the average rate for 2010. Sales and operating income would decrease by approximately \$132.0 million and \$5.3 million, respectively, if average foreign exchange rates declined by 10% against the U.S. dollar in the first quarter of 2010. These amounts were determined by considering the impact of a hypothetical foreign exchange rate on the sales and operating income of the company's international operations.

In May 2006, the company entered into a cross-currency swap, with a maturity date of July 2011, 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 \$6.2 million and \$12.5 million at April 3, 2010 and December 31, 2009, respectively.

In October 2005, the company entered into a cross-currency swap, with 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 \$27.9 million and \$41.9 million at April 3, 2010 and December 31, 2009, respectively.

Interest Rate Risk

At April 3, 2010, approximately 56% of the company's debt was subject to fixed rates, and 44% of its debt was subject to floating rates. A one percentage point change in average interest rates would not materially impact net interest and other financing expense in the first quarter of 2010. This was determined by considering the impact of a hypothetical interest rate on the company's average floating rate on investments and outstanding debt. This analysis does not consider the effect of the level of overall economic activity that could exist. In the event of a change in the level of economic activity, which may adversely impact interest rates, the company could likely take actions to further mitigate any potential negative exposure to the change. However, due to the uncertainty of the specific actions that might be taken and their possible effects, the sensitivity analysis assumes no changes in the company's financial structure.

In June 2004, the company entered into interest rate swaps, with an aggregate notional amount of \$200.0 million, of which \$130.5 million was terminated in 2009 upon the repayment of a portion of the underlying debt. The swaps modify the company's interest rate exposure 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 4.75% and 4.94% at April 3, 2010 and December 31, 2009, respectively), through its maturity. The swaps are classified as fair value hedges and had a fair value of \$1.4 million and \$2.0 million at April 3, 2010 and December 31, 2009, respectively.

In June 2004 and November 2009, the company entered into interest rate swaps, with an aggregate notional amount of \$275.0 million. The swaps modify the company's interest rate exposure by effectively converting a portion of the fixed 6.875% senior notes to a floating rate, based on the six-month U.S. dollar LIBOR plus a spread (an effective rate of 4.04% and 4.18% at April 3, 2010 and December 31, 2009, respectively), through its maturity. The swaps are classified as fair value hedges and had a fair value of \$10.1 million and \$9.6 million at April 3, 2010 and December 31, 2009, respectively.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The company's management, under the supervision and with the participation of the company's Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the company's disclosure controls and procedures as of April 3, 2010 (the "Evaluation"). Based upon the Evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) are effective.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

Except as set forth below, 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, 2009.

With respect to the risk factor titled "The company may not have adequate or cost-effective liquidity or capital resources", the company stated in its Form 10-K for the year ended December 31, 2009 that it had access to committed credit lines of \$1.4 billion. The company now has access to committed credit lines of \$1.1 billion.

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

In March 2010, the company announced its Board of Directors approved the repurchase of up to \$100 million of the company's common stock in such amounts as to offset the dilution from the granting of equity-based compensation awards. As of April 3, 2010, the company has not repurchased any common stock under the plan.

The following table shows the share-repurchase activity for the quarter ended April 3, 2010:

| Month | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares that May Yet be Purchased Under the Program |
|-------------------------------|-------------------------------------------|------------------------------------|------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| January 1 through 31, 2010 | 338 | \$ 29.61 | - | - |
| February 1 through 28, 2010 | 200,407 | 28.17 | - | - |
| March 1 through April 3, 2010 | 18,296 | 28.94 | - | 100,000,000 |
| Total | 219,041 | | - | |

The purchases of Arrow common stock noted above reflect shares that were withheld from employees for stock-based awards, as permitted by the plan, in order to satisfy the required tax withholding obligations. None of these purchases were made pursuant to the publicly announced repurchase plan.

Item 6. Exhibits.

| Exhibit Number | Exhibit |
|-------------------|-----------------------------------------------------------------------------------------------------|
| 31(i) | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31(ii) | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32(i) | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32(ii) | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURE

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

ARROW ELECTRONICS, INC.

Date: May 3, 2010

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