

ARROW ELECTRONICS INC
Form 10-Q
July 29, 2014

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

FORM 10-Q

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

For the quarterly period ended June 28, 2014

OR

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

For the transition period from _____ to _____

Commission file number 1-4482

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

New York (State or other jurisdiction of incorporation or organization)	11-1806155 (I.R.S. Employer Identification Number)
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7459 South Lima Street, Englewood, Colorado (Address of principal executive offices)	80112 (Zip Code)
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(303) 824-4000
(Registrant's telephone number, including area code)

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

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

Yes No

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

Yes No

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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 98,838,427 shares of Common Stock outstanding as of July 25, 2014.

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		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Sales	\$5,676,539	\$5,306,085	\$10,758,579	\$10,155,714
Costs and expenses:				
Cost of sales	4,929,018	4,616,513	9,307,230	8,824,070
Selling, general, and administrative expenses	489,908	470,874	967,811	922,279
Depreciation and amortization	39,712	32,599	76,283	64,104
Restructuring, integration, and other charges	9,632	30,224	21,246	51,834
	5,468,270	5,150,210	10,372,570	9,862,287
Operating income	208,269	155,875	386,009	293,427
Equity in earnings of affiliated companies	1,181	1,360	2,598	3,343
Loss on prepayment of debt	—	—	—	4,277
Interest and other financing expense, net	28,920	30,199	58,557	59,729
Income before income taxes	180,530	127,036	330,050	232,764
Provision for income taxes	52,470	37,000	94,798	64,770
Consolidated net income	128,060	90,036	235,252	167,994
Noncontrolling interests	176	101	248	184
Net income attributable to shareholders	\$127,884	\$89,935	\$235,004	\$167,810
Net income per share:				
Basic	\$1.29	\$.87	\$2.36	\$1.61
Diluted	\$1.27	\$.86	\$2.33	\$1.58
Weighted-average shares outstanding:				
Basic	99,449	103,225	99,695	104,542
Diluted	100,562	104,024	100,980	105,892

See accompanying notes.

ARROW ELECTRONICS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Quarter Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Consolidated net income	\$128,060	\$90,036	\$235,252	\$167,994
Other comprehensive income:				
Foreign currency translation adjustment	(14,222	) 14,311	(24,729	) (51,859
Unrealized gain (loss) on investment securities, net	5,134	581	5,730	(1,397
Unrealized gain on interest rate swaps designated as cash flow hedges, net	100	137	199	1,881
Employee benefit plan items, net	553	763	1,106	1,562
Other comprehensive income (loss)	(8,435	) 15,792	(17,694	) (49,813
Comprehensive income	119,625	105,828	217,558	118,181
Less: Comprehensive income attributable to noncontrolling interests	176	101	248	184
Comprehensive income attributable to shareholders	\$119,449	\$105,727	\$217,310	\$117,997

See accompanying notes.

ARROW ELECTRONICS, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands except par value)

	June 28, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$308,936	\$390,602
Accounts receivable, net	5,137,798	5,769,759
Inventories	2,295,216	2,167,287
Other current assets	280,436	258,122
Total current assets	8,022,386	8,585,770
Property, plant, and equipment, at cost:		
Land	24,023	24,051
Buildings and improvements	144,780	142,583
Machinery and equipment	1,163,463	1,113,987
	1,332,266	1,280,621
Less: Accumulated depreciation and amortization	(690,835	) (648,232
Property, plant, and equipment, net	641,431	632,389
Investments in affiliated companies	68,410	67,229
Intangible assets, net	419,282	426,069
Cost in excess of net assets of companies acquired	2,081,930	2,039,293
Other assets	326,154	310,133
Total assets	\$11,559,593	\$12,060,883
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$4,074,627	\$4,503,200
Accrued expenses	679,454	774,868
Short-term borrowings, including current portion of long-term debt	17,338	23,878
Total current liabilities	4,771,419	5,301,946
Long-term debt	2,103,960	2,226,132
Other liabilities	376,069	347,977
Equity:		
Shareholders' equity:		
Common stock, par value \$1:		
Authorized - 160,000 shares in both 2014 and 2013		
Issued - 125,424 shares in both 2014 and 2013	125,424	125,424
Capital in excess of par value	1,065,657	1,071,075
Treasury stock (26,621 and 25,488 shares in 2014 and 2013, respectively), at cost	(1,009,351	) (920,528
Retained earnings	3,913,713	3,678,709
Accumulated other comprehensive income	207,858	225,552
Total shareholders' equity	4,303,301	4,180,232
Noncontrolling interests	4,844	4,596
Total equity	4,308,145	4,184,828
Total liabilities and equity	\$11,559,593	\$12,060,883

See accompanying notes.

