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ARROW ELECTRONICS INC

Form 10-Q

November 01, 2018

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xbrli:shares

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

FORM 10-Q

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

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For the quarterly period ended September 29, 2018

OR

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

For the transition period from _____ to _____

Commission file number 1-4482

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

New York

(State or other jurisdiction of incorporation or organization)

11-1806155

(I.R.S. Employer Identification Number)

9201 East Dry Creek Road, Centennial, Colorado

(Address of principal executive offices)

80112

(Zip Code)

(303) 824-4000

(Registrant's telephone number, including area code)

No Changes

(Former name, former address and former fiscal year, if changed since last report)

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

There were 87,172,144 shares of Common Stock outstanding as of October 30, 2018.

ARROW ELECTRONICS, INC.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

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

	Quarter Ended		Nine Months Ended	
	September 29,	September 30,	September 29,	September 30,
	2018	2017	2018	2017
		(Adjusted)		(Adjusted)
Sales	\$7,490,445	\$ 6,856,108	\$21,758,586	\$ 19,015,114
Cost of sales	6,566,667	6,013,541	19,033,044	16,587,326
Gross profit	923,778	842,567	2,725,542	2,427,788
Operating expenses:				
Selling, general, and administrative expenses	575,751	552,656	1,719,108	1,599,963
Depreciation and amortization	45,532	38,574	139,201	113,096
Loss on disposition of businesses, net	2,042	—	3,604	—
Restructuring, integration, and other charges	10,143	15,896	50,497	55,817
	633,468	607,126	1,912,410	1,768,876
Operating income	290,310	235,441	813,132	658,912
Equity in earnings (losses) of affiliated companies	(652) 1,216	(808) 2,865
Gain (loss) on investments, net	1,070	(13,029) (3,945) (8,784
Loss on extinguishment of debt	—	786	—	59,545
Employee benefit plan expense	1,296	1,850	3,784	5,547
Interest and other financing expense, net	54,205	40,111	160,187	120,898
Income before income taxes	235,227	180,881	644,408	467,003
Provision for income taxes	57,054	45,972	155,325	115,128
Consolidated net income	178,173	134,909	489,083	351,875
Noncontrolling interests	1,640	845	3,541	3,352
Net income attributable to shareholders	\$176,533	\$ 134,064	\$485,542	\$ 348,523
Net income per share:				
Basic	\$2.02	\$ 1.52	\$5.53	\$ 3.92
Diluted	\$1.99	\$ 1.50	\$5.47	\$ 3.88
Weighted-average shares outstanding:				
Basic	87,602	88,453	87,785	88,870
Diluted	88,608	89,540	88,759	89,936

See accompanying notes.

ARROW ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Quarter Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
		(Adjusted)		(Adjusted)
Consolidated net income	\$ 178,173	\$ 134,909	\$ 489,083	\$ 351,875
Other comprehensive income:				
Foreign currency translation adjustment and other	(38,008)	54,893	(139,846)	225,270
Unrealized gain on investment securities, net	—	1,357	—	4,639
Unrealized gain (loss) on interest rate swaps designated as cash flow hedges, net	234	(2,093)	693	(2,543)
Employee benefit plan items, net	389	492	1,284	1,403
Other comprehensive income (loss)	(37,385)	54,649	(137,869)	228,769
Comprehensive income	140,788	189,558	351,214	580,644
Less: Comprehensive income attributable to noncontrolling interests	1,497	2,049	1,486	7,743
Comprehensive income attributable to shareholders	\$ 139,291	\$ 187,509	\$ 349,728	\$ 572,901

See accompanying notes.

