

ARROW ELECTRONICS INC
Form 10-Q
July 24, 2013

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

FORM 10-Q

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

For the quarterly period ended June 29, 2013

OR

^o 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 100,182,567 shares of Common Stock outstanding as of July 19, 2013.

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 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Sales	\$5,306,085	\$5,150,563	\$10,155,714	\$10,040,092
Costs and expenses:				
Cost of sales	4,616,513	4,463,419	8,824,070	8,672,369
Selling, general, and administrative expenses	470,874	457,073	922,279	912,910
Depreciation and amortization	32,599	28,035	64,104	57,085
Restructuring, integration, and other charges	30,224	13,347	51,834	21,590
	5,150,210	4,961,874	9,862,287	9,663,954
Operating income	155,875	188,689	293,427	376,138
Equity in earnings of affiliated companies	1,360	1,428	3,343	3,612
Loss on prepayment of debt	—	—	4,277	—
Interest and other financing expense, net	30,199	28,555	59,729	55,687
Income before income taxes	127,036	161,562	232,764	324,063
Provision for income taxes	37,000	47,081	64,770	95,859
Consolidated net income	90,036	114,481	167,994	228,204
Noncontrolling interests	101	98	184	193
Net income attributable to shareholders	\$89,935	\$114,383	\$167,810	\$228,011
Net income per share:				
Basic	\$.87	\$1.04	\$1.61	\$2.05
Diluted	\$.86	\$1.02	\$1.58	\$2.02
Average number of shares outstanding:				
Basic	103,225	110,433	104,542	111,218
Diluted	104,024	112,031	105,892	113,079

See accompanying notes.

ARROW ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Consolidated net income	\$90,036	\$114,481	\$167,994	\$228,204
Other comprehensive income:				
Foreign currency translation adjustments	14,311	(95,669)	(51,859)	(47,634)
Unrealized gain (loss) on investment securities, net	581	(5,582)	(1,397)	1,047
Unrealized gain (loss) on interest rate swaps designated as cash flow hedges, net	137	(6,528)	1,881	(3,764)
Employee benefit plan items, net	763	677	1,562	1,166
Other comprehensive income (loss)	15,792	(107,102)	(49,813)	(49,185)
Comprehensive income	105,828	7,379	118,181	179,019
Less: Comprehensive income (loss) attributable to noncontrolling interests	101	94	184	(5)
Comprehensive income attributable to shareholders	\$105,727	\$7,285	\$117,997	\$179,024

See accompanying notes.

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

	June 29, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$345,891	\$409,684
Accounts receivable, net	4,723,601	4,923,898
Inventories	2,104,717	2,052,720
Other current assets	286,264	328,999
Total current assets	7,460,473	7,715,301
Property, plant, and equipment, at cost:		
Land	23,906	23,944
Buildings and improvements	155,067	152,008
Machinery and equipment	1,072,661	1,030,983
	1,251,634	1,206,935
Less: Accumulated depreciation and amortization	(646,465) (607,294
Property, plant, and equipment, net	605,169	599,641
Investments in affiliated companies	65,505	65,603
Intangible assets, net	395,170	414,033
Cost in excess of net assets of companies acquired	1,704,298	1,711,703
Other assets	277,106	279,406
Total assets	\$10,507,721	\$10,785,687
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$3,633,720	\$3,769,268
Accrued expenses	615,304	776,586
Short-term borrowings, including current portion of long-term debt	24,922	364,357
Total current liabilities	4,273,946	4,910,211
Long-term debt	2,072,625	1,587,478
Other liabilities	336,921	300,636
Equity:		
Shareholders' equity:		
Common stock, par value \$1:		
Authorized - 160,000 shares in both 2013 and 2012		
Issued - 125,424 shares in both 2013 and 2012	125,424	125,424
Capital in excess of par value	1,051,243	1,086,239
Treasury stock (25,343 and 19,423 shares in 2013 and 2012, respectively), at cost	(899,185) (652,867
Retained earnings	3,447,099	3,279,289
Foreign currency translation adjustment	130,773	182,632
Other	(35,449) (37,495
Total shareholders' equity	3,819,905	3,983,222
Noncontrolling interests	4,324	4,140
Total equity	3,824,229	3,987,362
Total liabilities and equity	\$10,507,721	\$10,785,687

See accompanying notes.

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

	Six Months Ended	
	June 29, 2013	June 30, 2012
Cash flows from operating activities:		
Consolidated net income	\$167,994	\$228,204
Adjustments to reconcile consolidated net income to net cash provided by operations:		
Depreciation and amortization	64,104	57,085
Amortization of stock-based compensation	12,782	14,146
Equity in earnings of affiliated companies	(3,343)	(3,612)
Deferred income taxes	19,548	16,332
Restructuring, integration, and other charges	36,183	15,843
Excess tax benefits from stock-based compensation arrangements	(6,617)	(4,981)
Loss on prepayment of debt	2,627	—
Other	(377)	(2,897)
Change in assets and liabilities, net of effects of acquired businesses:		
Accounts receivable	161,163	119,977
Inventories	(59,866)	(105,821)
Accounts payable	(124,091)	109,425
Accrued expenses	(173,852)	(74,629)
Other assets and liabilities	58,258	(58,118)
Net cash provided by operating activities	154,513	310,954
Cash flows from investing activities:		
Cash consideration paid for acquired businesses	(9,382)	(187,197)
Acquisition of property, plant, and equipment	(53,561)	(48,864)
Purchase of cost method investments	(3,000)	(15,000)
Net cash used for investing activities	(65,943)	(251,061)
Cash flows from financing activities:		
Change in short-term and other borrowings	(27,739)	(12,577)
Proceeds from (repayment of) long-term bank borrowings, net	(85,300)	37,800
Net proceeds from note offering	591,156	—
Redemption of senior notes	(338,184)	—
Proceeds from exercise of stock options	12,295	10,766
Excess tax benefits from stock-based compensation arrangements	6,617	4,981
Repurchases of common stock	(312,310)	(157,798)
Net cash used for financing activities	(153,465)	(116,828)
Effect of exchange rate changes on cash	1,102	(14,120)
Net decrease in cash and cash equivalents	(63,793)	(71,055)
Cash and cash equivalents at beginning of period	409,684	396,887
Cash and cash equivalents at end of period	\$345,891	\$325,832

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 30, 2013, as well as the audited consolidated financial statements and accompanying notes for the year ended December 31, 2012, as filed in the company's Annual Report on Form 10-K.

