ARROW ELECTRONICS INC
Form 10-K
February 08, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

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

For the transition period from _____ to _____

Commission file number 1-4482

ARROW ELECTRONICS, INC.

(Exact name of registrant as specified in its charter)

New York	**11-1806155**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
50 Marcus Drive, Melville, New York	**11747**
(Address of principal executive offices)	(Zip Code)

(631) 847-2000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes [ ] No [X]

The aggregate market value of voting stock held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter was $4,658,631,941.

There were 122,965,945 shares of Common Stock outstanding as of February 1, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement related to the registrant s Annual Meeting of Shareholders, to be held May 2, 2008, is incorporated by reference in Part III to the extent described therein.

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PART I

Item 1. Business.

Arrow Electronics, Inc. (the company or Arrow) is a global provider of products, services, and solutions to industrial and commercial users of electronic components and enterprise computing solutions. The company believes it is a leader in the electronics distribution industry in operating systems, employee productivity, value-added programs, and total quality assurance. Arrow, which was incorporated in New York in 1946, serves approximately 700 suppliers and approximately 140,000 original equipment manufacturers (OEMs), contract manufacturers (CMs), and commercial customers.

Serving its industrial and commercial customers as a supply channel partner, the company offers both a wide spectrum of products and a broad range of services and solutions, including materials planning, design services, programming and assembly services, inventory management, and a comprehensive suite of online supply chain tools.

Arrow s diverse worldwide customer base consists of OEMs, CMs, and commercial customers. Customers include manufacturers of consumer and industrial equipment (including machine tools, factory automation, and robotic equipment), telecommunications products, automotive and transportation, aircraft and aerospace equipment, scientific and medical devices, and computer and office products. Customers also include value-added resellers (VARs) of enterprise computing solutions.

The company maintains over 240 sales facilities and 24 distribution and value-added centers in 50 countries and territories, serving over 70 countries and territories. Through this network, Arrow 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 their time to market, lower their total cost of ownership, and enhance their overall competitiveness.

The company distributes electronic components to OEMs and CMs through its global components business segment and provides enterprise computing solutions to VARs through its global enterprise computing solutions (ECS) business segment. For 2007, approximately 70% of the company s sales consisted of electronic components, and approximately 30% of the company s sales consisted of enterprise computing solutions. The financial information about the company s business segments and geographic operations can be found in Note 16 of the Notes to Consolidated Financial Statements.

Global Components

The company s global components business segment, one of the largest distributors of electronic components and related services in the world, spans the world s three largest electronics markets - North America, EMEASA (Europe, Middle East, Africa, and South America), and the Asia Pacific region. North America includes sales and marketing organizations in the United States, Canada, and Mexico.

In the EMEASA region, Arrow operates in Argentina, Austria, Belgium, Brazil, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Latvia, Lithuania, Netherlands, Norway, Poland, Portugal, Romania, the Russian Federation, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, and the United Kingdom.

In the Asia Pacific region, Arrow operates in Australia, China, Hong Kong, India, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, and Thailand.

Within the global components business segment, approximately 68% of the company s sales primarily consist of semiconductor products and related services, approximately 23% are of passive, electromechanical, and interconnect products, consisting primarily of capacitors, resistors, potentiometers, power supplies, relays, switches, and connectors, and approximately 9% are of computing and memory products.

Most of the company s customers require delivery of the products they ordered on schedules that are generally not available on direct purchases from manufacturers, and frequently, their orders are of insufficient size to be placed directly with manufacturers.

Most manufacturers of electronic components rely on authorized distributors, such as the company, to augment their sales and marketing operations. As a marketing, stocking, and financial intermediary, the distributor

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relieves manufacturers of a portion of the costs and personnel associated with selling and stocking their products (including otherwise sizable investments in finished goods inventories, accounts receivable systems, and distribution networks), while providing geographically dispersed selling, order processing, and delivery capabilities. At the same time, the distributor offers a broad range of customers the convenience of accessing, from a single source, multiple products from multiple suppliers and rapid or scheduled deliveries, as well as other value-added services, such as materials management, memory programming capabilities, and financing solutions. The growth of the electronics distribution industry is fostered by the many manufacturers who recognize their authorized distributors as essential extensions of their marketing organizations.

Global ECS

The company s global ECS business segment is a leading distributor of enterprise and midrange computing products, services, and solutions to VARs in North America and Europe. Over the past two years, the company has transformed its enterprise computing solutions business into a stronger organization with broader geographic reach, increased market share in the fast-growing product segments of software and storage, and a more robust customer and supplier base. Execution on the company s strategic objectives resulted in the global ECS business segment becoming a leading value-added distributor of enterprise products for IBM and Hewlett-Packard and a leading distributor of enterprise storage and security and virtualization software. Since December 2005, global ECS geographic footprint expanded from two countries to 22 countries around the world, including Austria, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Latvia, Lithuania, Norway, Poland, Romania, Serbia, Slovakia, Slovenia, Sweden, Switzerland, the United Kingdom, and the United States.

The company s global ECS business segment has made several recent acquisitions with the strategic goal of becoming the premier enterprise computing solutions distributor. The business began its global expansion in December 2005 with the acquisition of DNSint.com AG (DNS), a leading value-added enterprise distributor based in Munich, Germany. DNS represented Arrow s first foray into the European enterprise computing solutions marketplace and became the strategic platform to expand the company s ECS business throughout the European region.

In February 2006, the global ECS business segment acquired SKYDATA Corporation, a Canadian value-added distributor of data storage solutions.

In November 2006, the global ECS business segment acquired Alternative Technology, Inc. (Alternative Technology), a leading specialty software distributor of access infrastructure, security, and virtualization solutions in North America. This transaction created significant opportunities in the fast-growing value-added software market. The global ECS business segment s software and storage capabilities were further strengthened through its acquisition of InTechnology Distribution plc s specialist distribution division (InTechnology) in December 2006. Based in Harrogate, England, the InTechnology transaction extended the business operations into the United Kingdom, the second largest information technology market in Europe.

Continuing its strategic expansion, the global ECS business segment acquired substantially all of the assets and operations of its KeyLink Systems Group business (KeyLink) from Agilysys, Inc. (Agilysys) in March 2007. The acquisition of KeyLink, a leading value-added distributor of enterprise servers, storage and software in the United States and Canada, brought considerable scale, cross-selling opportunities and mid-market reseller focus to the company s global ECS business segment. The company s global ECS business segment also entered into a long-term procurement agreement with Agilysys.

In September 2007, the global ECS business segment acquired Centia Group Limited and AKS Group AB (Centia/AKS), specialty distributors of access infrastructure, security and virtualization software solutions in Europe.

Within the global ECS business segment, approximately 63% of the company s sales consist of enterprise and embedded computing systems and related services, 20% consist of software, and 17% consist of storage.

Information technology (IT) demands for today s businesses are evolving. As IT needs become more complex, corporate information officers are increasingly seeking products bundled into solutions that support business communication, operations, processes, and transactions.

Mid-market and enterprise end users rely on VARs for their IT needs, and global ECS works with these VARs to tailor complex, highly-technical solutions for the end user. VARs range in size from small- and medium-

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sized businesses to large enterprises and are typically structured as sales organizations and service providers. They purchase enterprise computing solutions from distributors and manufacturers and resell them to end users. The increasing complexity of these solutions and increasing demand for bundled solutions is changing how VARs go to market and increasing the importance of the value-added services global ECS provides. Global ECS provides VARs with many value-added services, including but not limited to, vertical market expertise, systems level training and certification, solutions testing at Arrow solutions labs, financing support, marketing augmentation, complex order configuration, and access to a one-stop-shop for mission critical solutions. Global ECS vendor partners benefit from affordable mid-market access, demand creation, speed to market, and enhanced supply chain efficiency. For vendors, global ECS is the aggregation point to over 12,000 VARs.

In better serving the needs of both the manufacturers and VARs, the company s focus is to be an extension of the manufacturer s sales and marketing organization and manage the supply chain, as well as to leverage the company s strong relationships with the world s foremost hardware, software and storage manufacturers to better enable VARs to deliver solutions to their customers.

Customers and Suppliers

The company and its affiliates serve approximately 140,000 industrial and commercial customers. Industrial customers range from major OEMs and CMs to small engineering firms, while commercial customers primarily include VARs and OEMs. No single customer accounted for more than 2% of the company s 2007 consolidated sales. The products offered by the company are sold by both field sales representatives, who regularly call on customers in assigned market areas, and by inside sales personnel, who call on customers by telephone from the company s selling locations. The company also has sales teams that focus on small and emerging customers where sales representatives regularly call on customers by telephone from centralized selling locations, and inbound sales agents serve customers that call into the company.

Each of the company s North American selling locations and primary distribution centers in the global components business segment are electronically linked to the company s central computer system, which provides fully integrated, online, real-time data with respect to nationwide inventory levels and facilitates control of purchasing, shipping, and billing. The company s international operations in the global components business segment have similar online, real-time computer systems, and they can also access the company s Worldwide Stock Check System, which provides access to the company s online, real-time inventory system.

The company sells the products of approximately 700 suppliers. Sales from products and services from IBM accounted for approximately 10% of the company s consolidated sales in 2007. No other single supplier accounted for more than 10% of the company s consolidated sales in 2007. The company believes that many of the products it sells are available from other sources at competitive prices. However, certain parts of the company s business, such as the company s global ECS business segment, rely on a limited number of suppliers with the strategy of providing focused support, deep product knowledge, and customized service to manufacturers and VARs. Most of the company s purchases are pursuant to authorized distributor agreements, which are typically cancelable by either party at any time or on short notice.

Distribution Agreements

It is the policy of most manufacturers to protect authorized distributors, such as the company, against the potential write-down of inventories due to technological change or manufacturers price reductions. Write-downs of inventories to market value are based upon contractual provisions, which typically provide certain protections to the company for product obsolescence and price erosion in the form of return privileges and price protection. Under the terms of the related distributor agreements and assuming the distributor complies with certain conditions, such suppliers are required to credit the distributor for reductions in manufacturers list prices. As of December 31, 2007, this type of arrangement covered approximately 80% of the company s consolidated inventories. In addition, under the terms of many such agreements, the distributor has the right to return to the manufacturer, for credit, a defined portion of those inventory items purchased within a designated period of time.

A manufacturer, which elects to terminate a distribution agreement, is generally required to purchase from the distributor the total amount of its products carried in inventory. As of December 31, 2007, this type of repurchase arrangement covered approximately 78% of the company s consolidated inventories.

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While these industry practices do not wholly protect the company from inventory losses, the company believes that they currently provide substantial protection from such losses.

Competition

The company s business is extremely competitive, particularly with respect to prices, franchises, and, in certain instances, product availability. The company competes with several other large multinational and national distributors, as well as numerous regional and local distributors. As one of the world s largest electronics distributors, the company s financial resources and sales are greater than most of its competitors.

Employees

The company and its affiliates employed approximately 12,600 employees worldwide as of December 31, 2007.

Available Information

The company makes the annual report on Form 10-K, quarterly reports on Form 10-Q, any current reports on Form 8-K, and amendments to any of these reports available through its website (http://www.arrow.com) as soon as reasonably practicable after the company files such material with the U.S. Securities and Exchange Commission (SEC). The information posted on the company s website is not incorporated into this annual report on Form 10-K. In addition, the SEC maintains a website (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The annual report on Form 10-K for the year ended December 31, 2007, includes the certifications of the company s Chief Executive Officer and Chief Financial Officer as Exhibits 31 (i) and 31 (ii), respectively, which were filed with the SEC as required under Section 302 of the Sarbanes-Oxley Act of 2002 and certify the quality of the company s public disclosure. The company s Chief Executive Officer has also submitted a certification to the New York Stock Exchange (the NYSE) certifying that he is not aware of any violations by the company of NYSE corporate governance listing standards.

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Executive Officers

The following table sets forth the names, ages, and the positions held by each of the executive officers of the company as of February 8, 2008:

Name	Age	Position
William E. Mitchell	63	Chairman, President, and Chief Executive Officer
Peter S. Brown	57	Senior Vice President, General Counsel, and Secretary
Kevin J. Gilroy	52	Senior Vice President and President, Arrow Enterprise Computing Solutions
Michael J. Long	49	Senior Vice President and President, Arrow Global Components
John P. McMahon	56	Senior Vice President, Human Resources
M. Catherine Morris	49	Senior Vice President and President, Arrow Enterprise Computing Solutions
Paul J. Reilly	51	Senior Vice President and Chief Financial Officer
Vincent P. Melvin	44	Vice President and Chief Information Officer

Set forth below is a brief account of the business experience during the past five years of each executive officer of the company.

William E. Mitchell was appointed Chairman of the company in May 2006. He has been President and Chief Executive Officer of the company since February 2003. Prior to joining the company, he served as Executive Vice President of Solectron Corporation and President of Solectron Global Services, Inc. since March 1999.