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

	September 29, 2018	December 31, 2017 (Adjusted)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 474,191	\$ 730,083
Accounts receivable, net	8,229,791	8,125,588
Inventories	3,722,808	3,302,518
Other current assets	292,641	256,028
Total current assets	12,719,431	12,414,217
Property, plant, and equipment, at cost:		
Land	13,168	12,866
Buildings and improvements	159,754	160,664
Machinery and equipment	1,415,619	1,330,730
	1,588,541	1,504,260
Less: Accumulated depreciation and amortization	(749,978)	(665,785)
Property, plant, and equipment, net	838,563	838,475
Investments in affiliated companies	85,175	88,347
Intangible assets, net	313,472	286,215
Goodwill	2,659,335	2,470,047
Other assets	362,049	361,966
Total assets	\$ 16,978,025	\$ 16,459,267
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 6,886,217	\$ 6,756,830
Accrued expenses	797,088	841,675
Short-term borrowings, including current portion of long-term debt	158,153	356,806
Total current liabilities	7,841,458	7,955,311
Long-term debt	3,352,128	2,933,045
Other liabilities	482,397	572,971
Commitments and contingencies (Note M)		
Equity:		
Shareholders' equity:		
Common stock, par value \$1:		
Authorized - 160,000 shares in both 2018 and 2017, respectively		
Issued - 125,424 shares in both 2018 and 2017, respectively	125,424	125,424
Capital in excess of par value	1,129,345	1,114,167
Treasury stock (38,251 and 37,733 shares in 2018 and 2017, respectively), at cost	(1,824,373)	(1,762,239)
Retained earnings	6,104,682	5,596,786
Accumulated other comprehensive loss	(283,051)	(124,883)
Total shareholders' equity	5,252,027	4,949,255
Noncontrolling interests	50,015	48,685
Total equity	5,302,042	4,997,940
Total liabilities and equity	\$ 16,978,025	\$ 16,459,267

See accompanying notes.

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

	Nine Months Ended	
	September 30,	September 30,
	2018	2017
		(Adjusted)
Cash flows from operating activities:		
Consolidated net income	\$489,083	\$ 351,875
Adjustments to reconcile consolidated net income to net cash provided by operations:		
Depreciation and amortization	139,201	113,096
Amortization of stock-based compensation	38,104	30,301
Equity in (earnings) losses of affiliated companies	808	(2,865)
Loss on extinguishment of debt	—	59,545
Deferred income taxes	17,769	13,262
Loss on investments, net	3,945	9,504
Other	9,660	7,415
Change in assets and liabilities, net of effects of acquired and disposed businesses:		
Accounts receivable	(254,417)	(26,286)
Inventories	(456,050)	(261,126)
Accounts payable	171,697	(113,804)
Accrued expenses	15,177	(42,267)
Other assets and liabilities	(165,421)	(136,871)
Net cash provided by operating activities	9,556	1,779
Cash flows from investing activities:		
Cash consideration paid for acquired businesses, net of cash acquired	(331,563)	(3,628)
Proceeds from disposition of businesses	32,013	—
Acquisition of property, plant, and equipment	(104,897)	(149,597)
Proceeds from sale of property, plant, and equipment	—	24,433
Other	(11,000)	(2,467)
Net cash used for investing activities	(415,447)	(131,259)
Cash flows from financing activities:		
Change in short-term and other borrowings	104,158	(14,423)
Proceeds from (repayments of) long-term bank borrowings, net	420,755	(82,766)
Proceeds from note offerings, net	—	987,144
Redemption of notes	(300,000)	(555,886)
Proceeds from exercise of stock options	7,919	21,423
Repurchases of common stock	(93,173)	(149,125)
Purchase of shares from noncontrolling interest	—	(23,350)
Other	(1,174)	(1,620)
Net cash provided by financing activities	138,485	181,397
Effect of exchange rate changes on cash	11,514	(1,898)
Net increase (decrease) in cash and cash equivalents	(255,892)	50,019
Cash and cash equivalents at beginning of period	730,083	534,320
Cash and cash equivalents at end of period	\$474,191	\$ 584,339

See accompanying notes.

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

Note A – Basis of Presentation

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

These consolidated financial statements do not include all of the information or notes necessary for a complete presentation and, accordingly, should be read in conjunction with the company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2017, as filed in the company's Annual Report on Form 10-K.

Quarter End

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

Reclassification

Certain prior period amounts were reclassified to conform to the current period presentation (See Note B). These reclassifications are included in the footnote tables for the third quarter and nine months ended September 29, 2018.

