

ARROW ELECTRONICS INC

Form 10-Q

October 28, 2009

Table of Contents

**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 October 3, 2009

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

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 119,774,789 shares of Common Stock outstanding as of October 23, 2009.

**ARROW ELECTRONICS, INC.
INDEX**

	Page
<u>Part I.</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements</u>	
<u>Consolidated Statements of Operations</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	32
<u>Item 4.</u>	
<u>Controls and Procedures</u>	34
<u>Part II.</u>	
<u>Other Information</u>	
<u>Item 1A.</u>	
<u>Risk Factors</u>	35
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>Item 6.</u>	
<u>Exhibits</u>	36
<u>Signature</u>	37
<u>EX-10.A</u>	
<u>EX-10.B</u>	
<u>EX-10.C</u>	
<u>EX-31.I</u>	
<u>EX-31.II</u>	
<u>EX-32.I</u>	
<u>EX-32.II</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

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

	Quarter Ended		Nine Months Ended	
	October 3, 2009	September 30, 2008	October 3, 2009	September 30, 2008
Sales	\$ 3,671,865	\$ 4,295,314	\$ 10,481,116	\$ 12,671,282
Costs and expenses:				
Cost of products sold	3,250,804	3,731,459	9,226,865	10,908,665
Selling, general and administrative expenses	321,503	403,542	965,645	1,230,893
Depreciation and amortization	16,919	17,500	50,262	52,195
Restructuring and integration charge	37,583	11,037	80,853	25,711
Preference claim from 2001	-	-	-	12,941
	3,626,809	4,163,538	10,323,625	12,230,405
Operating income	45,056	131,776	157,491	440,877
Equity in earnings of affiliated companies	1,883	2,073	3,233	5,359
Loss on prepayment of debt	5,312	-	5,312	-
Interest and other financing expense, net	18,033	24,809	58,150	74,010
Income before income taxes	23,594	109,040	97,262	372,226
Provision for income taxes	11,018	32,863	36,868	113,801
Consolidated net income	12,576	76,177	60,394	258,425
Noncontrolling interests	(5)	107	(25)	269
Net income attributable to shareholders	\$ 12,581	\$ 76,070	\$ 60,419	\$ 258,156
Net income per share:				
Basic	\$.10	\$.64	\$.50	\$ 2.13
Diluted	\$.10	\$.63	\$.50	\$ 2.11

Average number of shares outstanding:

Basic	119,888	119,541	119,745	121,226
Diluted	120,785	120,384	120,238	122,118

See accompanying notes.

3

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

	October 3, 2009	December 31, 2008 (A)
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,150,770	\$ 451,272
Accounts receivable, net	2,707,968	3,087,290
Inventories	1,308,345	1,626,559
Prepaid expenses and other assets	180,805	180,647
Total current assets	5,347,888	5,345,768
Property, plant and equipment, at cost:		
Land	25,276	25,127
Buildings and improvements	147,773	147,138
Machinery and equipment	781,131	698,156
	954,180	870,421
Less: Accumulated depreciation and amortization	(492,867)	(459,881)
Property, plant and equipment, net	461,313	410,540
Investments in affiliated companies	51,290	46,788
Cost in excess of net assets of companies acquired	908,894	905,848
Other assets	405,990	409,341
Total assets	\$ 7,175,375	\$ 7,118,285
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 2,298,893	\$ 2,459,922
Accrued expenses	362,327	455,547
Short-term borrowings, including current portion of long-term debt	141,417	52,893
Total current liabilities	2,802,637	2,968,362
Long-term debt	1,278,007	1,223,985
Other liabilities	248,053	248,888
Equity:		

Shareholders' equity:

Common stock, par value \$1:

Authorized - 160,000 shares in 2009 and 2008

Issued - 125,287 and 125,048 shares in 2009 and 2008, respectively

Capital in excess of par value

Treasury stock (5,516 and 5,740 shares in 2009 and 2008, respectively), at cost

Retained earnings

Foreign currency translation adjustment

Other

Total shareholders' equity

Noncontrolling interests

Total equity

Total liabilities and equity

125,287	125,048
1,044,504	1,035,302
(181,041)	(190,273)
1,631,424	1,571,005
245,437	172,528
(19,248)	(36,912)
2,846,363	2,676,698
315	352
2,846,678	2,677,050
\$ 7,175,375	\$ 7,118,285

(A) - Prior period amounts were reclassified to conform to the current year presentation as a result of the adoption of the Accounting Standards Codification Topic 810-10-65. See Note A of the Notes to the Consolidated Financial Statements for additional information.

See accompanying notes.