Peter S. Brown has been Senior Vice President, General Counsel, and Secretary of the company for more than five years.

Kevin J. Gilroy was appointed Senior Vice President of the company and President, Arrow Enterprise Computing Solutions in January 2007. Prior to joining the company, he served as President and Chief Executive Officer of OnForce, Inc. from May 2006 to December 2006 and Executive Vice President and General Manager of OnForce, Inc. from November 2005 to May 2006. He also was an independent consultant from October 2005 to November 2005. Prior thereto, he spent over twenty-four years at Hewlett-Packard Company, most recently as Senior Vice President and General Manager of Worldwide SMB Operations Segment from May 2004 to October 2005, and Vice President and General Manager of Americas Commercial Channels from January 2002 to May 2004.

Michael J. Long was appointed Senior Vice President of the company in January 2006 and, prior thereto, he served as Vice President of the company for more than five years. He was appointed President, Arrow Global Components in September 2006. Prior thereto, he served as President, North America and Asia/Pacific Components from January 2006 until September 2006; President, North America from May 2005 to December 2005; and President and Chief Operating Officer of Arrow Enterprise Computing Solutions from July 1999 to April 2005.

John P. McMahon was appointed Senior Vice President, Human Resources in March 2007. Prior to joining the company, he served as Senior Vice President and Chief Human Resource Officer of UMass Memorial Health Care System from August 2005 to March 2007; Senior Vice President of Global Human Resources at Fisher Scientific from June 2004 to June 2005; and Chief Human Resources Officer at Terra Lycos from August 1999 to May 2004.

M. Catherine Morris was appointed Senior Vice President of the company and President, Arrow Enterprise Computing Solutions in January 2007. Prior thereto, she served as Acting President, Arrow Enterprise Computing Solutions from September 2006 to December 2006; Vice President, Support Services, North America from October 2005 to August 2006; and Vice President, Finance and Support Services, Enterprise Computing Solutions from September 2002 to September 2005.

Paul J. Reilly was appointed Senior Vice President of the company in May 2005 and, prior thereto, he served as Vice President of the company for more than five years. He has been Chief Financial Officer of the company for more than five years.

Vincent P. Melvin was appointed Vice President and Chief Information Officer of the company in September 2006. Prior to joining the company, he served as Senior Vice President and Chief Information Officer of Sanmina-SCI, Inc. from December 2001 to September 2006.

Item 1A. Risk Factors.

Described below and throughout this report are certain risks that the company s management believes are applicable to the company s business and the industry in which it operates. There may be additional risks that are not presently material or known. There are also risks within the economy, the industry and the capital markets that affect business generally, and the company as well, which are not described.

If any of the described events occur, the company s business, results of operations, financial condition, liquidity, or access to the capital markets could be materially adversely affected. When stated below that a risk may have a material adverse effect on the company s business, it means that such risk may have one or more of these effects.

A large portion of the company s revenues comes from the sale of semiconductors, which has historically been a cyclical industry.

Although the market seems to have stabilized in recent years, the semiconductor industry historically has experienced fluctuations in product supply and demand, often associated with changes in technology and manufacturing capacity. Sales of semiconductor products and related services represented approximately 48%, 56%, and 53% of the company s consolidated sales in 2007, 2006 and 2005, respectively, and the company s revenues and profitability, particularly in its global components business segment, tend to closely follow the strength or weakness of the semiconductor market. While the semiconductor industry has strengthened in recent years from its downturn in 2000 and 2001, any potential future cyclical downturns in the technology industry, particularly in the semiconductor sector, could have a material adverse effect on the company s business and negatively impact its ability to maintain current profitability levels.

If the company was unable to maintain its relationships with its suppliers or if the suppliers materially change the terms of their existing agreements with the company, the company s business could be materially adversely affected.

A substantial portion of the company s inventory is purchased from suppliers with which the company has entered into non-exclusive distribution agreements. These agreements are typically cancelable on short notice (generally 30 to 90 days). Certain parts of the company s business, such as the company s global ECS business, rely on a limited number of suppliers. For example, sales from products and services from one of the company s suppliers, IBM, accounted for approximately 10% of its consolidated sales in 2007. To the extent that the company s significant suppliers are unwilling to continue to do business with the company, the company s business could be materially adversely affected. In addition, to the extent that the company s suppliers modify the terms of their contracts with the company (including, without limitation, the terms regarding price protection, rights of return, rebates, or other terms that are favorable to the company), or extend lead times, limit supplies due to capacity constraints, or other factors, there could be a material adverse effect on the company s business.

The competitive pressures the company faces could have a material adverse affect on the company s business.

The market for the company s products and services is very competitive and subject to rapid technological change. Not only does the company compete with other distributors, it also competes for customers with many of its own suppliers. Additional competition has emerged from third-party logistics providers, catalogue distributors, and brokers. The company s failure to maintain and enhance its competitive position could adversely affect its business and prospects. Furthermore, the company s efforts to compete in the marketplace could cause deterioration of gross profit margins and, thus, overall profitability. The sizes of the company s competitors vary across market sectors, as do the resources the company has allocated to the sectors in which it does business. Therefore, some of the competitors may have more extensive customer base than the company has in all or more of its market sectors.

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Products sold by the company may be found to be defective and, as a result, warranty and/or product liability claims may be asserted against the company, which may have a material adverse effect on the company.

The company sells its components at prices that are significantly lower than the cost of the equipment or other goods in which they are incorporated. Since a defect or failure in a product could give rise to failures in the end products that incorporate them (and claims for consequential damages against the company from its customers), the company may face claims for damages that are disproportionate to the revenues and profits it receives from the products involved in the claims. While the company typically has provisions in its supplier agreements that hold the supplier accountable for defective products, and the company and its suppliers generally exclude consequential damages in their standard terms and conditions, the company s ability to avoid such liabilities may be limited as a result of differing factors, such as the inability to exclude such damages due to the laws of some of the countries where it does business. The company s business could be materially adversely affected as a result of a significant quality or performance issue in the products sold by the company, if it is required to pay for the damages that result. Although the company currently has product liability insurance, such insurance is limited in coverage and amount.

Declines in value and other factors pertaining to the company s inventory could materially adversely affect its business.

The market for the company s products and services is subject to rapid technological change, evolving industry standards, changes in end-market demand, and regulatory requirements, which can contribute to the decline in value or obsolescence of inventory. During an economic downturn, prices could decline due to an oversupply of product and, therefore, there may be greater risk of declines in inventory value. Although most of the company s suppliers provide the company with certain protections from the loss in value of inventory (such as price protection and certain rights of return), the company cannot be sure that such protections will fully compensate it for the loss in value, or that the suppliers will choose to, or be able to, honor such agreements. For example, many of the company s suppliers will not allow products to be returned after they have been held in inventory beyond a certain amount of time, and, in most instances, the return rights are limited to a certain percentage of the amount of product the company purchased in a particular time frame. In addition, as discussed below, the company historically has sold and continues to sell products that contain substances that are regulated, or may be regulated, by various environmental laws. Some of the company s inventory may become obsolete as a result of these or other existing or new regulations. All of these factors pertaining to inventory could have a material adverse effect on the company s business.

The company is subject to environmental laws and regulations that could materially adversely affect its business.

The company is subject to a wide and ever-changing variety of international and U.S. federal, state, and local laws and regulations, compliance with which may require substantial expense. Of particular note are two European Union (EU) directives known as the Restriction of Certain Hazardous Substances Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive. These directives restrict the distribution of products within the EU containing certain substances and require a manufacturer or importer to recycle products containing those substances. In addition, China has recently passed the Management Methods on Control of Pollution from Electronic Information Products, which will eventually prohibit the import of products for use in China that contain similar substances banned by the RoHS directive. Failure to comply with these directives or any other applicable environmental regulations could result in fines or suspension of sales. Additionally, these directives and regulations may result in the company having non-compliant inventory that may be less readily salable or have to be written off.

In addition, some environmental laws impose liability, sometimes without fault, for investigating or cleaning up contamination on or emanating from the company s currently or formerly owned, leased, or operated property, as well as for damages to property or natural resources and for personal injury arising out of such contamination. As the distribution business, in general, does not involve the manufacture of products, it is typically not subject to significant liability in this area. However, there may be occasions, including through acquisitions, where environmental liability arises. Such liability may be joint and several, meaning that the company could be held responsible for more than its share of the liability involved, or even the entire share. In addition, the presence of environmental contamination could also interfere with ongoing operations or adversely affect the company s ability to sell or lease its properties. The discovery of contamination for which the company is responsible, or the enactment of new laws and regulations, or changes in how existing requirements are enforced, could require the company to incur costs for compliance or subject it to

unexpected liabilities.

The foregoing matters could materially adversely affect the company s business.

The company is currently involved in the investigation and remediation of environmental matters at two sites as a result of its Wyle Electronics acquisition, and the company is in litigation related to those sites.

As a result of its acquisition of Wyle Electronics (Wyle) from the VEBA Group (VEBA) in 2000, the company assumed Wyle s outstanding liabilities, including the responsibility for certain environmental contamination at sites formerly owned by Wyle. The agreement pursuant to which the company bought Wyle from VEBA contains an indemnification from VEBA to the company for all of the costs associated with the Wyle environmental obligations. Two sites are known to have such contamination, one at Norco, California and the other at Huntsville, Alabama, and the company has thus far borne most of the cost of the investigation and remediation of the Norco and Huntsville sites, under the direction of the cognizant state agencies. The company has expended approximately $25 million to date in connection with these sites. In addition, the company was named as a defendant in a private lawsuit filed in connection with alleged contamination at a small industrial building formerly leased by Wyle Laboratories in El Segundo, California. The lawsuit was settled, but the possibility remains that government entities or others may attempt to involve the company in further characterization or remediation of groundwater issues in the area.

VEBA s successor-in-interest, E.ON AG, acknowledged liability under the VEBA contractual indemnities with respect to the Norco and Huntsville sites and made a small initial payment, but has subsequently refused to make further payments. The company is engaged in litigation against E.ON AG and certain other parties in the federal courts of the United States and in the Frankfurt am Main Regional Court in Germany. The company believes strongly in the merits of its cases and the probability of recovery from E.ON AG, but there can be no guaranty of the outcome of litigation, and, should the company lose on all of its claims in both cases, it would bear all of the cost of the Wyle environmental obligations. Because characterization and remedial design is not yet complete at any of these sites, the future costs in excess of accrued costs associated therewith are as yet undetermined and could have a material adverse effect on the company s business.

In addition, the company is, along with other parties, a defendant in three suits, all of which were consolidated for pre-trial purposes, by plaintiff landowners and residents in Riverside County Court in California for personal injury and property damages allegedly caused by the contaminated groundwater and related soil-vapor found in certain residential areas adjacent to the Norco site. Wyle Laboratories, formerly a division of Wyle Electronics, has demanded defense and indemnification from the company in connection with the litigation, and the company has, in turn demanded defense and indemnification from E.ON AG. The claims for indemnification are at issue in the U.S. and Frankfurt court proceedings.

While the company believes strongly in the merits of its claim for indemnification against E.ON AG and has no reason to believe that the plaintiff s allegations of damages in the Norco matter pending in Riverside County have merit, there can be no guaranty regarding the outcome of any of the matters, and should the company be found to be liable for damages and E.ON AG found not to be liable to indemnify the company for those damages and those costs that will be incurred in the future, it could have a material adverse effect on the company s business.

The company may not have adequate or cost-effective liquidity or capital resources.

The company needs cash or committed liquidity facilities to make interest payments on and to refinance indebtedness, and for general corporate purposes, such as funding its ongoing working capital, acquisition, and capital expenditure needs (including the company s new Enterprise Resource Planning system). At December 31, 2007, the company had cash and cash equivalents of $447.7 million. In addition, the company currently has access to committed credit lines of $1.4 billion. The company s ability to satisfy its cash needs depends on its ability to generate cash from operations and to access the financial markets, both of which are subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond its control.

The company may, in the future, need to access the financial markets to satisfy its cash needs. The company s ability to obtain external financing is affected by its debt ratings. Any increase in the company s level of debt, change in status of its debt from unsecured to secured debt, or deterioration of its operating

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results may cause a reduction in its current debt ratings. Any downgrade in the company s current debt rating could impair the company s ability to obtain additional financing on acceptable terms. Under the terms of any external financing, the company may incur higher than expected financing expenses and become subject to additional restrictions and covenants. For example, the company s existing debt agreements contain restrictive covenants, including covenants requiring compliance with specified financial ratios, and a failure to comply with these or any other covenants may result in an event of default. An increase in the company s financing costs or a breach of debt instrument covenants could have a material adverse effect on the company s business.

The agreements governing some of the company s financing arrangements contain various covenants and restrictions that limit the discretion of management in operating the business and could prevent the company from engaging in some activities that may be beneficial to its business.