ARROW ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	June 28, 2014	June 29, 2013
Cash flows from operating activities:		
Consolidated net income	\$235,252	\$167,994
Adjustments to reconcile consolidated net income to net cash provided by operations:		
Depreciation and amortization	76,283	64,104
Amortization of stock-based compensation	20,167	12,782
Equity in earnings of affiliated companies	(2,598)	(3,343)
Deferred income taxes	15,979	19,548
Restructuring, integration, and other charges	15,546	36,183
Excess tax benefits from stock-based compensation arrangements	(6,248)	(6,617)
Other	1,372	2,250
Change in assets and liabilities, net of effects of acquired businesses:		
Accounts receivable	597,926	161,163
Inventories	(130,669)	(59,866)
Accounts payable	(410,063)	(124,091)
Accrued expenses	(107,937)	(173,852)
Other assets and liabilities	(21,538)	58,258
Net cash provided by operating activities	283,472	154,513
Cash flows from investing activities:		
Cash consideration paid for acquired businesses	(60,224)	(9,382)
Acquisition of property, plant, and equipment	(62,003)	(53,561)
Other	—	(3,000)
Net cash used for investing activities	(122,227)	(65,943)
Cash flows from financing activities:		
Change in short-term and other borrowings	(9,904)	(27,739)
Repayment of long-term bank borrowings, net	(120,000)	(85,300)
Net proceeds from note offering	—	591,156
Redemption of senior notes	—	(338,184)
Proceeds from exercise of stock options	18,321	12,295
Excess tax benefits from stock-based compensation arrangements	6,248	6,617
Repurchases of common stock	(138,811)	(312,310)
Net cash used for financing activities	(244,146)	(153,465)
Effect of exchange rate changes on cash	1,235	1,102
Net decrease in cash and cash equivalents	(81,666)	(63,793)
Cash and cash equivalents at beginning of period	390,602	409,684
Cash and cash equivalents at end of period	\$308,936	\$345,891

See accompanying notes.

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

Note A – Basis of Presentation

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

These consolidated financial statements do not include all of the information or notes necessary for a complete presentation and, accordingly, should be read in conjunction with the company's Form 10-Q for the quarterly period ended March 29, 2014, as well as the audited consolidated financial statements and accompanying notes for the year ended December 31, 2013, as filed in the company's Annual Report on Form 10-K.

Quarter End

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

Reclassification

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

Note B – Impact of Recently Issued Accounting Standards

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period ("ASU No. 2014-12"). ASU No. 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. ASU No. 2014-12 is effective for interim and annuals periods beginning after December 15, 2015, with early adoption permitted. The adoption of the provisions of ASU No. 2014-12 is not expected to have a material impact on the company's financial position or results of operations.

In June 2014, the FASB issued Accounting Standards Update No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures ("ASU No. 2014-11"). ASU No. 2014-11 requires entities to account for repurchase-to-maturity transactions as secured borrowings, rather than as sales with forward repurchase agreements. In addition, the ASU eliminates accounting guidance on linked repurchase financing transactions. ASU No. 2014-11 also expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers accounted for as secured borrowings. ASU No. 2014-11 is effective for interim and annuals periods beginning after December 15, 2014, with early application prohibited. The adoption of the provisions of ASU No. 2014-11 is not expected to have a material impact on the company's financial position or results of operations.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU No. 2014-09"). ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, ASU No. 2014-09 supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. Under ASU No. 2014-09, an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 is effective for interim and annual periods beginning after December 15, 2016, with early application prohibited. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption. The company is evaluating the transition method that will be elected and the potential effects of adopting the provisions of ASU No. 2014-09.