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

	Nine Months Ended	
	October 3,	September
	2009	30,
		2008
Cash flows from operating activities:		
Consolidated net income	\$ 60,394	\$ 258,425
Adjustments to reconcile consolidated net income to net cash provided by operations:		
Depreciation and amortization	50,262	52,195
Amortization of stock-based compensation	19,219	13,017
Amortization of deferred financing costs and discount on notes	1,681	1,616
Equity in earnings of affiliated companies	(3,233)	(5,359)
Deferred income taxes	21,933	11,251
Restructuring and integration charge	61,268	17,723
Preference claim from 2001	-	7,822
Loss on prepayment of debt	3,228	-
Excess tax benefits from stock-based compensation arrangements	1,741	(228)
Change in assets and liabilities, net of effects of acquired businesses:		
Accounts receivable	413,790	332,617
Inventories	331,098	(40,092)
Prepaid expenses and other assets	3,118	(6,976)
Accounts payable	(157,827)	(313,281)
Accrued expenses	(158,527)	51,560
Other	1,174	(36,255)
Net cash provided by operating activities	649,319	344,035
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(99,022)	(112,519)
Cash consideration paid for acquired businesses	-	(319,865)
Proceeds from sale of facilities	1,153	-
Other	(272)	(380)
Net cash used for investing activities	(98,141)	(432,764)
Cash flows from financing activities:		
Change in short-term borrowings	(32,009)	(10,512)
Repayment of revolving credit facility borrowings	(29,400)	(2,988,950)
Proceeds from revolving credit facility borrowings	29,400	2,988,649
Repurchase of senior notes	(135,658)	-
Net proceeds from note offering	297,430	-

Edgar Filing: ARROW ELECTRONICS INC - Form 10-Q

Proceeds from exercise of stock options	3,069	4,371
Excess tax benefits from stock-based compensation arrangements	(1,741)	228
Repurchases of common stock	(2,323)	(115,763)
Net cash provided by (used for) financing activities	128,768	(121,977)
Effect of exchange rate changes on cash	19,552	6,412
Net increase (decrease) in cash and cash equivalents	699,498	(204,294)
Cash and cash equivalents at beginning of period	451,272	447,731
Cash and cash equivalents at end of period	\$ 1,150,770	\$ 243,437

See accompanying notes.

5

Table of Contents

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 (GAAP) 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.

The company evaluated subsequent events through October 28, 2009, the issuance date of these consolidated financial statements.

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 Form 10-Q for the quarterly periods ended July 4, 2009 and April 4, 2009, as well as the audited consolidated financial statements and accompanying notes for the year ended December 31, 2008, as filed in the company s Annual Report on Form 10-K.

Accounting Standards Codification

During the third quarter of 2009, the company adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-01, Amendments based on Statement of Financial Accounting Standards No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (the Codification). The Codification became the single source of authoritative GAAP in the United States, other than rules and interpretive releases issued by the United States Securities and Exchange Commission (SEC). The Codification reorganized GAAP into a topical format that eliminates the previous GAAP hierarchy and instead established two levels of guidance authoritative and nonauthoritative. All non-grandfathered, non-SEC accounting literature that was not included in the Codification became nonauthoritative. The adoption of the Codification did not change previous GAAP, but rather simplified user access to all authoritative literature related to a particular accounting topic in one place. Accordingly, the adoption had no impact on the company s consolidated financial position and results of operations. All prior references to previous GAAP in the company s consolidated financial statements were updated for the new references under the Codification.

Noncontrolling Interests

Effective January 1, 2009, the company adopted the FASB Accounting Standards Codification (ASC) Topic 810-10-65. ASC Topic 810-10-65 requires that noncontrolling interests be reported as a component of shareholders equity; net income attributable to the parent and the noncontrolling interest be separately identified in the consolidated results of operations; changes in a parent s ownership interest be treated as equity transactions if control is maintained; and upon a loss of control, any gain or loss on the interest be recognized in the consolidated results of operations. ASC Topic 810-10-65 also requires expanded disclosures to clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The adoption of the provisions of ASC Topic 810-10-65 did not materially impact the company s consolidated financial position and results of operations. Prior period amounts were reclassified to conform to the current period presentation.

Quarter-end

During 2009, the company began operating on a revised quarterly reporting calendar that closes on the Saturday following the end of the calendar quarter. The third quarter of 2009 includes the period from July 5, 2009 through October 3, 2009. There were 65 shipping days for both the third quarter of 2009 and 2008. The first nine months of 2009 includes the period from January 1, 2009 through October 3, 2009. There were 193 shipping days for both the first nine months of 2009 and 2008.

Table of Contents

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

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 FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU No. 2009-13). ASU No. 2009-13 amends guidance included within 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 ASU 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.

In June 2009, the FASB issued FASB Statement No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140 (Statement No. 166). Statement No. 166, among other things, eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures about transfers of financial assets. Statement No. 166 is effective for annual reporting periods beginning after November 15, 2009. The adoption of the provisions of Statement No. 166 is not anticipated to impact the company s consolidated financial position and results of operations. Statement No. 166 has not yet been included in the Codification.

In June 2009, the FASB issued FASB Statement No. 167, Amendments to FASB Interpretation No. (FIN) 46(R) (Statement No. 167). Statement No. 167, among other things, requires a qualitative rather than a quantitative analysis to determine the primary beneficiary of a variable interest entity (VIE), amends FIN 46(R) s consideration of related party relationships in the determination of the primary beneficiary of a VIE, amends certain guidance in FIN 46(R) for determining whether an entity is a VIE, requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE, and requires enhanced disclosures about an enterprise s involvement with a VIE. Statement No. 167 is effective for annual reporting periods beginning after November 15, 2009. The company is currently evaluating the impact of adopting the provisions of Statement No. 167. Statement No. 167 has not yet been included in the Codification.