The agreements governing the company s financings contain various covenants and restrictions that, in certain circumstances, could limit its ability to:

- grant liens on assets;
- make restricted payments (including paying dividends on capital stock or redeeming or repurchasing capital stock);
- make investments;
- merge, consolidate, or transfer all or substantially all of its assets;
- incur additional debt; or
- engage in certain transactions with affiliates.

As a result of these covenants and restrictions, the company may be limited in how it conducts its business and may be unable to raise additional debt, compete effectively, or make investments.

The company s failure to have long-term sales contracts may have a material adverse effect on its business.

Most of the company s sales are made on an order-by-order basis, rather than through long-term sales contracts. The company generally works with its customers to develop non-binding forecasts for future volume of orders. Based on such non-binding forecasts, the company makes commitments regarding the level of business that it will seek and accept, the inventory that it purchases, the timing of production schedules, and the levels of utilization of personnel and other resources. A variety of conditions, both specific to each customer and generally affecting each customer s industry, may cause customers to cancel, reduce, or delay orders that were either previously made or anticipated. Generally, customers cancel, reduce, or delay purchase orders and commitments without penalty. The company seeks to mitigate these risks, in some cases, by entering into noncancelable/nonreturnable sales agreements, but there is no guaranty that such agreements will adequately protect the company. Significant or numerous cancellations, reductions, or delays in orders by customers could materially adversely affect the company s business.

The company s non-U.S. locations represent a significant portion of its sales, and consequently, the company is increasingly exposed to risks associated with operating internationally.

In 2007, 2006, and 2005, approximately 50%, 53%, and 47%, respectively, of the company s sales came from its operations outside the United States. As a result of the company s international sales and locations, its operations are subject to a variety of risks that are specific to international operations, including the following:

- import and export regulations that could erode profit margins or restrict exports;
- the burden and cost of compliance with international laws, treaties, and technical standards and changes in those regulations;
- potential restrictions on transfers of funds;
- foreign currency fluctuations;
- import and export duties and value-added taxes;
- transportation delays and interruptions;
- uncertainties arising from local business practices and cultural considerations; and
- potential military conflicts and political risks.

Further, the company s operating income margins are lower in certain geographic markets. Operating income in the components business in Asia/Pacific tends to be lower than operating income in North America and Europe. As sales in Asia/Pacific increased as a percentage of overall sales, consolidated operating income margins have fallen. The financial impact of the lower operating income on returns on working capital was offset, in part, by lower working capital requirements. While the company has and will continue to adopt measures to reduce the potential impact of losses resulting from the risks of doing business abroad, it cannot ensure that such measures will be adequate.

When the company makes acquisitions, it may not be able to successfully integrate them or attain the anticipated benefits.

If the company is unsuccessful in integrating its acquisitions, or if integration is more difficult than anticipated, the company may experience disruptions that could have a material adverse effect on its business. In addition, the company may not realize all of the anticipated benefits from its acquisitions, which could result in an impairment of goodwill or other intangible assets.

If the company fails to maintain an effective system of internal controls or discovers material weaknesses in its internal controls over financial reporting, it may not be able to report its financial results accurately or timely or detect fraud, which could have a material adverse effect on its business.

An effective internal control environment is necessary for the company to produce reliable financial reports and is an important part of its effort to prevent financial fraud. The company is required to periodically evaluate the effectiveness of the design and operation of its internal controls over financial reporting. Based on these evaluations, the company may conclude that enhancements, modifications or changes to internal controls are necessary or desirable. While management evaluates the effectiveness of the company s internal controls on a regular basis, these controls may not always be effective. There are inherent limitations on the effectiveness of internal controls, including collusion, management override, and failure in human judgment. In addition, control procedures are designed to reduce rather than eliminate business risks. If the company fails to maintain an effective system of internal controls, or if management or the company s independent registered public accounting firm discovers material weaknesses in the company s internal controls, it may be unable to produce reliable financial reports or prevent fraud, which could have a material adverse effect on the company s business. In addition, the company may be subject to sanctions or investigation by regulatory authorities, such as the SEC or the NYSE. Any such actions could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of the company s financial statements, which could cause the market price of its common stock to decline or limit the company s access to capital.

The regulatory authorities in the jurisdictions for which the company ships product could levy substantial fines on the company or limit its ability to export and re-export products if the company ships product in violation of applicable export regulations.

A significant percentage of the company s sales are made outside of the United States through the exporting and re-exporting of product. Many of the products the company sells are either manufactured in the United States or based on U.S. technology (U.S. Products). As a result, in addition to the local jurisdictions export regulations applicable to individual shipments, U.S. Products are subject to the Export Administration Regulations (EAR) when exported and re-exported to and from all international jurisdictions. Licenses or proper license exceptions may be required by local jurisdictions export regulations, including EAR, for the shipment of certain U.S. Products to certain countries, including China, India, Russia, and other countries in which the company operates. Non-compliance with the EAR or other applicable export regulations can result in a wide range of penalties including the denial of export privileges, fines, criminal penalties, and the seizure of commodities. In the event that any export regulatory body determines that any shipments made by the company violate the applicable export regulations, the company could be fined significant sums and/or its export capabilities could be restricted, which could have a material adverse effect on the company s business.

The company relies heavily on its internal information systems, which, if not properly functioning, could materially adversely affect the company s business.

The company s current global operations reside on multiple technology platforms. These platforms are subject to electrical or telecommunications outages, computer hacking, or other general system failure, which could have a material adverse effect on the company s business. Because most of the company s systems

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consist of a number of legacy, internally developed applications, it can be harder to upgrade and may not be adaptable to commercially available software.

The company is in the process of converting its various business information systems worldwide to a single Enterprise Resource Planning system. The company has committed significant resources to this conversion, which started in late 2006 and is expected to be phased in over a four-year period. This conversion is extremely complex, in part, because of the wide range of processes and the multiple legacy systems that must be integrated globally. The company will be using a controlled project plan that it believes will provide for the adequate allocation of resources. However, such a plan, or a divergence from it, may result in cost overruns, project delays, or business interruptions. During the conversion process, the company may be limited in its ability to integrate any business that it may want to acquire. Failure to properly or adequately address these issues could impact the company s ability to perform necessary business operations, which could materially, adversely affect the company s business.

The company may be subject to intellectual property rights claims, which are costly to defend, could require payment of damages or licensing fees and could limit the company s ability to use certain technologies in the future.

The company sells products and utilizes processes that are highly innovative and may be subject to allegations of infringement or other violations of intellectual property rights. Without limiting the generality of the foregoing, the company notes that in recent years certain companies in the business of acquiring patents not for the purpose of developing technology but with the intention of aggressively seeking licensing revenue from purported infringers have made an increasing number of claims against the company and/or its customers. In some cases, depending on the nature of the claim, the company may be able to seek indemnification from its suppliers for itself and its customers against such claims, but there is no assurance that it will be successful in obtaining such indemnification.

Intellectual property right infringement claims, with or without merit, can be time-consuming and costly to litigate or settle and can divert management resources and attention. If successful they may require the company to pay damages or seek royalty or license arrangements, which may not be available on commercially reasonable terms. The payment of any such damages or royalties may significantly increase the company s operating expenses and harm its operating results and financial condition. Also, royalty or license arrangements may not be available at all. The company may have to stop selling certain products or using technologies, which could affect the company s ability to compete effectively.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

The company owns and leases sales offices, distribution centers, and administrative facilities worldwide. Its executive office is located in Melville, New York and occupies a 163,000 square foot facility under a long-term lease expiring in 2013. The company owns 16 locations throughout North America, EMEASA, and the Asia Pacific region and occupies over 300 additional locations under leases due to expire on various dates through 2022. The company believes its facilities are well maintained and suitable for company operations.

Item 3. Legal Proceedings.

Tekelec Matters

In 2000, the company purchased Tekelec Europe SA (Tekelec) from Tekelec Airtronic SA (Airtronic) and certain other selling shareholders. Subsequent to the closing of the acquisition, Tekelec received a product liability claim in the amount of 11.3 million. The product liability claim was the subject of a French legal proceeding started by the claimant in 2002, under which separate determinations were made as to whether the products that are subject to the claim were defective and the amount of damages sustained by the purchaser. The manufacturer of the products also participated in this proceeding. The claimant has commenced legal proceedings against Tekelec and its insurers to recover damages in the amount of 3.7 million and expenses of .3 million plus interest.

Environmental and Related Matters

Wyle Claims

In connection with the purchase of Wyle from VEBA in 2000, the company assumed certain of the then outstanding obligations of Wyle, including its 1994 indemnification of the purchasers of its Wyle Laboratories division for environmental clean-up costs associated with any then existing contamination or violation of environmental regulations. Under the terms of the company s purchase of Wyle from VEBA, VEBA agreed to indemnify the company for costs associated with the Wyle environmental indemnities, among other things. The company is aware of two Wyle Laboratories facilities (in Huntsville, Alabama and Norco, California) at which contaminated groundwater was identified. Each site will require remediation, the final form and cost of which is as yet undetermined. As further discussed in Note 15 of the Notes to Consolidated Financial Statements, the Alabama site is being investigated by the company under the direction of the Alabama Department of Environmental Management. The Norco site is subject to a consent decree, entered in October 2003, between the company, Wyle Laboratories, and the California Department of Toxic Substance Control.

Wyle Laboratories has demanded indemnification from the company with respect to the work at both sites (and in connection with the litigation discussed below), and the company has, in turn, demanded indemnification from VEBA. VEBA merged with a publicly-traded, German conglomerate in June 2000 and the combined entity is now known as E.ON AG, which remains responsible for VEBA s liabilities. E.ON AG acknowledged liability under the terms of the VEBA contract in connection with the Norco and Huntsville sites and made an initial, partial payment. Neither the company s demands for subsequent payments nor its demand for defense and indemnification in the related litigation and other costs associated with the Norco site were met.

Related Litigation

In September 2004, the company filed suit against E.ON AG in the United States District Court for the Northern District of Alabama seeking further payments related to those sites and additional damages. The case has since been transferred to the United States District Court for the Central District of California, where it was consolidated with a case commenced by the company and Wyle Laboratories in May 2005 against E.ON AG seeking indemnification, contribution, and a declaration of the parties respective rights and obligations in connection with the Riverside County litigation (discussed below) and other costs associated with the Norco site. The court has ruled that the enforcement and interpretation of E.ON AG s contractual obligations are matters for a court in Germany, a ruling with which the company disagrees and which it is appealing. Nevertheless, in October 2005, the company filed a related action with regard to such matters against E.ON AG in the Frankfurt am Main Regional Court in Germany.

The company was named as a defendant in three suits related to the Norco facility, all of which were consolidated for pre-trial purposes. In January 2005, an action was filed in the California Superior Court in Riverside County, California (Gloria Austin, *et al.* v. Wyle Laboratories, Inc. *et al.*) in which 91 plaintiff landowners and residents sued a number of defendants under a variety of theories for unquantified damages allegedly caused by environmental contamination at and around the Norco site. Also filed in the Superior Court in Riverside County were Jimmy Gandara, *et al.* v. Wyle Laboratories, Inc. *et al.* in January 2006, and Lisa Briones *et al.* v. Wyle Laboratories, Inc. *et al.* in May 2006, both of which contain allegations similar to those in the Austin case on behalf of approximately 20 additional plaintiffs. The outcome of the cases and the amount of any associated liability are all as yet unknown.

The company was also named as a defendant in a lawsuit filed in September 2006 in the United States District Court for the Central District of California (Apollo Associates, L.P., *et anno*, v. Arrow Electronics, Inc. *et al.*) in connection with alleged contamination at a third site, an industrial building formerly leased by Wyle Laboratories, in El Segundo, California. The lawsuit was settled, though the possibility remains that government entities or others may attempt to involve the company in further characterization or remediation of groundwater issues in the area.

Impact on Financial Statements

The company believes that any cost which it may incur in connection with environmental conditions at the Norco, Huntsville, and El Segundo sites and the related litigation is covered by the contractual indemnifications (except, under the terms of the environmental indemnification, for the first $.5 million), discussed above. The company has received an opinion of counsel that the recovery of costs incurred to date associated with the environmental clean-up costs related to the Norco and Huntsville sites, is probable. Based on the opinion of counsel received in the fourth quarter of 2007, the company increased the receivable for amounts due from E.ON AG by $7.2 million during 2007 to $24.9 million. 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. In 2006, the company recorded a charge of $1.4 million ($.9 million net of related taxes or $.01 per share on both a basic and diluted basis) related to the environmental matters arising out of the company s purchase of Wyle.

Also included in the proceedings against E.ON AG is a claim for the reimbursement of pre-acquisition tax liabilities of Wyle in the amount of $8.7 million for which E.ON AG is also contractually liable to indemnify the company. E.ON AG has specifically acknowledged owing the company not less than $6.3 million of such amounts, but its promises to make payments of at least that amount have not been kept. The company also believes that the recovery of these amounts is probable.