Note B – Impact of Recently Issued Accounting Standards

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2018-15, *Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)* ("ASU No. 2018-15"). ASU No. 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop internal-use software. ASU No. 2018-15 is effective for the company in the first quarter of 2020, with early adoption permitted, and is to be applied either retrospectively or prospectively. The company is currently evaluating the potential effects of adopting the provisions of ASU No. 2018-15.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)* ("ASU No. 2018-02"). ASU No. 2018-02 provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period that is impacted by U.S. federal government tax legislation enacted in 2017. Effective January 1, 2018, the company adopted the provisions of ASU No. 2018-02 on a prospective basis as an adjustment to retained earnings of \$4,116.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815)* ("ASU No. 2017-12"). ASU No. 2017-12 simplifies certain aspects of hedge accounting and results in a more accurate portrayal of the economics of an entity's risk management activities in its financial statements. ASU No. 2017-12 is effective for the company in the first quarter of 2019, with early adoption permitted, and is to be applied on a modified retrospective basis. The company is currently evaluating the potential effects of adopting the provisions of ASU No.

2017-12.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, *Compensation - Retirement Benefits (Topic 715)* ("ASU No. 2017-07"). ASU No. 2017-07 requires that the service cost component of pension expense be included in the same line item as other compensation costs arising from services rendered by employees, with the other components of pension expense being classified outside of a subtotal of income from operations. Effective January 1, 2018, the company adopted the provisions of ASU No. 2017-07 on a retrospective basis for the presentation requirements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)* ("ASU No. 2016-13"). ASU No. 2016-13 revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU No. 2016-13 is effective for the company in the first quarter of 2020, with early

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

adoption permitted, and is to be applied using a modified retrospective approach. The company is currently evaluating the potential effects of adopting the provisions of ASU No. 2016-13.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* ("ASU No. 2016-02"). ASU No. 2016-02 requires the entity to recognize the assets and liabilities for the rights and obligations created by leased assets. Leases will be classified as either finance or operating, with classification affecting expense recognition in the income statement. In July 2018 the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, and ASU No. 2018-11, *Leases (Topic 842) Targeted Improvements*, which provide supplemental adoption guidance and clarification to ASU No. 2016-02, and must be adopted concurrently with the adoption of ASU No. 2016-02, cumulatively referred to as "Topic 842". Topic 842 is effective for the company in the first quarter of 2019, with early adoption permitted, and is to be applied using either a modified retrospective approach, or an optional transition method which allows an entity to apply the new standard at the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

The company expects to adopt Topic 842 in the first quarter of 2019 under the optional transition method described above. In addition, the company will elect the short-term lease exception outlined in ASC 842. While the company continues to evaluate the effects of adopting the provisions of Topic 842, the company expects most existing operating lease commitments will be recognized as operating lease liabilities and right-of-use assets upon adoption. The adoption is not expected to be material to the financial statements, and based on our ongoing assessment, will increase total assets by less than 3%.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825)* ("ASU No. 2016-01"). ASU No. 2016-01 revises the classification and measurement of investments in certain equity investments and the presentation of certain fair value changes for certain financial liabilities measured at fair value. ASU No. 2016-01 requires the change in fair value of many equity investments to be recognized in net income. Effective January 1, 2018, the company adopted the provisions of ASU No. 2016-01 on a prospective basis as an adjustment to retained earnings of \$18,238.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU No. 2014-09"). ASU No. 2014-09 supersedes all existing revenue recognition guidance. Under ASU No. 2014-09, an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March, April, May, and December 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ("ASU No. 2016-08"); ASU No. 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing* ("ASU No. 2016-10"); ASU No. 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients* ("ASU No. 2016-12"); and ASU No. 2016-19, *Technical Corrections and Improvements* ("ASU No. 2016-19"), respectively. ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12, and ASU No. 2016-19 provide supplemental adoption guidance and clarification to ASU No. 2014-09, and must be adopted concurrently with the adoption of ASU No. 2014-09, cumulatively referred to as "Topic 606".

On January 1, 2018, the company adopted Topic 606 applying the full retrospective method. The primary impact of adoption relates to the application of principal versus agent indicators and the determination of whether goods and services are distinct. In addition, the company is deferring certain revenue due to the determination of when transfer of control occurs. The deferrals are expected to be recognized within a year of the transaction date.