Note C Acquisitions

Effective January 1, 2009, the company began accounting for business combinations under ASC Topic 805 which requires, among other things, the acquiring entity in a business combination to recognize the fair value of all the assets acquired and liabilities assumed; the recognition of acquisition-related costs in

Table of Contents

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

the consolidated results of operations; the recognition of restructuring costs in the consolidated results of operations for which the acquirer becomes obligated after the acquisition date; and contingent purchase consideration to be recognized at their fair values on the acquisition date with subsequent adjustments recognized in the consolidated results of operations. The accounting prescribed by ASC Topic 805 is applicable for all business combinations entered into after January 1, 2009.

On June 2, 2008, the company acquired LOGIX S.A. (LOGIX), a subsidiary of Groupe OPEN for a purchase price of \$205,937, which included \$15,508 of debt paid at closing, cash acquired of \$3,647, and acquisition costs. In addition, \$46,663 in debt was assumed. The acquisition was accounted for as a purchase transaction and, accordingly, the results of operations of LOGIX were included in the company's consolidated results from the date of acquisition within the company's global enterprise computing solutions (ECS) business segment.

The following table summarizes the company's unaudited consolidated results of operations for the first nine months of 2008, as well as the unaudited pro forma consolidated results of operations of the company, as though the LOGIX acquisition occurred on January 1, 2008:

	Nine Months Ended	
	September 30, 2008	
	As Reported	Pro Forma
Sales	\$12,671,282	\$12,878,296
Net income attributable to shareholders	258,156	250,193
Net income per share:		
Basic	\$ 2.13	\$ 2.06
Diluted	\$ 2.11	\$ 2.05

The unaudited pro forma consolidated results of operations does not purport to be indicative of the results obtained if the LOGIX acquisition had occurred as of the beginning of 2008, or of those results that may be obtained in the future.

Other

Amortization expense related to identifiable intangible assets was \$3,855 and \$11,531 for the third quarter and first nine months of 2009 and \$3,897 and \$11,452 for the third quarter and first nine months of 2008, respectively.

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		Total
	Components	Global ECS	
December 31, 2008	\$ 453,478	\$ 452,370	\$ 905,848
Acquisition-related adjustments	601	(8,171)	(7,570)
Other (primarily foreign currency translation)	268	10,348	10,616
October 3, 2009	\$ 454,347	\$ 454,547	\$ 908,894

Table of Contents

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

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, the company's investment and long-term note receivable in Altech Industries, and the company's other equity investments:

	October 3, 2009	December 31, 2008
Marubun/Arrow	\$ 36,589	\$ 34,881
Altech Industries	14,701	11,888
Other	-	19
	\$ 51,290	\$ 46,788

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

	Quarter Ended		Nine Months Ended	
	October 3, 2009	September 30, 2008	October 3, 2009	September 30, 2008
Marubun/Arrow	\$ 1,529	\$ 1,710	\$ 2,448	\$ 4,475
Altech Industries	354	384	803	986
Other	-	(21)	(18)	(102)
	\$ 1,883	\$ 2,073	\$ 3,233	\$ 5,359

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 October 3, 2009, the company's pro-rata share of this debt was approximately \$6,050. The company believes that there is sufficient equity in the joint ventures to meet their obligations.

Note F Accounts Receivable

The company has a \$600,000 asset securitization program collateralized by accounts receivables of certain of its North American subsidiaries which expires in March 2010. 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. The company had no outstanding borrowings under the asset securitization program at October 3, 2009 and December 31, 2008.

Table of Contents

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

Accounts receivable, net, consists of the following:

	October 3, 2009	December 31, 2008
Accounts receivable	\$ 2,756,343	\$ 3,140,076
Allowance for doubtful accounts	(48,375)	(52,786)
Accounts receivable, net	\$ 2,707,968	\$ 3,087,290

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:

	October 3, 2009	December 31, 2008
9.15% senior notes, due 2010	\$ 69,544	\$ -
Cross-currency swap, due 2010	45,280	-
Interest rate swaps designated as fair value hedges	2,409	-
Short-term borrowings in various countries	24,184	52,893
	\$ 141,417	\$ 52,893

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 October 3, 2009 and December 31, 2008 were 4.5% and 3.6%, respectively.

Long-term debt consists of the following:

	October 3, 2009	December 31, 2008
9.15% senior notes, due 2010	\$ -	\$ 199,994
Bank term loan, due 2012	200,000	200,000
6.875% senior notes, due 2013	349,745	349,694
6.875% senior debentures, due 2018	198,189	198,032
6.00% notes, due 2020	299,907	-
7.5% senior debentures, due 2027	197,575	197,470
Cross-currency swap, due 2010	-	36,467
Cross-currency swap, due 2011	14,434	9,985
Interest rate swaps designated as fair value hedges	8,862	21,394
Other obligations with various interest rates and due dates	9,295	10,949