In connection with the acquisition of Wyle, the company acquired a $4.5 million tax receivable due from E.ON AG (as successor to VEBA) in respect of certain tax payments made by Wyle prior to the effective date of the acquisition, the recovery of which the company also believes is probable.

The company believes strongly in the merits of its actions against E.ON AG, and is pursuing them vigorously.

Other

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

Item 4. Submission of Matters to a Vote of Security Holders.

None.

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PART II

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters.

Market Information

The company s common stock is listed on the NYSE (trading symbol: ARW). The high and low sales prices during each quarter of 2007 and 2006 were as follows:

Year	High	Low
2007:		
Fourth Quarter	$ 44.95	$ 34.68
Third Quarter	43.55	33.17
Second Quarter	43.13	37.29
First Quarter	39.83	32.00
2006:		
Fourth Quarter	$ 32.90	$ 26.90
Third Quarter	33.14	25.93
Second Quarter	36.95	30.35
First Quarter	36.48	31.18

Holders

On February 1, 2008, there were approximately 2,300 shareholders of record of the company s common stock.

Dividend History

The company did not pay cash dividends on its common stock during 2007 or 2006. While the Board of Directors considers the payment of dividends on the common stock from time to time, the declaration of future dividends will be dependent upon the company s earnings, financial condition, and other relevant factors, including debt covenants.

Equity Compensation Plan Information

The following table summarizes information, as of December 31, 2007, relating to the Omnibus Incentive Plan, which was approved by the company s shareholders and under which cash-based awards, non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock and restricted stock units, performance shares or units, covered employee annual incentive awards and other stock-based awards may be granted from time to time.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	5,235,784	$31.58	3,549,067
Equity compensation plans not approved by security holders	-	-	-
Total	5,235,784	$31.58	3,549,067

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Performance Graph

The following graph compares the performance of the company s common stock for the periods indicated with the performance of the Standard & Poor s 500 Stock Index (S&P 500 Stock Index) and the average performance of a group consisting of the company s peer companies on a line-of-business basis. The companies included in the Peer Group are Avnet, Inc., Bell Microproducts, Inc., Jaco Electronics, Inc., and Nu Horizons Electronics Corp. The graph assumes $100 invested on December 31, 2002 in the company, the S&P 500 Stock Index, and the Peer Group. Total return indices reflect reinvestment of dividends and are weighted on the basis of market capitalization at the time of each reported data point.

	2002	2003	2004	2005	2006	2007
Arrow Electronics	100	181	190	250	247	307
Peer Group	100	196	167	211	222	291
S&P 500 Stock Index	100	126	138	142	161	167

Unregistered Sales of Equity Securities and Use of Proceeds

In February 2006, the Board of Directors authorized the company to repurchase up to $100 million of the company s outstanding common stock through a share-repurchase program (the program). In March 2007, the company announced a rule 10b5-1 plan to facilitate repurchases under the program with the intention of minimizing earnings per share dilution caused by the issuance of common stock upon the exercise of stock options. Repurchases were funded with cash received from the exercise of stock options in the previous quarter. In August 2007, the company replaced the then existing rule 10b5-1 plan with a new 10b5-1 plan intended to completely offset the dilution caused by the issuance of common stock upon the exercise of stock options. In December 2007, the Board of Directors authorized the company to repurchase an additional $100 million of the company s outstanding common stock in such amounts as to offset the dilution from the exercise of stock options and other stock-based compensation plans.

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The following table shows the share-repurchase activity for each of the three months in the quarter ended December 31, 2007:

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 [1]
October 1 through 31, 2007	197,928	$43.21	197,928	$15,764,043
November 1 through 30, 2007	-	-	-	$15,764,043
December 1 through 31, 2007	-	-	-	$115,764,043
Total	197,928		197,928	

(1) The approximate dollar value of shares reflects the $100 million authorized for repurchase under the program in February 2006 less the approximate dollar value of the shares that were purchased under the program to date. In December 2007, the Board of Directors authorized the company to repurchase an additional $100 million of the company s outstanding common stock.

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Item 6. Selected Financial Data.

The following table sets forth certain selected consolidated financial data and should be read in conjunction with the company s consolidated financial statements and related notes appearing elsewhere in this annual report on Form 10-K (dollars in thousands except per share data):

For the years ended December 31:	**2007**(a) (f)	**2006**(b) (f)	**2005**(c)	**2004**(d)	**2003**(e)
Sales	$ 15,984,992	$ 13,577,112	$ 11,164,196	$ 10,646,113	$ 8,528,331
Operating income	$ 686,905	$ 606,225	$ 480,258	$ 439,338	$ 184,045
Net income	$ 407,792	$ 388,331	$ 253,609	$ 207,504	$ 25,700
Net income per share:					
Basic	$ 3.31	$ 3.19	$ 2.15	$ 1.83	$ .26
Diluted	$ 3.28	$ 3.16	$ 2.09	$ 1.75	$ .25
At December 31:					
Accounts receivable and inventories	$ 4,961,035	$ 4,401,857	$ 3,811,914	$ 3,470,600	$ 3,098,213
Total assets	8,059,860	6,669,572	6,044,917	5,509,101	5,343,690
Long-term debt	1,223,337	976,774	1,138,981	1,465,880	2,016,627
Shareholders equity	3,551,860	2,996,559	2,372,886	2,194,186	1,505,331

(a) Operating income and net income include restructuring and integration charges of $11.7 million ($7.0 million net of related taxes or $.06 per share on both a basic and diluted basis) and an income tax benefit of $6.0 million, net, ($.05 per share on both a basic and diluted basis) principally due to a reduction in deferred income taxes as a result of the statutory rate change in Germany in 2007.

(b) Operating income and net income include restructuring and integration charges of $11.8 million ($9.0 million net of related taxes or $.07 per share on both a basic and diluted basis), a charge related to a pre-acquisition warranty claim of $2.8 million ($1.9 million net of related taxes or $.02 per share on both a basic and diluted basis), and a charge related to pre-acquisition environmental matters arising out of the company s purchase of Wyle of $1.4 million ($.9 million net of related taxes or $.01 per share on both a basic and diluted basis). Net income also includes a loss on prepayment of debt of $2.6 million ($1.6 million net of related taxes or $.01 per share on both a basic and diluted basis) and the reduction of the provision for income taxes of $46.2 million ($.38 per share on both a basic and diluted basis) and the reduction of interest expense of $6.9 million ($4.2 million net of related taxes or $.03 per share on both a basic and diluted basis) related to the settlement of certain income tax matters.

(c) Operating income and net income include restructuring and integration charges of $12.7 million ($7.3 million net of related taxes or $.06 and $.05 per share on a basic and diluted basis, respectively) and an acquisition indemnification credit of $1.7 million ($1.3 million net of related taxes or $.01 per share on a basic basis). Net income also includes a loss on prepayment of debt of $4.3 million ($2.6 million net of related taxes or $.02 and $.01 per share on a basic and diluted basis, respectively) and a loss of $3.0 million ($.03 per share on both a basic and diluted basis) on the write-down of an investment.

(d)

Operating income and net income include restructuring and integration charges of $9.1 million ($5.6 million net of related taxes or $.06 and $.05 per share on a basic and diluted basis, respectively), an acquisition indemnification credit, due to a change in estimate, of $9.7 million ($.09 and $.08 per share on a basic and diluted basis, respectively), and an impairment charge of $10.0 million ($.09 and $.08 per share on a basic and diluted basis, respectively). Net income also includes a loss on prepayment of debt of $33.9 million ($20.3 million net of related taxes or $.18 and $.16 per share on a basic and diluted basis, respectively) and a loss of $1.3 million ($.01 per share on both a basic and diluted basis) on the write-down of an investment.

(e) Operating income and net income include restructuring and integration charges of $44.9 million ($32.0 million net of related taxes or $.32 per share on both a basic and diluted basis) and an acquisition indemnification charge, due to a change in estimate, of $13.0 million ($.13 per share on both a basic and diluted basis). Net income also includes a loss on prepayment of debt of $6.6 million ($3.9 million

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net of related taxes or $.04 per share on both a basic and diluted basis).

(f) Operating income and net income include stock option expense of $11.2 million ($7.0 million net of related taxes or $.06 per share on both a basic and diluted basis) and $13.0 million ($8.5 million net of related taxes or $.07 per share on both a basic and diluted basis) for 2007 and 2006, respectively, resulting from the company s adoption of Financial Accounting Standards Board (FASB) Statement No. 123 (revised 2004), Share-Based Payment, and the Securities and Exchange Commission Staff Accounting Bulletin No. 107 (collectively, Statement No. 123(R)).

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

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 OEMs and CMs through its global components business segment and provides enterprise computing solutions to VARs through its global ECS business segment. For 2007, approximately 70% of the company s sales consisted of electronic components, and approximately 30% of the company s sales consisted of enterprise computing solutions.

The company serves as a supply channel partner for approximately 700 suppliers and approximately 140,000 OEMs, CMs, and commercial customers through a global network of more than 300 locations in 50 countries and territories. Through this network, the company provides one of the broadest product offerings in the electronics distribution industry and a wide range of value-added services to help customers reduce time to market, lower their total cost of ownership, and enhance their overall competitiveness.

Operating efficiency and working capital management remain the 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 looks to make strategic acquisitions to broaden its product offerings, increase its market share, and/or expand its geographic reach. Investments needed to fund this growth are developed through continuous corporate-wide initiatives to improve profitability and increase effective asset utilization.

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

On December 29, 2006, the company acquired InTechnology, which delivers storage and security solutions to VARs in the United Kingdom. Total InTechnology sales for 2006 were approximately $320 million. The InTechnology acquisition increased the company s offering of software and security products and further expanded the company s ECS business into the United Kingdom.

On November 30, 2006, the company acquired Alternative Technology, which supports VARs in delivering software solutions that optimize, accelerate, monitor, and secure an end-user s network. Total Alternative Technology sales for 2006 were approximately $250 million, of which $48.7 million were included in the company s 2006 consolidated results of operations from the acquisition date.

Consolidated sales for 2007 grew by 17.7%, compared with the year-earlier period, primarily as a result of the impact of acquisitions, the company s increased focus on sales-related initiatives, and the impact of a weaker U.S. dollar on the translation of the company s international financial statements. This increase was offset, in part, by continued weakness at large electronic manufacturing services (EMS) customers in the global components business segment and the company s initiative to exit lower-margin business in the Asia Pacific region. On a pro forma basis, which includes Alternative Technology, InTechnology, and KeyLink as though these acquisitions occurred on January 1, 2006, consolidated sales increased by 5.9%. In the global ECS business segment, sales for 2007 grew by 91.2%, compared with the year-earlier period, primarily due to the acquisitions of Alternative Technology, InTechnology, and KeyLink. On a pro forma basis, which includes Alternative Technology, InTechnology, and KeyLink as though these acquisitions occurred on January 1, 2006, the global ECS business segment sales grew by 17.8%, compared with the year-earlier period, primarily due to growth in storage, software, and industry standard servers and due to the company s increased focus on sales-related initiatives. In the global components business segment, sales for 2007 increased by 1.2%, compared with the year-earlier period, primarily due to the company s increased focus on sales-related initiatives and the impact of a weaker U.S. dollar on the translation of the company s international financial statements, offset, in part, by the aforementioned continued weakness at large EMS

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customers and the company s initiative to exit lower-margin business in the Asia Pacific region.

Net income increased to $407.8 million in 2007, compared with net income of $388.3 million in 2006. The increase in net income in 2007, compared with the year-earlier period, was due to increased gross profit on higher sales, offset, in part, by increased selling, general and administrative expense to support the increase in sales, higher depreciation and amortization expense primarily related to acquisitions, and a higher effective tax rate. The following items also impact the comparability of the company s results for the years ended December 31, 2007 and 2006:

- restructuring and integration charges of $11.7 million ($7.0 million net of related taxes) in 2007 and $11.8 million ($9.0 million net of related taxes) in 2006;
- an income tax benefit of $6.0 million, net, principally due to a reduction in deferred income taxes as a result of the statutory rate change in Germany in 2007;
- a charge related to a pre-acquisition warranty claim of $2.8 million ($1.9 million net of related taxes) in 2006;
- a charge related to pre-acquisition environmental matters arising from the company s purchase of Wyle of $1.4 million ($.9 million net of related taxes) in 2006;
- a loss on prepayment of debt of $2.6 million ($1.6 million net of related taxes) in 2006; and
- a reduction of the provision for income taxes of $46.2 million, of which $40.4 million related to tax years prior to 2006, and the reduction of interest expense of $6.9 million ($4.2 million net of related taxes), of which $4.0 million ($2.4 million net of related taxes) related to tax years prior to 2006, related to the settlement of certain income tax matters in 2006.

Most 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 of forecast information.

Sales

Consolidated sales for 2007 increased by $2.41 billion, or 17.7%, compared with the year-earlier period. The increase was driven by an increase in the global ECS business segment of $2.27 billion, or 91.2%, and an increase in the global components business segment of $137.4 million, or 1.2%, compared with the year-earlier period.