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

The following table presents the effect of the adoption of Topic 606, ASU No. 2017-07, and other prior period reclassifications.

	Quarter Ended September 30, 2017			Nine Months Ended September 30, 2017		
	As Previously Reported	Adjustments**	Adjusted for New Standards	As Previously Reported	Adjustments**	Adjusted for New Standards
Sales	\$6,953,740	\$ (97,632)	\$6,856,108	\$19,178,638	\$ (163,524)	\$19,015,114
Cost of sales	6,110,382	(96,841)	6,013,541	16,751,427	(164,101)	16,587,326
Gross profit	843,358	(791)	842,567	2,427,211	577	2,427,788
Operating expenses:						
Selling, general, and administrative expenses	552,896	(240)	552,656	1,600,762	(799)	1,599,963
Depreciation and amortization	38,574	—	38,574	113,096	—	113,096
Restructuring, integration, and other charges	15,896	—	15,896	55,817	—	55,817
	607,366	(240)	607,126	1,769,675	(799)	1,768,876
Operating income	235,992	(551)	235,441	657,536	1,376	658,912
Equity in earnings of affiliated companies	1,216	—	1,216	2,865	—	2,865
Gain (loss) on investments, net	(15,000)	1,971	(13,029)	(14,250)	5,466	(8,784)
Loss on extinguishment of debt	786	—	786	59,545	—	59,545
Employee benefit plan expense	—	1,850	1,850	—	5,547	5,547
Interest and other financing expense, net	39,748	363	40,111	120,179	719	120,898
Income before income taxes	181,674	(793)	180,881	466,427	576	467,003
Provision for income taxes	46,199	(227)	45,972	114,998	130	115,128
Consolidated net income	135,475	(566)	134,909	351,429	446	351,875
Noncontrolling interests	845	—	845	3,352	—	3,352
Net income attributable to shareholders	134,630	(566)	134,064	348,077	446	348,523
Net income per share:						
Basic*	\$1.52	\$ —	\$1.52	\$3.92	\$ —	\$3.92
Diluted*	\$1.50	\$ —	\$1.50	\$3.87	\$ 0.01	\$3.88

* The sum of the as previously reported and as adjusted may not agree to totals, as presented, due to rounding.

** Topic 606 impacted sales and cost of sales. ASU No. 2017-07 and other reclassifications impacted operating and non-operating expenses.

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

The following table presents the effect of the adoption of Topic 606, ASU No. 2017-07, and other prior period reclassifications for 2017.

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year to Date	
	As Previously Reported	Adjusted for New Standards	As Previously Reported	Adjusted for New Standards	As Previously Reported	Adjusted for New Standards	As Previously Reported	Adjusted for New Standards	As Previously Reported	Adjusted for New Standards
2017										
Sales	\$ 5,759,552	\$ 5,736,780	\$ 6,465,346	\$ 6,422,226	\$ 6,953,740	\$ 6,856,108	\$ 7,633,870	\$ 7,539,449	\$ 26,812,508	\$ 26,554,563
Cost of sales	4,999,665	4,975,583	5,641,380	5,598,202	6,110,382	6,013,541	6,703,742	6,610,269	23,455,169	23,197,595
Operating income	191,722	193,025	229,822	230,446	235,992	235,441	270,914	286,824	928,450	945,736
Net income attributable to shareholders	\$ 113,768	\$ 114,737	\$ 99,679	\$ 99,722	\$ 134,630	\$ 134,064	\$ 53,885	\$ 53,653	\$ 401,962	\$ 402,176

Operating income for the fourth quarter of 2017 was impacted by a reclassification of pension settlement expense of \$16,706 due to the implementation of ASU No. 2017-07. The settlement expense was moved to "Employee benefit plan expense", which is classified as non-operating on the statement of operations.

Note C – Significant Accounting Policies

Except for the changes below, no material changes have been made to the company's significant accounting policies disclosed in Note 1, Summary of Significant Accounting Policies, in its Annual Report on Form 10-K, filed on February 6, 2018, for the year ended December 31, 2017.