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

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

Note C – Acquisitions

The company accounts for acquisitions using the acquisition method of accounting. The results of operations of acquisitions are included in the company's consolidated results from their respective dates of acquisition. The company allocates the purchase price of each acquisition to the tangible assets, liabilities, and identifiable intangible assets acquired based on their estimated fair values. In certain circumstances, a portion of purchase price may be contingent upon the achievement of certain operating results. The fair values assigned to identifiable intangible assets acquired and contingent consideration were determined primarily by using an income approach which was based on assumptions and estimates made by management. Significant assumptions utilized in the income approach were based on company specific information and projections, which are not observable in the market and are thus considered Level 3 measurements by authoritative guidance (see Note H). The excess of the purchase price over the fair value of the identified assets and liabilities has been recorded as goodwill. Any change in the estimated fair value of the net assets prior to the finalization of the allocation for acquisitions could change the amount of the purchase price allocable to goodwill. The company is not aware of any information that indicates the final purchase price allocations will differ materially from the preliminary estimates.

2014 Acquisition

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

2013 Acquisitions

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

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

results of operations.

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

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

	Quarter Ended June 29, 2013		Six Months Ended June 29, 2013	
	As Reported	Pro Forma	As Reported	Pro Forma
Sales	\$5,306,085	\$5,563,757	\$10,155,714	\$10,666,360
Net income attributable to shareholders	89,935	93,878	167,810	174,545
Net income per share:				
Basic	\$.87	\$.91	\$1.61	\$1.67
Diluted	\$.86	\$.90	\$1.58	\$1.65

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

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

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

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

	Global Components	Global ECS	Total
Balance as of December 31, 2013 (a)	\$1,000,860	\$1,038,433	\$2,039,293
Acquisitions	45,652	—	45,652
Foreign currency translation adjustment	864	(3,879)	(3,015)
Balance as of June 28, 2014 (a)	\$1,047,376	\$1,034,554	\$2,081,930

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

Intangible assets, net, are comprised of the following as of June 28, 2014:

	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	indefinite	\$179,000	\$—	\$179,000
Customer relationships	10 years	389,362	(154,920)	234,442
Developed technology	5 years	9,877	(5,152)	4,725
Other intangible assets	(b)	2,905	(1,790)	1,115
		\$581,144	\$(161,862)	\$419,282

ARROW ELECTRONICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(Unaudited)

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

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

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

During the second quarters of 2014 and 2013, the company recorded amortization expense related to identifiable intangible assets of \$10,870 (\$8,867 net of related taxes or \$.09 per share on both a basic and diluted basis) and \$8,869 (\$7,029 net of related taxes or \$.07 per share on both a basic and diluted basis), respectively.

During the first six months of 2014 and 2013, the company recorded amortization expense related to identifiable intangible assets of \$21,817 (\$17,774 net of related taxes or \$.18 per share on both a basic and diluted basis) and \$17,826 (\$14,145 net of related taxes or \$.14 and \$.13 per share on a basic and diluted basis, respectively), respectively.

Note E – Investments in Affiliated Companies

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

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

	June 28, 2014	December 31, 2013
Marubun/Arrow	\$55,686	\$54,672
Altech Industries	12,724	12,557
	\$68,410	\$67,229

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

	Quarter Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Marubun/Arrow	\$975	\$ 1,195	\$ 2,123	\$ 2,828
Altech Industries	206	165	475	515
	\$1,181	\$ 1,360	\$ 2,598	\$ 3,343

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 June 28,

2014, the company's pro-rata share of this debt was approximately \$3,300. The company believes that there is sufficient equity in each of 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:

	June 28, 2014	December 31, 2013
Accounts receivable	\$5,200,036	\$5,833,888
Allowances for doubtful accounts	(62,238	) (64,129)
Accounts receivable, net	\$5,137,798	\$5,769,759

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

Note G – Debt

At June 28, 2014 and December 31, 2013, short-term borrowings of \$17,338 and \$23,878, were primarily utilized to support the working capital requirements of certain international operations. The weighted average interest rate on these borrowings at June 28, 2014 and December 31, 2013 were 4.4% and 4.5%, respectively.