In the global ECS business segment, sales for 2007 increased by 91.2%, compared with the year-earlier period, primarily due to the acquisitions of Alternative Technology, InTechnology, and KeyLink. On a pro forma basis, which includes Alternative Technology, InTechnology, and KeyLink as though these acquisitions occurred on January 1, 2006, the global ECS business segment sales for 2007 grew by 17.8%, compared with the year-earlier period, primarily due to the growth in storage, software, and industry standard servers and due to the company s increased focus on sales-related initiatives.

In the global components business segment, sales for 2007 increased by 1.2% compared with the year-earlier period, primarily due to the company s increased focus on sales-related initiatives and the impact of a weaker U.S. dollar on the translation of the company s international financial statements, offset, in part, by continued weakness at large EMS customers and the company s initiative to exit lower-margin business in the Asia Pacific region.

The translation of the company s international financial statements into U.S. dollars resulted in increased sales of $394.7 million for 2007, compared with the year-earlier period, due to a weaker U.S. dollar. Excluding the impact of foreign currency, the company s sales increased by 14.8% in 2007.

Consolidated sales for 2006 increased by $2.41 billion, or 21.6%, compared with the year-earlier period. The increase was driven by an increase in the global components business segment of $1.96 billion, or 21.4%, and an increase in the global ECS business segment of $457.5 million, or 22.5%, compared with the year-earlier period.

The growth in the global components business segment for 2006 was primarily driven by the sales increase in the North American Components (NAC) businesses of 12.0%, the sales increase in the EMEASA components businesses of 15.7%, and the sales increase in the Asia/Pacific components businesses of 20.0%, on a pro forma basis, as though the Ultra Source Technology Corp. (Ultra Source) acquisition occurred on January 1, 2005. The sales increase in the NAC businesses of 12.0%, compared with the year-earlier period, was primarily driven by the strength of demand for semiconductors and passive electromechanical and connector products from the company s broad customer base, as well as the company s focus on sales-related initiatives for passive, electromechanical and connector products. The sales increase in the EMEASA components businesses of 15.7%, compared with the year-earlier period, was primarily due to the increased end-market demand in this region as well as the company s increased focus on sales-related initiatives. The increase in the Asia/Pacific components businesses of 20.0%, on a pro forma basis as though the Ultra Source acquisition occurred on January 1, 2005, compared with the year-earlier period, was due to the region s strong market growth coupled with the company s initiative to expand its product offerings and customer base.

The growth in the global ECS business segment of 22.5% for 2006, compared with the year-earlier period, was primarily due to the acquisition of DNS in December 2005 and the growth in storage and industry standard servers offset, in part, by lower sales in North America due to a decline in low-margin software and the loss of a large reseller customer at the end of 2005 due to mergers and acquisitions activity, and lower market demand for proprietary servers.

The translation of the company s international financial statements into U.S. dollars resulted in increased sales of $44.6 million for 2006, compared with the year-earlier period, due to a weaker U.S. dollar. Excluding the impact of foreign currency, the company s sales increased by 21.2% in 2006.

Gross Profit

The company recorded gross profit of $2.29 billion and $2.03 billion for 2007 and 2006, respectively. The gross profit margin for 2007 decreased by approximately 70 basis points when compared with the year-earlier period. The decrease in gross profit margin was principally due to the acquisitions of Alternative Technology, InTechnology, and KeyLink, which have lower gross profit margins (as well as lower operating expense structures). On a pro forma basis, which includes the impact of these acquisitions, the gross profit margin for 2007 decreased by approximately 20 basis points when compared with the year-earlier period, primarily due to a change in the mix in the company s business, with the global ECS business segment and Asia/Pacific being a greater percentage of total sales. The profit margins of products in the global ECS business segment are typically lower than the profit margins of the products in the global components business segment, and the profit margins of the components sold in the Asia/Pacific market tend to be lower than the profit margins in North America and Europe. The financial impact of the lower gross profit was offset, in part, by the lower operating costs of those businesses and lower working capital requirements.

The company recorded gross profit of $2.03 billion and $1.74 billion for 2006 and 2005, respectively. The gross profit margin for 2006 decreased by approximately 60 basis points when compared with the year-earlier period. The decrease in gross profit margin was primarily due to the acquisitions of DNS and Ultra Source, which have lower gross profit margins (as well as lower operating expense structures). Excluding the impact of these acquisitions, the gross profit margin increased by approximately 10 basis points when compared with the year-earlier period.

Restructuring, Integration, and Other Charges

The company recorded restructuring and integration charges of $11.7 million ($7.0 million net of related taxes or $.06 per share on both a basic and diluted basis), $11.8 million ($9.0 million net of related taxes or $.07 per share on both a basic and diluted basis), and $12.7 million ($7.3 million net of related taxes or $.06 and $.05 per share on a basic and diluted basis, respectively) in 2007, 2006, and 2005, respectively.

2007 Restructuring

Included in the total restructuring and integration charges above for 2007 is $9.7 million related to initiatives by the company to improve operating efficiencies. During 2007, the company took a series of steps to make its organizational structure more efficient. These actions are expected to reduce costs by approximately $40 million per annum in North America, with approximately $16 million realized in the second half of 2007. Also included in the total restructuring and integration charges above for 2007 is a net restructuring credit of $.4 million primarily related to the reversal of excess reserves, which were previously established through restructuring charges in prior periods, a gain on the sale of the Lenexa, Kansas facility of $.5 million that was vacated in 2007 due to the company s continued efforts to reduce real estate costs, and integration charges of $2.9 million primarily related to the acquisition of KeyLink.

The restructuring charge of $9.7 million in 2007 includes personnel costs of $11.3 million related to the elimination of approximately 400 positions, primarily within multiple functions in North America within the company s electronic components segment, related to the company s continued focus on operational efficiency. Facilities includes a restructuring credit of $1.9 million, primarily related to a gain on the sale of the Harlow, England facility of $8.5 million that was vacated in 2007, offset by facilities costs of $6.6 million primarily related to exit activities for a vacated facility in Europe due to the company s continued efforts to reduce real estate costs.

2006 Restructuring

Included in the total restructuring and integration charges above for 2006 is $12.3 million related to initiatives by the company to improve operating efficiencies, resulting in savings of approximately $9 million per annum. Also included in the total restructuring and integration charges above for 2006 is a net restructuring credit of $.5 million primarily related to the reversal of excess reserves, which were previously established through restructuring charges in prior periods.

The restructuring charge of $12.3 million in 2006 includes personnel costs of $6.5 million related to the elimination of approximately 300 positions, primarily within multiple functions in North America within the company s global components business segment, related to the outsourcing of certain administrative functions and the closure of a warehouse facility. Facilities costs of $1.2 million related to exit activities for three vacated facilities in Europe due to the company s continued efforts to reduce real estate costs. Also included in the restructuring charge is a charge related to the write-down of certain capitalized software in Europe of $4.5 million. This write-down resulted from the company s decision in the fourth quarter of 2006 to implement a global Enterprise Resource Planning (ERP) system, which caused these software costs to become redundant and have no future benefit.

2005 Restructuring

Included in the total restructuring and integration charges above for 2005 is $12.9 million related to actions announced by the company to better optimize the use of its mainframe, reduce real estate costs, and be more efficient in its distribution centers. Also included in the total restructuring and integration charges above for 2005 is a net restructuring credit of $.2 million primarily related to the reversal of excess reserves, which were previously established through restructuring charges in prior periods.

The restructuring charge of $12.9 million in 2005 includes personnel costs of $13.3 million related to the elimination of approximately 425 positions across multiple locations, primarily within the company s global components business segment and shared service function, related to the company s continued focus on operational efficiency. Facilities includes a restructuring credit of $1.3 million, primarily related to a gain on the sale of a facility in North America of $1.5 million that was vacated in 2005 due to the company s continued efforts to reduce real estate costs.

Integration

Included in the restructuring and integration charges referenced above in 2007 is an integration charge of $2.9 million, primarily related to the acquisition of KeyLink, impacting the global ECS business segment in North America. Integration costs in 2007 also include $.8 million recorded as additional costs in excess of net assets of companies acquired associated with the acquisition of KeyLink. The integration charge is net of a $.7 million reversal of excess facilities-related accruals in connection with certain acquisitions made prior to 2005. Personnel costs associated with the elimination of approximately 50 positions in North America related to the acquisition of KeyLink.

Pre-Acquisition Warranty Claim

During 2006, the company recorded a charge of $2.8 million ($1.9 million net of related taxes or $.02 per share on both a basic and diluted basis) related to a pre-acquisition warranty claim.

Pre-Acquisition Environmental Matters

As discussed in Note 15 of the Notes to Consolidated Financial Statements, in 2000, when the company purchased Wyle from VEBA, the company assumed Wyle s then outstanding obligations. Among the obligations the company assumed was Wyle s 1994 indemnification of the purchasers of one of its divisions,

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Wyle Laboratories, for costs associated with then existing contamination or violation of environmental regulations. Under the terms of the company s purchase of Wyle, VEBA agreed to indemnify the company for, among other things, costs related to environmental pollution associated with Wyle, including those associated with its prior sale of Wyle Laboratories. VEBA has since merged with E.ON AG, a German-based, multinational conglomerate. 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. During 2006, the company recorded a charge of $1.4 million ($.9 million net of related taxes or $.01 per share on both a basic and diluted basis) related to the environmental matters arising out of the company s purchase of Wyle.

Acquisition Indemnification

In 2005, Tekelec, a French subsidiary of the company, entered into a settlement agreement with Airtronic pursuant to which Airtronic paid 1.5 million (approximately $2.0 million) to Tekelec in full settlement of all of Tekelec s claims for indemnification under the purchase agreement. The company recorded the net amount of the settlement of $1.7 million ($1.3 million net of related taxes or $.01 per share on a basic basis) as an acquisition indemnification credit.

Operating Income

The company recorded operating income of $686.9 million in 2007 as compared with operating income of $606.2 million in 2006.

Selling, general and administrative expenses increased by $157.8 million, or 11.6%, in 2007, on a sales increase of 17.7% compared with 2006. The dollar increase in selling, general and administrative expenses in 2007, as compared with the year-earlier period, was primarily due to selling, general and administrative expenses incurred by Alternative Technology, InTechnology, and KeyLink, higher selling expenses to support increased sales, and the impact of foreign exchange rates. Selling, general and administrative expenses, as a percentage of sales, was 9.5% and 10.0% for 2007 and 2006, respectively. The decrease in selling, general and administrative expenses, as a percentage of sales, compared with the year-earlier period, was primarily the result of the acquisitions of Alternative Technology, InTechnology, and KeyLink, which have lower selling, general and administrative expenses as a percentage of sales, and the company s ability to more effectively leverage its existing cost structure to support a higher level of sales.

Depreciation and amortization increased by $19.8 million, or 42.2%, in 2007, compared with the year-earlier period, primarily due to acquisitions.

The company recorded operating income of $606.2 million in 2006 as compared with operating income of $480.3 million in 2005.

Selling, general and administrative expenses increased by $161.3 million, or 13.4%, in 2006, on a sales increase of 21.6% compared with 2005. The dollar increase in selling, general and administrative expenses in 2006, as compared with the year-earlier period, was due to selling, general and administrative expenses incurred by DNS and Ultra Source of $66.0 million and $13.0 million for the expensing of stock options as a result of the company adopting Statement No. 123(R), with the difference attributable to higher variable selling expenses due to increased sales. Selling, general and administrative expenses, as a percentage of sales, was 10.0% and 10.8% for 2006 and 2005, respectively. The decrease in selling, general and administrative expenses as a percentage of sales, compared with the year-earlier period, was primarily the result of the acquisitions of DNS and Ultra Source, which have lower operating expense structures, and the company s ability to more effectively leverage its existing cost structure to support a higher level of sales.

Loss on Prepayment of Debt

The company recorded a loss on prepayment of debt of $2.6 million ($1.6 million net of related taxes or $.01 per share on both a basic and diluted basis) and $4.3 million ($2.6 million net of related taxes or $.02 and $.01 per share on a basic and diluted basis, respectively) in 2006 and 2005, respectively. These items are discussed below.

During 2006, the company redeemed the total amount outstanding of $283.2 million principal amount ($156.4 million accreted value) of its zero coupon convertible debentures due in 2021 (convertible debentures) and repurchased $4.1 million principal amount of its 7% senior notes due in January 2007. The related loss on

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the redemption and repurchase, including any related premium paid, write-off of deferred financing costs, and cost of terminating a portion of the related interest rate swaps, aggregated $2.6 million ($1.6 million net of related taxes or $.01 per share on both a basic and diluted basis) and was recognized as a loss on prepayment of debt. As a result of these transactions, net interest expense was reduced by approximately $2.6 million from the dates of redemption and repurchase through the respective maturity dates, based on interest rates in effect at the time of the redemption and repurchase.