Revenue Recognition

Revenue is recognized at the point at which control of the underlying goods or services are transferred to the customer, which included determining whether goods and services are distinct and separate performance obligations, which may require significant judgment. Satisfaction of the company's performance obligations occur upon the transfer of control of goods or services, either from the company's facilities or directly from suppliers to customers. The company considers customer purchase orders, which in some cases are governed by master agreements, to be the contracts with a customer. All revenue is generated from contracts with customers.

In determining the transaction price, the company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the company expects to receive. The amount of consideration received and revenue recognized by the company vary due to contractually defined incentives and return rights that are held by customers. These adjustments are made in the same period as the underlying transactions.

Investments

The changes in fair value of equity investments, for which the company does not possess the ability to exercise significant influence, are recognized in net income. The fair values of these equity investments are based upon readily determinable fair values (Note I).

Income Taxes

In the fourth quarter of 2017, the company recorded a provision amount of \$124,749, which is a reasonable estimate of the impact of U.S. federal government tax legislation enacted in 2017 (the "Tax Act") pursuant to the guidance

provided by the U.S. Securities and Exchange Commission's Staff Accounting Bulletin ("SAB 118"), which allows the company a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related provisional tax impacts. Accordingly, the company is continuing to assess the related tax impacts under SAB 118 and has not made any adjustments during the first nine months of 2018 to the reasonable estimate of \$124,749 previously recorded in the fourth quarter of 2017.

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

Note D – Acquisitions

2018 Acquisitions

On January 8, 2018, the company acquired eInfochips for a purchase price of \$327,628, which included \$14,769 of cash acquired. eInfochips services customers at every phase of technology deployment, including custom hardware and software, and new Internet of Things based business models. eInfochips is recorded in the company's global components business segment.

Since the date of the acquisition, eInfochips sales of \$64,871 were included in the company's consolidated results of operations.

The purchase price allocation is preliminary and subject to adjustment based on our final assessment of fair value of the acquired assets and liabilities. Items initially estimated and subject to change upon finalization of the valuation include goodwill, intangibles, and deferred taxes. The following table summarizes the preliminary allocation of the net consideration paid to the fair value of the assets acquired and liabilities assumed for the eInfochips acquisition:

Accounts receivable, net	\$ 13,701
Inventories	1,512
Property, plant, and equipment	4,557
Other assets	23,733
Identifiable intangible assets	71,710
Goodwill	230,237
Accounts payable	(521)
Accrued expenses	(8,595)
Deferred tax liability	(21,969)
Other liabilities	(1,506)
Cash consideration paid, net of cash acquired	\$ 312,859

In connection with the eInfochips acquisition, the company allocated \$71,710 to customer relationships with a weighted-average life of 9 years.

The goodwill related to the eInfochips acquisition was recorded in the company's global components business segment and is not tax deductible.

During the first nine months of 2018, the company completed one additional acquisition with a purchase price of approximately \$18,704, net of cash acquired. The impact of this acquisition was not material to the company's consolidated financial position or results of operations.

The following table summarizes the company's unaudited consolidated results of operations for the third quarter and first nine months of 2017, as well as the unaudited pro forma consolidated results of operations of the company, as though the 2018 acquisitions occurred on January 1, 2017:

Quarter Ended	Nine Months Ended
September 30, 2017	September 30, 2017
	Pro Forma

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	As Reported	Pro Forma	As Reported	
Sales	\$6,856,108	\$6,891,648	\$19,015,114	\$19,125,866
Net income attributable to shareholders	134,064	134,819	348,523	350,450
Net income per share:				
Basic	\$1.52	\$1.52	\$3.92	\$3.94
Diluted	\$1.50	\$1.51	\$3.88	\$3.90

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

2017 Acquisitions

During 2017, the company acquired an additional 11.9% of the noncontrolling interest common shares of Data Modul AG for \$23,350, increasing the company's ownership interest in Data Modul to 69.2%. The impact of this acquisition was not material to the company's consolidated financial position or results of operations. In addition, the company completed two acquisitions for \$3,628, net of cash acquired. The impact of these acquisitions was not material to the company's consolidated financial position or results of operations. The pro forma impact of the 2017 acquisitions on the consolidated results of operations of the company for 2017, as though the acquisitions occurred on January 1, 2017, was also not material.