During the third quarter of 2012, the company prospectively revised its presentation of sales related to certain fulfillment contracts to present these revenues on an agency basis as net fees, as compared to presenting gross sales and costs of sales in prior periods. This revised presentation had no impact on the company's consolidated balance sheet or statement of cash flows. Within the company's consolidated statement of operations, gross profit dollars, operating income dollars, net income dollars, and earnings per share were also not impacted for any periods reported. Prior to this prospective revision, these contracts approximated three percent of the company's sales for both the second quarter and first six months of 2012. Management has concluded that the impact of this revised presentation is not material and, therefore, prior periods have not been adjusted.

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 March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity" ("ASU No. 2013-05"). ASU No. 2013-05 requires an entity that ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. ASU No. 2013-05 is effective for interim and annual periods beginning after December 15, 2013, with early adoption permitted and is to be applied prospectively. The adoption of the provisions of ASU No. 2013-05 is not expected to have a material impact on the company's financial position or results of operations.

In February 2013, the FASB issued Accounting Standards Update No. 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date" ("ASU No. 2013-04"). ASU No. 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. In addition, ASU No. 2013-04 requires an entity to disclose the nature and amount of the obligation, as well as other information about the obligations. ASU No. 2013-04 is effective for interim and annual periods beginning after December 15, 2013 and is to be applied retrospectively. The adoption of the provisions of ASU No. 2013-04 is not expected to have a material impact on the company's financial position or results of operations.

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

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.

2013 Acquisition

During the first six months of 2013, the company completed one acquisition. The aggregate consideration for this acquisition was \$9,952 and included \$570 of contingent consideration. 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 2013 acquisition on the consolidated results of operations of the company for the second quarter and first six months of 2013 and 2012 as though this acquisition occurred on January 1, 2012 was also not material.

2012 Acquisitions

During 2012, the company completed seven acquisitions. The aggregate consideration for these seven acquisitions was \$289,782, net of cash acquired and included \$10,390 of contingent consideration. The impact of these acquisitions were not material, individually or in the aggregate, to the company's consolidated financial position or results of operations. The pro forma impact of the 2012 acquisitions on the consolidated results of operations of the company for the second quarter and first six months of 2012 as though these acquisitions occurred on January 1, 2012 was also not material.

Other

During the first six months of 2012, the company made a payment of \$2,526 to increase its ownership interest 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.

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, 2012 (a)	\$957,916	\$753,787	\$1,711,703
Acquisitions	6,789	—	6,789
Foreign currency translation	(6,662) (7,532) (14,194
Balance as of June 29, 2013 (a)	\$958,043	\$746,255	\$1,704,298

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

ARROW ELECTRONICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(Unaudited)

Intangible assets, net, are comprised of the following as of June 29, 2013:

	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	indefinite	\$ 179,000	\$—	\$ 179,000
Customer relationships	11 years	324,270	(115,528)	208,742
Developed technology	5 years	10,037	(3,233)	6,804
Other intangible assets	(b)	2,543	(1,919)	624
		\$515,850	\$(120,680)	\$395,170

Intangible assets, net, are comprised of the following as of December 31, 2012:

	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	indefinite	\$ 179,000	\$—	\$ 179,000
Customer relationships	11 years	325,509	(100,172)	225,337
Developed technology	5 years	11,154	(2,508)	8,646
Other intangible assets	(b)	2,761	(1,711)	1,050
		\$518,424	\$(104,391)	\$414,033

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

During the second quarters of 2013 and 2012, the company recorded amortization expense related to identifiable intangible assets of \$8,869 (\$7,029 net of related taxes or \$.07 per share on both a basic and diluted basis) and \$8,959 (\$7,360 net of related taxes or \$.07 per share on both a basic and diluted basis), respectively.

During the first six months of 2013 and 2012, the company recorded amortization expense related to identifiable intangible assets of \$17,826 (\$14,145 net of related taxes or \$.14 and \$.13 per share on a basic and diluted basis, respectively) and \$18,630 (\$14,936 net of related taxes or \$.13 per share on both a basic and diluted basis), respectively.

Note E – Investments in Affiliated Companies

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

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

	June 29, 2013	December 31, 2012
Marubun/Arrow	\$52,412	\$50,864
Altech Industries	13,093	14,739
	\$65,505	\$65,603

ARROW ELECTRONICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

(Unaudited)

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Marubun/Arrow	\$1,195	\$1,228	\$2,828	\$2,844
Altech Industries	165	200	515	768
	\$1,360	\$1,428	\$3,343	\$3,612

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 29, 2013, the company's pro-rata share of this debt was approximately \$925. The company believes that there is sufficient equity in each of the joint ventures to meet their obligations.

Note F – Accounts Receivable

Accounts receivable, net, consists of the following:

	June 29, 2013	December 31, 2012
Accounts receivable	\$4,779,122	\$4,978,136