During 2005, the company repurchased, through a series of transactions, $151.8 million accreted value of its convertible debentures. The related loss on the repurchases, including the premium paid and the write-off of related deferred financing costs, aggregated $3.2 million ($1.9 million net of related taxes or $.02 and $.01 per share on a basic and diluted basis, respectively). Also during 2005, the company repurchased, through a series of transactions, $26.8 million principal amount of its 7% senior notes due in January 2007. The premium paid, the related deferred financing costs written off upon the repurchase of this debt, and the loss for terminating the related interest rate swaps, aggregated $1.1 million ($.7 million net of related taxes). These charges totaled $4.3 million ($2.6 million net of related taxes or $.02 and $.01 per share on a basic and diluted basis, respectively), including $1.7 million in cash, and were recognized as a loss on prepayment of debt. As a result of these transactions, net interest expense was reduced by approximately $2.4 million from the dates of repurchase through the redemption date, based on interest rates in effect at the time of the repurchases.

Write-Down of Investments

During 2005, the company determined that an other-than-temporary decline in the fair value of its investment in Marubun Corporation had occurred and, accordingly, recognized a loss of $3.0 million ($.03 per share on both a basic and diluted basis) on the write-down of this investment.

Interest Expense

Net interest expense increased by 12.2% in 2007 to $101.6 million, compared with $90.6 million in 2006, primarily due to the settlement of certain tax matters in 2006 (discussed in Income Taxes below), which resulted in a reduction of related interest expense of $6.9 million. In addition, the company had higher average debt outstanding, primarily due to acquisitions, and higher variable interest rates in 2007, compared with the year-earlier period. Interest income decreased $2.1 million in 2007, compared with the year-earlier period, primary due to the use of interest-bearing cash to fund acquisitions.

Net interest expense decreased by 1.4% in 2006 to $90.6 million, compared with $91.8 million in 2005, primarily as a result of the settlement of certain income tax matters in 2006 (discussed in Income Taxes below), which resulted in a reduction of related interest expense of $6.9 million ($4.2 million net of related taxes or $.03 per share on both a basic and diluted basis), of which $4.0 million ($2.4 million net of related taxes or $.02 per share on both a basic and diluted basis) related to tax years prior to 2006, and lower debt balances, offset by higher variable-rate debt and reduced interest income. Interest income decreased $6.0 million in 2006, compared with the year-earlier period, primarily due to the use of interest-bearing cash to redeem the convertible debentures and to fund acquisitions.

Income Taxes

The company recorded a provision for income taxes of $180.7 million (an effective tax rate of 30.5%) for 2007. During 2007, the company recorded an income tax benefit of $6.0 million, net, ($.05 per share on both a basic and diluted basis) principally due to a reduction in deferred income taxes as a result of the statutory tax rate change in Germany. These deferred income taxes primarily related to the amortization of intangible assets for income tax purposes, which are not amortized for accounting purposes. The company s provision for income taxes and effective tax rate for 2007 were impacted by the aforementioned income tax benefit and the previously discussed restructuring and integration charges. Excluding the impact of the aforementioned income tax benefit and restructuring and integration charges, the company s effective tax rate was 31.7% for 2007.

The company recorded a provision for income taxes of $128.5 million (an effective tax rate of 24.8%) for 2006. During 2006, the company settled certain income tax matters covering multiple years. As a result of the settlement of the tax matters, the company recorded a reduction of the provision for income taxes of $46.2 million ($.38 per share on both a basic and diluted basis), of which $40.4 million ($.33 per share on both a basic and diluted basis) related to tax years prior to 2006. The company s provision

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for income taxes and effective tax rate were impacted by the previously discussed resolution of certain income tax matters, restructuring and integration charges, pre-acquisition warranty claim, and pre-acquisition environmental matters. Excluding the impact related to tax years prior to 2006 of the previously discussed resolution of certain income tax matters, restructuring and integration charges, pre-acquisition warranty claim, and pre-acquisition environmental matters, the company s effective tax rate was 32.4% for 2006.

The company recorded a provision for income taxes of $131.2 million (an effective tax rate of 34.0%) for 2005. The company s provision for income taxes and effective tax rate for 2005 were impacted by the previously discussed restructuring and integration charges, acquisition indemnification credit, and write-down of an investment. There was no tax benefit provided on the aforementioned write-down of an investment in 2005 as this capital loss was not deductible for tax purposes. Excluding the impact of the previously discussed restructuring and integration charges, acquisition indemnification credit, and write-down of an investment, the company s effective tax rate was 34.2% for 2005.

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

Net Income

The company recorded net income of $407.8 million for 2007, compared with $388.3 million in the year-earlier period. The increase in net income in 2007, compared with the year-earlier period, was due to increased gross profit on higher sales, offset, in part, by increased selling, general and administrative expenses to support the increase in sales, higher depreciation and amortization expense primarily related to acquisitions, and a higher effective tax rate. In addition, included in the results for 2007 are the previously discussed restructuring and integration charges of $7.0 million and income tax benefit of $6.0 million, net, principally due to a reduction in deferred income taxes as a result of the statutory tax rate change in Germany. Included in the results for 2006 are the previously discussed restructuring and integration charges of $9.0 million, a charge related to a pre-acquisition warranty claim of $1.9 million, a charge related to pre-acquisition environmental matters arising out of the company s purchase of Wyle of $.9 million, a loss on prepayment of debt of $1.6 million, and the reduction of the provision for income taxes of $46.2 million and the reduction of interest expense, net of related taxes, of $4.2 million related to the settlement of certain income tax matters totaling $50.4 million.

The company recorded net income of $388.3 million for 2006, compared with $253.6 million in the year-earlier period. The increase in net income in 2006, compared with the year-earlier period, was due to increased sales, the impact of efficiency initiatives reducing operating expenses, and, to a lesser extent, the acquisitions of DNS, Ultra Source, and Alternative Technology. Included in the results for 2005 are the previously discussed restructuring and integration charges of $7.3 million, acquisition indemnification credit of $1.3 million, loss on prepayment of debt of $2.6 million, and loss on the write-down of an investment of $3.0 million.

Net income for 2007 and 2006 included stock option expense of $7.0 million and $8.5 million, respectively, resulting from the company s adoption of Statement No. 123(R).

Liquidity and Capital Resources

At December 31, 2007 and 2006, the company had cash and cash equivalents of $447.7 million and $337.7 million, respectively.

During 2007, the net amount of cash provided by the company s operating activities was $850.7 million, the net amount of cash used for investing activities was $665.5 million, and the net amount of cash used for financing activities was $82.2 million. The effect of exchange rate changes on cash was an increase of $7.0 million.

During 2006, the net amount of cash provided by the company s operating activities was $120.8 million, the net amount of cash used for investing activities was $238.7 million, and the net amount of cash used for financing activities was $132.7 million. The effect of exchange rate changes on cash was an increase of $7.6 million.

During 2005, the net amount of cash provided by the company s operating activities was $402.5 million, the net amount of cash used for investing activities was $32.8 million, and the net amount of cash used for financing activities was $88.4 million. The effect of exchange rate changes on cash was a decrease of $5.9

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 61.6% and 66.0% at December 31, 2007 and 2006, respectively.

The net amount of cash provided by the company s operating activities during 2007 was $850.7 million. Earnings from operations, adjusted for non-cash items, a reduction in inventory, and an increase in accounts payable and accrued expenses were the primary sources of cash. This was offset, in part, by an increase in accounts receivable supporting increased sales.

The net amount of cash provided by the company s operating activities during 2006 was $120.8 million, primarily due to earnings from operations, adjusted for non-cash items, offset, in part, by increased inventory purchases, and increased accounts receivable supporting increased sales in the global components businesses.

The net amount of cash provided by the company s operating activities during 2005 was $402.5 million. Earnings from operations, adjusted for non-cash items, and an increase in accounts payable were the primary sources of cash. This was offset, in part, by an increase in accounts receivable supporting increased sales.

Working capital, as a percentage of sales, was 15.2%, 19.2%, and 19.6% in 2007, 2006, and 2005, respectively.

Cash Flows from Investing Activities

The net amount of cash used for investing activities during 2007 was $665.5 million, primarily reflecting $539.6 million of cash consideration paid for acquired businesses and $138.8 million for capital expenditures, which includes $73.1 million of capital expenditures related to the company s global ERP initiative. This was offset, in part, by $13.0 million of cash proceeds, primarily related to the sale of the company s Lenexa, Kansas and Harlow, England facilities.

During 2007, the company acquired KeyLink, a leading enterprise computing solutions distributor in North America, Adilam Pty. Ltd., a leading electronic components distributor in Australia and New Zealand, Centia/AKS, specialty distributors of access infrastructure, security, and virtualization software solutions in Europe, and Universe Electron Corporation, a distributor of semiconductor and multimedia products in Japan, for aggregate cash consideration of $506.9 million. In addition, the company made a payment of $32.7 million to increase its ownership interest in Ultra Source from 70.7% to 92.8%.

The net amount of cash used for investing activities during 2006 was $238.7 million, primarily reflecting $176.2 million for consideration paid for acquired businesses and $66.1 million for capital expenditures.

During 2006, the company acquired InTechnology, a distributor of storage and security solutions to VARs based in the United Kingdom, Alternative Technology, a leading specialty distributor of access infrastructure and security solutions in North America, and SKYDATA Corporation, a value-added distributor of data storage solutions in Canada, for aggregate cash consideration of $165.3 million. In addition, the company made payments of $10.9 million to increase its ownership interest in majority-owned subsidiaries and for other purchase consideration.

The net amount of cash used for investing activities during 2005 was $32.8 million, primarily reflecting $179.0 million for consideration paid for acquired businesses, $33.2 million for various capital expenditures offset, in part, by $158.6 million for net proceeds from the sale of short-term investments and $18.4 million from the sale of facilities.

During 2005, the company acquired DNS, a distributor of mid-range computer products in Europe, the component distribution business of Connektron Pty. Ltd., a passive, electromechanical, and connectors distributor in Australia and New Zealand, and 70.7% of the common shares of Ultra Source, one of the leading electronic components distributors in Taiwan, for aggregate cash consideration of $156.4 million. In addition, the company made a final payment of $20.1 million related to its 2004 acquisition of Disway AG and made payments of $2.5 million to increase its ownership interest in majority-owned subsidiaries.

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During the fourth quarter of 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 four years. For 2008, the estimated cash flow impact of this initiative is expected to be in the $90 to $100 million range with the annual impact decreasing by approximately $25 million in 2009. The company expects to finance these costs with cash flows from operations.

Cash Flows from Financing Activities

The net amount of cash used for financing activities during 2007 was $82.2 million. Net repayments of short-term borrowings of $90.3 million, repayments of long-term borrowings of $169.1 million related to the company s 7% senior notes that were repaid in January 2007 in accordance with their terms, and repurchases of common stock of $84.2 million under the company s share repurchase program were the primary uses of cash. This was offset, in part, by net proceeds from long-term borrowings of $198.5 million, which include proceeds from a $200.0 million term loan due in 2012, proceeds from the exercise of stock options of $55.2 million, and $7.7 million related to excess tax benefits from stock-based compensation arrangements.

The net amount of cash used for financing activities during 2006 was $132.7 million, primarily reflecting $160.6 million used to repurchase convertible debentures and senior notes, $15.7 million in other long-term debt repayments, and $22.3 million of net repayments of short-term borrowings, offset, in part, by $59.2 million of proceeds from the exercise of stock options and $6.7 million relating to excess tax benefits from stock-based compensation arrangements.

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

The net amount of cash used for financing activities during 2005 was $88.4 million, primarily reflecting $180.2 million used to repurchase convertible debentures and senior notes, and other repayments of long-term borrowings of $2.4 million, offset, in part, by $82.2 million of proceeds from the exercise of stock options and an increase in short-term borrowings of $12.0 million.

During 2005, the company repurchased, through a series of transactions, $151.8 million accreted value of its convertible debentures. The related loss on the repurchases, including the premium paid and the write-off of related deferred financing costs, aggregated $3.2 million ($1.9 million net of related taxes or $.02 and $.01 per share on a basic and diluted basis, respectively). Also during 2005, the company repurchased, through a series of transactions, $26.8 million principal amount of its 7% senior notes due in January 2007. The premium paid, the related deferred financing costs written off upon the repurchase of this debt, and the loss for terminating the related interest rate swaps, aggregated $1.1 million ($.7 million net of related taxes). These charges totaled $4.3 million ($2.6 million net of related taxes or $.02 and $.01 per share on a basic and diluted basis, respectively), including $1.7 million in cash. As a result of these transactions, net interest expense was reduced by approximately $2.4 million from the dates of repurchase through the redemption date, based on interest rates in effect at the time of the repurchases.