Note E – Goodwill and Intangible Assets

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

Goodwill of companies acquired, allocated to the company's business segments, is as follows:

	Global Components	Global ECS	Total
Balance as of December 31, 2017 (a)	\$ 1,264,869	\$ 1,205,178	\$ 2,470,047
Acquisitions and related adjustments	230,237	14,175	244,412
Foreign currency translation adjustment	(30,921)	(24,203)	(55,124)
Balance as of September 29, 2018 (a)	\$ 1,464,185	\$ 1,195,150	\$ 2,659,335

The total carrying value of goodwill for all periods in the table above is reflected net of \$1,026,702 of accumulated (a) impairment charges, of which \$716,925 was recorded in the global components business segment and \$309,777 was recorded in the global enterprise computing solutions business segment.

Intangible assets, net, are comprised of the following as of September 29, 2018:

	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Non-amortizable trade names	indefinite	\$ 101,000	\$ —	\$ 101,000
Customer relationships	10 years	421,640	(212,241)	209,399
Developed technology	5 years	6,340	(3,994)	2,346
Amortizable trade name	5 years	2,407	(1,680)	727
		\$ 531,387	\$ (217,915)	\$ 313,472

Intangible assets, net, are comprised of the following as of December 31, 2017:

	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Non-amortizable trade names	indefinite	\$ 101,000	\$ —	\$ 101,000
Customer relationships	10 years	440,167	(259,337)	180,830

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Developed technology	5 years	6,340	(3,043)	3,297
Amortizable trade name	5 years	2,409	(1,321)	1,088
		\$ 549,916	\$ (263,701)	\$ 286,215

During the third quarter of 2018 and 2017, the company recorded amortization expense related to identifiable intangible assets of \$11,620 and \$12,645, respectively. During the first nine months of 2018 and 2017, amortization expense related to identifiable intangible assets was \$37,095 and \$37,909, respectively.

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

Note F – Investments in Affiliated Companies

The company owns a 50% interest in several joint ventures with Marubun Corporation (collectively "Marubun/Arrow") and several interests ranging from 43% to 50% in other joint ventures and equity method investments. These investments are accounted for using the equity method.

The following table presents the company's investment in affiliated companies:

	September 29, December 31,	
	2018	2017
Marubun/Arrow	\$ 73,807	\$ 70,167
Other	11,368	18,180
	\$ 85,175	\$ 88,347

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

	Quarter Ended		Nine Months Ended	
	September 29,	September 30,	September 29,	September 30,
	2018	2017	2018	2017
Marubun/Arrow	\$ 1,983	\$ 1,886	\$ 4,557	\$ 5,168
Other	(2,635)	(670)	(5,365)	(2,303)
	\$(652)	\$ 1,216	\$(808)	\$ 2,865

Under the terms of various joint venture agreements, the company is required to pay its pro-rata share of the third party debt of the joint ventures in the event that the joint ventures are unable to meet their obligations. At September 29, 2018, the company's pro-rata share of this debt was approximately \$4,900. There were no outstanding borrowings under the third party debt agreements of the joint ventures as of December 31, 2017. The company believes there is sufficient equity in each of the joint ventures to meet the obligations.

Note G – Accounts Receivable

Accounts receivable, net, consists of the following:

	September 29, December 31,	
	2018	2017
Accounts receivable	\$ 8,302,455	\$ 8,181,879
Allowances for doubtful accounts	(72,664)	(56,291)
	\$ 8,229,791	\$ 8,125,588

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. The company also has notes receivables with certain customers, which are included in "Accounts receivable, net" in the company's consolidated balance sheets. One such customer, with a combined note and accounts receivable balance of approximately \$24,252 and \$24,600 as of September 29, 2018 and December 31, 2017, respectively, became delinquent on its repayment of the note during the fourth quarter of 2016. The company believes

that it has adequately reserved for potential losses; however, it is possible that it could incur a loss in excess of the reserve.