Long-term debt consists of the following:

	June 28, 2014	December 31, 2013
Asset securitization program	\$300,000	\$420,000
3.375% notes, due 2015	253,639	255,004
6.875% senior debentures, due 2018	199,183	199,078
3.00% notes, due 2018	298,839	298,691
6.00% notes, due 2020	299,949	299,945
5.125% notes, due 2021	249,475	249,435
4.50% notes, due 2023	297,864	297,767
7.50% senior debentures, due 2027	198,240	198,170
Interest rate swaps designated as fair value hedges	270	—
Other obligations with various interest rates and due dates	6,501	8,042
	\$2,103,960	\$2,226,132

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

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

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

	June 28, 2014	December 31, 2013
3.375% notes, due 2015	\$257,500	\$260,000
6.875% senior debentures, due 2018	232,000	228,000
3.00% notes, due 2018	309,000	300,000
6.00% notes, due 2020	339,000	330,000
5.125% notes, due 2021	272,500	260,000
4.50% notes, due 2023	312,000	291,000
7.50% senior debentures, due 2027	246,000	232,000

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

The company has a \$1,500,000 revolving credit facility, maturing in December 2018. This facility may be used by the company for general corporate purposes including working capital in the ordinary course of business, letters of credit, repayment, prepayment or purchase of long-term indebtedness and acquisitions, and as support for the company's commercial paper program, as applicable. Interest on borrowings under the revolving credit facility is calculated using a base rate or a euro currency rate plus a spread (1.30% at June 28, 2014), which is based on the company's credit ratings. The facility fee is .20%. There were no outstanding borrowings under the revolving credit facility at June 28, 2014 and December 31, 2013.

The company has an asset securitization program collateralized by accounts receivable of certain of its subsidiaries. In March 2014, the company amended its asset securitization program and, among other things, increased its borrowing capacity from \$775,000 to \$900,000 and extended its term to mature in March 2017. The asset securitization program is conducted through Arrow Electronics Funding Corporation ("AFC"), a wholly-owned, bankruptcy remote subsidiary. The asset securitization program does not qualify for sale treatment. Accordingly, the accounts receivable and related debt obligation remain on the company's consolidated balance sheets. Interest on borrowings is calculated using a base rate or a commercial paper rate plus a spread (.40% at June 28, 2014), which is based on the company's credit ratings, or an effective interest rate of .59% at June 28, 2014. The facility fee is .40%.

At June 28, 2014 and December 31, 2013, the company had \$300,000 and \$420,000, respectively, in outstanding borrowings under the asset securitization program, which was included in "Long-term debt" in the company's consolidated balance sheets, and total collateralized accounts receivable of approximately \$1,570,371 and \$1,867,552, respectively, were held by AFC and were included in "Accounts receivable, net" in the company's consolidated balance sheets. Any accounts receivable held by AFC would likely not be available to other creditors of the company in the event of bankruptcy or insolvency proceedings before repayment of any outstanding borrowings under the asset securitization program.

Both the revolving credit facility and asset securitization program include terms and conditions that limit the incurrence of additional borrowings, limit the company's ability to pay cash dividends or repurchase stock, and require that certain financial ratios be maintained at designated levels. The company was in compliance with all covenants as of June 28, 2014 and is currently not aware of any events that would cause non-compliance with any covenants in the future.

In April 2014, the company entered into an agreement for an uncommitted line of credit. Under this agreement, the company may borrow up to a total of \$70,000 at the discretion of the participating bank. There were no outstanding borrowings under the uncommitted line of credit at June 28, 2014.

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

During the first six months of 2013, the company redeemed \$332,107 principal amount of its 6.875% senior notes due July 2013. The related loss on the redemption for the first six months of 2013 aggregated \$4,277 (\$2,627 net of related taxes or \$.03 and \$.02 per share on a basic and diluted basis, respectively) and was recognized as a loss on prepayment of debt in the company's consolidated statements of operations.

ARROW ELECTRONICS, INC.
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Interest and other financing expense, net, includes interest and dividend income of \$750 and \$1,529 for the second quarter and first six months of 2014 and \$549 and \$1,120 for the second quarter and first six months of 2013, respectively.

Note H – Financial Instruments Measured at Fair Value

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

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

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

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

The following table presents assets (liabilities) measured at fair value on a recurring basis at June 28, 2014:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$25,000	\$—	\$—	\$25,000
Available-for-sale securities	79,302	—	—	79,302
Interest rate swaps	—	270	—	270
Foreign exchange contracts	—	(495	) —	(495)
Contingent consideration	—	—	(12,698	) (12,698)
	\$104,302	\$(225	) \$(12,698	) \$91,379

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

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

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

Balance as of December 31, 2013	\$(5,845)
Fair value of initial contingent consideration	(5,853)
Change in fair value of contingent consideration included in earnings	(1,051)
Foreign currency translation adjustment	51	
Balance as of June 28, 2014	\$(12,698)

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

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