In January 2007, the company amended and restated its bank credit agreement and, among other things, increased the revolving credit facility size from $600.0 million to $800.0 million and also entered into a $200.0 million term loan. Interest on borrowings under the revolving credit facility is based on a base rate or a euro currency rate plus a spread based on the company s credit ratings (.425% at December 31, 2007). The credit facility matures in January 2012. The facility fee related to the credit facility is .125%. The $200.0 million term loan is repayable in full in January 2012. Interest on the term loan is based on a base rate or euro currency rate plus a spread based on the company s credit ratings (.60% at December 31, 2007).

The company has an asset securitization program collateralized by accounts receivable of certain of its North American subsidiaries. In March 2007, the company renewed its asset securitization program and, among other things, increased its size from $550.0 million to $600.0 million and extended its term to a three-year commitment maturing in

March 2010. Interest on borrowings is based on a base rate or a commercial paper rate plus a spread, which is based on the company s credit ratings (.225% at December 31, 2007). The facility fee is .125%.

The company had no outstanding borrowings under its revolving credit facility or its asset securitization program at December 31, 2007 and 2006. The revolving credit facility and asset securitization program include terms and conditions, which limit the incurrence of additional borrowings, limit the company s ability to pay cash dividends or repurchase stock, and require that certain financial ratios be maintained at designated levels. The company was in compliance with all of the covenants as of December 31, 2007. The company is currently not aware of any events which would cause non-compliance in the future.

Contractual Obligations

Payments due under contractual obligations at December 31, 2007 are as follows (in thousands):

	Within 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Debt	$ 11,777	$ 250,711	$ 200,138	$ 769,594	$ 1,232,220
Interest on long-term debt	87,454	167,804	118,506	312,446	686,210
Capital leases	1,116	2,090	804		4,010
Operating leases	61,479	82,565	45,590	33,218	222,852
Purchase obligations (a)	2,012,035	19,360	1,588	529	2,033,512
Other (b)	14,388	12,491	4,578	2,886	34,343
	$ 2,188,249	$ 535,021	$ 371,204	$ 1,118,673	$ 4,213,147

(a) Amounts represent an estimate of non-cancelable inventory purchase orders and other contractual obligations related to information technology and facilities as of December 31, 2007. Most of the company s inventory purchases are pursuant to authorized distributor agreements, which are typically cancelable by either party at any time or on short notice, usually within a few months.

(b) Includes estimates of contributions required to meet the requirements of several defined benefit plans. Amounts are subject to change based upon the performance of plan assets, as well as the discount rate used to determine the obligation. The company is unable to estimate the projected contributions beyond 2013. Also included are amounts relating to personnel, facilities, customer termination, and certain other costs resulting from restructuring and integration activities.

Under the terms of various joint venture agreements, the company is required to pay its pro-rata share of the third party debt of certain of its joint ventures in the event that the joint ventures are unable to meet their obligations. At December 31, 2007, the company s pro-rata share of this debt was approximately $7.6 million.

Also, as discussed in Note 8 of the Notes to Consolidated Financial Statements, effective January 1, 2007, the company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. At December 31, 2007, the company had a liability for unrecognized tax benefits and an accrual for the payment of related interest totaling $88.1 million, of which approximately $3.4 million is expected to be paid within one year. For the remaining liability, due to the uncertainties related to these tax matters, the company is unable to make a reasonably reliable estimate when cash settlement with a taxing authority will occur.

Share-Repurchase Program

In February 2006, the Board of Directors authorized the company to repurchase up to $100 million of the company s outstanding common stock through a share-repurchase program (the program). As of December 31, 2007, the company repurchased 2,075,491 shares under this program with a market value of $84.2 million. In December 2007, the Board of Directors authorized the company to repurchase an additional $100 million of the company s outstanding common stock in such amounts as to offset the dilution from the exercise of stock options and other stock-based compensation plans.

Off-Balance Sheet Arrangements

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

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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.

The company believes the following critical accounting policies involve the more significant judgments and estimates used in the preparation of its consolidated financial statements:

The company recognizes revenue in accordance with the SEC Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). Under SAB 104, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectibility is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates, and returns.

A portion of the company s business involves shipments directly from its suppliers to its customers. In these transactions, the company is responsible for negotiating price both with the supplier and customer, payment to the supplier, establishing payment terms with the customer, product returns, and has risk of loss if the customer does not make payment. As the principal with the customer, the company recognizes the sale and cost of sale of the product upon receiving notification from the supplier that the product was shipped.

In addition, the company has certain business with select customers and suppliers that is accounted for on an agency basis (that is, the company recognizes the fees associated with serving as an agent in sales with no associated cost of sales) in accordance with Emerging Issues Task Force (EITF) Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent.

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.

Inventories are stated at the lower of cost or market. Write-downs of inventories to market value are based upon contractual provisions governing price protection, stock rotation, and obsolescence, as well as assumptions about future demand and market conditions. If assumptions about future demand change and/or actual market conditions are less favorable than those projected by the company, additional write-downs of inventories may be required. Due to the large number of transactions and the complexity of managing the process around price protections and stock rotations, estimates are made regarding adjustments to the book cost of inventories. Actual amounts could be different from those estimated.

The company assesses its long-term investments accounted for as available-for-sale on a quarterly basis to determine whether declines in market value below cost are other-than-temporary. When the decline is determined to be other-than-temporary, the cost basis for the individual security is reduced and a loss is realized in the company s consolidated statement of operations in the period in which it occurs. When the decline is determined to be temporary, the unrealized losses are included in the shareholders equity section in the company s consolidated balance sheets in Other. The company makes such determination based upon the quoted market price, financial condition, operating results of the investee, and the company s intent and ability to retain the investment over a period of time, which would be sufficient to allow for any recovery in market value. In addition, the company assesses the following factors:

§ broad economic factors impacting the investee s industry;

§ publicly available forecasts for sales and earnings growth for the industry and investee; and

§ the cyclical nature of the investee s industry.

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The company could potentially have an impairment charge in future periods if, among other factors, the investee s future earnings differ from currently available forecasts.

The carrying value of the company s deferred tax assets is dependent upon the company s ability to generate sufficient future taxable income in certain tax jurisdictions. Should the company determine that it is more likely than not that some portion or all of its deferred tax assets will not be realized, a valuation allowance to the deferred tax assets would be established in the period such determination was made.

It is the company s policy to provide for uncertain tax positions and the related interest and penalties based upon management s assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At December 31, 2007, the company believes it has appropriately accounted for any unrecognized tax benefits. To the extent the company prevails in matters for which a liability for an unrecognized tax benefit is established or is required to pay amounts in excess of the liability, the company s effective tax rate in a given financial statement period may be affected.

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 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 company s consolidated balance sheets in Other. The ineffective portion of the interest rate swap, if any, is recorded in Interest expense, net in the company s consolidated statements of operations.

The effective portion of the change in the fair value of derivatives designated as net investment hedges are recorded in Foreign currency translation adjustment included in the company s consolidated balance sheets and any ineffective portion is recorded in earnings. The company uses the hypothetical derivative method to assess the effectiveness of its net investment hedge on a quarterly basis.

The company is subject to proceedings, lawsuits, and other claims related to environmental, labor, product, tax, and other matters. The company assesses the likelihood of an adverse judgment or outcomes for these matters, as well as the range of potential losses. A determination of the reserves required, if any, is made after careful analysis. The required reserves may change in the future due to new developments impacting the probability of a loss, the estimate of such loss, and the probability of recovery of such loss from third parties.

The company recorded charges in connection with restructuring its businesses, and the integration of acquired businesses. These items primarily include employee separation costs and estimates related to the consolidation of facilities (net of sub-lease income), contractual obligations, and the valuation of certain assets. Actual amounts could be different from those estimated.

Effective January 1, 2006, the company adopted the provisions of Statement No. 123(R), which requires share-based payment (SBP) awards exchanged for employee services to be measured at fair value and expensed in the consolidated statements of operations over the requisite employee service period.

Prior to January 1, 2006, the company accounted for SBP awards under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, which utilized the intrinsic value method and did not require any expense to be recorded in the consolidated financial statements if the exercise price of the award was not less than the market price of the underlying stock on the date of grant. The company elected to adopt, for periods prior to January 1, 2006, the disclosure requirements of FASB Statement No. 123, Accounting for Stock-Based Compensation, as amended by FASB Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, which used a fair value based method of accounting for SBP awards.

The company adopted the modified prospective transition method provided for under Statement No. 123(R) and, accordingly, did not restate prior period amounts. The fair value of stock options is determined using the Black-Scholes valuation model and the assumptions shown in Note 1 of the

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Notes to Consolidated Financial Statements (Note 1). The assumptions used in calculating the fair value of SBP awards represent management s best estimates. The company s estimates may be impacted by certain variables including, but not limited to, stock price volatility, employee stock option exercise behaviors, additional stock option grants, estimates of forfeitures, and related tax impacts. See Note 1 for a further discussion on stock-based compensation.

The costs and obligations of the company s defined benefit pension plan are dependent on actuarial assumptions. The two critical assumptions used, which impact the net periodic pension cost (income) and the benefit obligation, are the discount rate and expected return on plan assets. The discount rate represents the market rate for a high quality corporate bond, and the expected return on plan assets is based on current and expected asset allocations, historical trends, and expected returns on plan assets. These key assumptions are evaluated annually. Changes in these assumptions can result in different expense and liability amounts.

The company performs an annual impairment test as of the first day of the fourth quarter, or earlier if indicators of potential impairment exist, to evaluate goodwill. Goodwill is considered impaired if the carrying amount of the reporting unit exceeds its estimated fair value. In assessing the recoverability of goodwill, the company reviews both quantitative and qualitative factors to support its assumptions with regard to fair value. The fair value of a reporting unit is estimated using a weighted average multiple of earnings before interest and taxes from comparable companies. In determining the fair value, the company makes certain judgments, including the identification of reporting units and the selection of comparable companies. If these estimates or their related assumptions change in the future as a result of changes in strategy and/or market conditions, the company may be required to record an impairment charge.

Shipping and handling costs may be reported as either a component of cost of products sold or selling, general and administrative expenses. The company reports shipping and handling costs, primarily related to outbound freight, in the consolidated statements of operations as a component of selling, general and administrative expenses. If the company included such costs in cost of products sold, gross profit margin as a percentage of sales for 2007 would decrease from 14.3% to 13.9% with no impact on reported earnings.

<u>Impact of Recently Issued Accounting Standards</u>

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (Statement No. 141(R)). Statement No. 141(R) changes the requirements for an acquirer s recognition and measurement of the assets acquired and the liabilities assumed in a business combination. Statement No. 141(R) is effective for annual periods beginning after December 15, 2008 and should be applied prospectively for all business combinations entered into after the date of adoption.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (Statement No. 160). Statement No. 160 requires (i) that noncontrolling (minority) interests be reported as a component of shareholders equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. Statement No. 160 is effective for annual periods beginning after December 15, 2008 and should be applied prospectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. The adoption of the provisions of Statement No. 160 is not anticipated to materially impact the company s consolidated financial position and results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (Statement No. 157) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. Statement No. 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis, and should be applied prospectively. The adoption of the provisions of Statement No. 157 related to financial assets and liabilities and other assets and liabilities that are carried at

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fair value on a recurring basis is not anticipated to materially impact the company s consolidated financial position and results of operations. Subsequently, the FASB provided for a one-year deferral of the provisions of Statement No. 157 for non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a non-recurring basis. The company is currently evaluating the impact of adopting the provisions of Statement No. 157 for non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis.

Information Relating to Forward-Looking Statements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The company is exposed to market risk from changes in foreign currency exchange rates and interest rates.

Foreign Currency Exchange Rate Risk

The company, as a large, global organization, faces exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and could materially impact the company s financial results in the future. The company s primary exposure relates to transactions in which the currency collected from customers is different from the currency utilized to purchase the product sold in Europe, the Asia Pacific region, Canada, and Latin America. The company s policy is to hedge substantially all such currency exposures for which natural hedges do not exist. Natural hedges exist when purchases and sales within a specific country are both denominated in the same currency and, therefore, no exposure exists to hedge with a foreign exchange forward, option, or swap contracts (collectively, the foreign exchange contracts). In many regions in Asia, for example, sales and purchases are primarily denominated in U.S. dollars, resulting in a natural hedge. Natural hedges exist in most countries in which the company operates, although the percentage of natural offsets, as compared with offsets that need to be hedged by foreign exchange contracts, will vary from country to country. 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 is estimated using market quotes. The notional amount of the foreign exchange contracts at December 31, 2007 and 2006 was $262.9 million and $298.0 million, respectively. The carrying amounts, which are nominal, approximated fair value at December 31, 2007 and 2006.

The translation of the financial statements of the non-United States operations is impacted by fluctuations in foreign currency exchange rates. The increase in consolidated sales and operating income was impacted by the translation of the company s international financial statements into U.S. dollars. This resulted in increased sales of $394.7 million and increased operating income of $23.4 million for 2007, compared with the year-earlier period, based on 2006 sales at the average rate for 2007. Sales and operating income would have decreased by approximately $493.8 million and $27.8 million, respectively, if average foreign exchange rates had declined by 10% against the U.S. dollar in 2007. This amount was determined by considering the impact of a hypothetical foreign exchange rate on the sales and operating income of the company s international operations.

In May 2006, the company entered into a cross-currency swap, with a maturity date of July 2013, for approximately $100.0 million or 78.3 million (the 2006 cross-currency swap) to hedge a portion of its net investment in euro-denominated net assets. The 2006 cross-currency swap is designated as a net investment hedge and effectively converts the interest expense on $100.0 million of long-term debt from U.S. dollars to euros. As the notional amount of the 2006 cross-currency swap is expected to equal a comparable amount of hedged net assets, no material ineffectiveness is expected. The 2006 cross-currency swap had a negative fair value of $14.4 million and $3.2 million at December 31, 2007 and 2006, 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 $46.2 million and $21.7 million at December 31, 2007 and 2006, respectively.

Interest Rate Risk

The company s interest expense, in part, is sensitive to the general level of interest rates in North America, Europe, and the Asia Pacific region. The company historically has managed its exposure to interest rate risk through the proportion of fixed-rate and floating-rate debt in its total debt portfolio. Additionally, the company utilizes interest rate swaps in order to manage its targeted mix of fixed- and floating-rate debt.

At December 31, 2007, 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 interest expense, net of interest income, in 2007. This was determined by considering the impact of a hypothetical interest rate on the company s average floating rate on investments and outstanding debt. This analysis does not consider the effect of the level of overall economic activity that could exist. In the event of a change in the level of economic activity, which may adversely impact interest rates, the company could likely take actions to further mitigate any potential negative exposure to the change. However, due to the uncertainty of the specific actions that might be taken and their possible effects, the sensitivity analysis assumes no changes in the company s financial structure.

In December 2007, the company entered into an interest rate swap (the 2007 swap) with a notional amount of $50.0 million. The 2007 swap modifies the company s interest rate exposure by effectively converting the variable rate (5.403% at December 31, 2007) on a portion of its $200.0 million term loan to a fixed rate of 4.595% per annum through December 2009. The 2007 swap is classified as a cash flow hedge and had a negative fair value of $.2 million at December 31, 2007.

In June 2004, the company entered into a series of interest rate swaps (the 2004 swaps), with an aggregate notional amount of $300.0 million. The 2004 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 9.50% and 9.73% at December 31, 2007 and 2006, respectively), and a portion of the fixed 6.875% senior notes to a floating rate, also based on the six-month U.S. dollar LIBOR plus a spread (an effective rate of 7.24% and 7.50% at December 31, 2007 and 2006, respectively), through their maturities. The 2004 swaps are classified as fair value hedges and had a fair value of $7.5 million and a negative fair value of $3.2 million at December 31, 2007 and 2006, respectively.

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Item 8. Financial Statements and Supplementary Data.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Arrow Electronics, Inc.

We have audited the accompanying consolidated balance sheets of Arrow Electronics, Inc. (the company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and the schedule are the responsibility of the company s management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arrow Electronics, Inc. at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the company adopted EITF Issue No. 06-2, Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, and as discussed in Note 8 to the consolidated financial statements, the company adopted FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, effective January 1, 2007. As discussed in Note 13 to the consolidated financial statements, the company adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R), effective December 31, 2006. As discussed in Note 1 to the consolidated financial statements, the company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, as revised, effective January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Arrow Electronics, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 8, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
New York, New York
February 8, 2008

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

	Years Ended December 31, 2007	2006	2005
Sales	$ 15,984,992	$ 13,577,112	$ 11,164,196
Costs and expenses:			
Cost of products sold	13,699,715	11,545,719	9,424,586
Selling, general and administrative expenses	1,519,908	1,362,149	1,200,826
Depreciation and amortization	66,719	46,904	47,482
Restructuring and integration charges	11,745	11,829	12,716
Pre-acquisition warranty claim	-	2,837	-
Pre-acquisition environmental matters	-	1,449	-
Acquisition indemnification credit	-	-	(1,672)
	15,298,087	12,970,887	10,683,938
Operating income	686,905	606,225	480,258
Equity in earnings of affiliated companies	6,906	5,221	4,492
Loss on prepayment of debt	-	2,605	4,342
Write-down of investments	-	-	3,019
Interest expense, net	101,628	90,564	91,828
Income before income taxes and minority interest	592,183	518,277	385,561
Provision for income taxes	180,697	128,457	131,248
Income before minority interest	411,486	389,820	254,313
Minority interest	3,694	1,489	704
Net income	$ 407,792	$ 388,331	$ 253,609
Net income per share:			
Basic	$ 3.31	$ 3.19	$ 2.15
Diluted	$ 3.28	$ 3.16	$ 2.09

Average number of shares outstanding:			
Basic	123,176	121,667	117,819
Diluted	124,429	123,181	124,080

See accompanying notes.

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

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 447,731	$ 337,730
Accounts receivable, net	3,281,169	2,710,321
Inventories	1,679,866	1,691,536
Prepaid expenses and other assets	180,629	156,034
Total current assets	5,589,395	4,895,621
Property, plant and equipment, at cost:		
Land	41,553	41,810
Buildings and improvements	175,979	167,157
Machinery and equipment	580,278	481,689
	797,810	690,656
Less: Accumulated depreciation and amortization	(442,649)	(428,283)
Property, plant and equipment, net	355,161	262,373
Investments in affiliated companies	47,794	41,960
Cost in excess of net assets of companies acquired	1,779,235	1,231,281
Other assets	288,275	238,337
Total assets	$ 8,059,860	$ 6,669,572
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,535,583	$ 1,795,089
Accrued expenses	438,898	402,536
Short-term borrowings, including current portion of long-term debt	12,893	262,783
Total current liabilities	2,987,374	2,460,408

Long-term debt	1,223,337	976,774
Other liabilities	297,289	235,831
Shareholders equity:		
Common stock, par value $1:		
Authorized - 160,000 shares in 2007 and 2006		
Issued - 125,039 and 122,626 shares in 2007 and 2006, respectively	125,039	122,626
Capital in excess of par value	1,025,611	943,958
Retained earnings	2,184,744	1,787,746
Foreign currency translation adjustment	312,755	155,166
Other	(8,720)	(7,407)
	3,639,429	3,002,089
Less: Treasury stock (2,212 and 207 shares in 2007 and 2006, respectively), at cost	(87,569)	(5,530)
Total shareholders equity	3,551,860	2,996,559
Total liabilities and shareholders equity	$ 8,059,860	$ 6,669,572

See accompanying notes.

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

	Years Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	$ 407,792	$ 388,331	$ 253,609
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	66,719	46,904	47,482
Amortization of stock-based compensation	21,389	21,268	6,953
Amortization of deferred financing costs and discount on notes	2,144	2,808	3,589
Equity in earnings of affiliated companies	(6,906)	(5,221)	(4,492)
Minority interest	3,694	1,489	704
Excess tax benefits from stock-based compensation arrangements	(7,687)	(6,661)	-
Deferred income taxes	8,661	(9,433)	21,920
Restructuring and integration charges	7,036	8,977	7,310
Accretion of discount on zero coupon convertible debentures	-	876	8,698
Pre-acquisition warranty claim and environmental matters	-	2,728	-
Acquisition indemnification credit	-	-	(1,267)
Loss on prepayment of debt	-	1,558	2,596
Write-down of investments	-	-	3,019
Impact of settlement of tax matters	-	(50,376)	-
Change in assets and liabilities, net of effects of acquired businesses:			
Accounts receivable	(279,636)	(202,135)	(188,235)
Inventories	116,657	(119,612)	11,707
Prepaid expenses and other assets	(19,315)	(25,131)	(17,300)
Accounts payable	475,155	52,561	258,485
Accrued expenses	32,458	98	24,470
Other	22,582	11,811	(36,700)
Net cash provided by operating activities	850,743	120,840	402,548
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(138,834)	(66,078)	(33,179)
Cash consideration paid for acquired businesses	(539,618)	(176,235)	(178,998)
Proceeds from sale of facilities	12,996	-	18,353
Purchase of short-term investments	-	-	(230,456)
Proceeds from sale of short-term investments	-	-	389,056
Other	(23)	3,652	2,429
Net cash used for investing activities	(665,479)	(238,661)	(32,795)
Cash flows from financing activities:			
Change in short-term borrowings	(90,318)	(22,298)	11,994

Repayment of long-term borrowings	(2,312,251)	(15,687)	(2,400)
Proceeds from long-term borrowings	2,510,800	-	-
Repurchase/repayment of senior notes	(169,136)	(4,268)	(27,762)
Redemption/repurchase of zero coupon convertible debentures	-	(156,330)	(152,449)
Proceeds from exercise of stock options	55,228	59,194	82,176
Excess tax benefits from stock-based compensation arrangements	7,687	6,661	-
Repurchases of common stock	(84,236)	-	-
Net cash used for financing activities	(82,226)	(132,728)	(88,441)
Effect of exchange rate changes on cash	6,963	7,618	(5,945)
Net increase (decrease) in cash and cash equivalents	110,001	(242,931)	275,367
Cash and cash equivalents at beginning of year	337,730	580,661	305,294
Cash and cash equivalents at end of year	$ 447,731	$ 337,730	$ 580,661

See accompanying notes.

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ARROW ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(In thousands)

	Common Stock at Par Value	Capital in Excess of Par Value	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Stock	Unamortized Employee Stock Awards	Other Comprehensive Income (Loss)	Total
Balance at December 31, 2004	$ 117,675	$ 797,828	$ 1,145,806	$ 190,595	$ (36,735)	$ (3,738)	$ (17,245)	$ 2,194,186
Net income	-	-	253,609	-	-	-	-	253,609
Translation adjustments	-	-	-	(177,287)	-	-	-	(177,287)
Unrealized gain on securities, net	-	-	-	-	-	-	7,872	7,872
Minimum pension liability adjustments, net	-	-	-	-	-	-	(2,957)	(2,957)
Comprehensive income								81,237
Amortization of stock-based compensation	-	4,706	-	-	-	2,247	-	6,953
Exercise of stock options	2,612	51,190	-	-	28,888	-	-	82,690
Tax benefits related to exercise of stock options	-	7,315	-	-	-	-	-	7,315
Restricted stock awards, net	-	333	-	-	600	(933)	-	-
Other	(1)	508	-	-	(31)	29	-	505
Balance at December 31, 2005	120,286	861,880	1,399,415	13,308	(7,278)	(2,395)	(12,330)	2,372,886
Net income	-	-	388,331	-	-	-	-	388,331
Translation adjustments	-	-	-	141,858	-	-	-	141,858
Unrealized gain on securities, net	-	-	-	-	-	-	1,683	1,683

Minimum pension liability adjustments, net	-	-	-	-	-	-	5,810	5,810
Comprehensive income								537,682
Reclassification of employee stock awards upon adoption of FASB Statement No. 123(R)	-	(2,395)	-	-	-	2,395	-	-
Amortization of stock-based compensation	-	21,268	-	-	-	-	-	21,268
Exercise of stock options	2,339	56,529	-	-	-	-	-	58,868
Tax benefits related to exercise of stock options	-	6,661	-	-	-	-	-	6,661
Restricted stock awards, net	-	(1,790)	-	-	1,790	-	-	-
Adjustment to initially apply FASB Statement No. 158	-	-	-	-	-	-	(2,570)	(2,570)
Other	1	1,805	-	-	(42)	-	-	1,764
Balance at December 31, 2006	$ 122,626	$ 943,958	$ 1,787,746	$ 155,166	$ (5,530)	$ -	$ (7,407)	$ 2,996,559

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ARROW ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (continued)
(In thousands)

	Common Stock at Par Value	Capital in Excess of Par Value	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Stock	Unamortized Employee Stock Awards	Other Comprehensive Income (Loss)	Total
Balance at December 31, 2006	$ 122,626	$ 943,958	$ 1,787,746	$ 155,166	$ (5,530)	$ -	$ (7,407)	$ 2,996,559
Net income	-	-	407,792	-	-	-	-	407,792
Translation adjustments	-	-	-	157,589	-	-	-	157,589
Unrealized gain on securities, net	-	-	-	-	-	-	648	648
Unrealized loss on interest rate swaps designated as cash flow hedges, net	-	-	-	-	-	-	(94)	(94)
Other employee benefit plan items, net	-	-	-	-	-	-	(1,867)	(1,867)
Comprehensive income								564,068
Amortization of stock-based compensation	-	21,389	-	-	-	-	-	21,389
Exercise of stock options	2,216	52,867	-	-	-	-	-	55,083
Performance share awards	197	(197)	-	-	-	-	-	-
Tax benefits related to exercise of stock options	-	9,791	-	-	-	-	-	9,7