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

Note H – Debt

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

	September 29, December 31,	
	2018	2017
3.00% notes, due 2018	\$ —	\$ 299,857
Borrowings on lines of credit	90,000	—
Other short-term borrowings	68,153	56,949
	\$ 158,153	\$ 356,806

Other short-term borrowings are primarily utilized to support working capital requirements and had a weighted-average interest rate of 1.22% and 2.60% at September 29, 2018 and December 31, 2017, respectively.

The company has \$200,000 in uncommitted lines of credit. There were \$90,000 of outstanding borrowings under the uncommitted lines of credit at September 29, 2018 and no outstanding borrowings at December 31, 2017. These borrowings were provided on a short-term basis and the maturity is agreed upon between the company and the lender. The lines had an effective interest rate of 3.02% at September 29, 2018.

Long-term debt consists of the following:

	September 29, December 31,	
	2018	2017
Revolving credit facility	\$ 92,500	\$ —
Asset securitization program	830,000	490,000
6.00% notes, due 2020	209,103	208,971
5.125% notes, due 2021	130,509	130,400
3.50% notes, due 2022	347,093	346,518
4.50% notes, due 2023	297,495	297,122
3.25% notes, due 2024	493,858	493,161
4.00% notes, due 2025	345,615	345,182
7.50% senior debentures, due 2027	109,755	109,694
3.875% notes, due 2028	493,960	493,563
Other obligations with various interest rates and due dates	2,240	18,434
	\$ 3,352,128	\$ 2,933,045

The 7.50% senior debentures are not redeemable prior to their maturity. All other notes may be called at the option of the company subject to "make whole" clauses.

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

	September 29, 2018	December 31, 2017
3.00% notes, due 2018	\$	— \$ 300,500
6.00% notes, due 2020	216,500	224,000
5.125% notes, due 2021	134,500	139,000
3.50% notes, due 2022	344,000	355,000
4.50% notes, due 2023	302,500	315,500
3.25% notes, due 2024	473,500	491,000
4.00% notes, due 2025	340,000	356,500
7.50% senior debentures, due 2027	130,000	138,500
3.875% notes, due 2028	469,500	501,000

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

The company has a \$1,800,000 revolving credit facility maturing in December 2021. This facility may be used by the company for general corporate purposes including working capital in the ordinary course of business, letters of credit, repayment, prepayment or purchase of long-term indebtedness, acquisitions, and as support for the company's commercial paper program, as applicable. Interest on borrowings under the revolving credit facility is calculated using a base rate or a Euro currency rate plus a spread (1.18% at September 29, 2018), which is based on the company's credit ratings, or an effective interest rate of 2.17% at September 29, 2018. The facility fee, which is based on the company's credit ratings, was .20% of the total borrowing capacity at September 29, 2018. The company had \$92,500 in outstanding borrowings under the revolving credit facility at September 29, 2018. The company had no outstanding borrowings under the revolving credit facility at December 31, 2017.

The company has a commercial paper program and the maximum aggregate balance of commercial paper outstanding may not exceed the borrowing capacity of \$1,200,000. The company had no outstanding borrowings under this program at September 29, 2018 and December 31, 2017. The program had an effective interest rate of 2.77% for the third quarter of 2018.

The company has an asset securitization program collateralized by accounts receivable of certain of its subsidiaries. In June 2018, the company amended its asset securitization program and, among other things, increased its borrowing capacity from \$910,000 to \$1,200,000 and extended its term to mature to June 2021. The asset securitization program is conducted through Arrow Electronics Funding Corporation ("AFC"), a wholly-owned, bankruptcy remote subsidiary. The asset securitization program does not qualify for true sale treatment. Accordingly, the accounts receivable and related debt obligation remain on the company's consolidated balance sheets. Interest on borrowings is calculated using a base rate plus a spread (.40% at September 29, 2018), or an effective interest rate of 2.62% at September 29, 2018. The facility fee is .40% of the total borrowing capacity.

At September 29, 2018 and December 31, 2017, the company had \$830,000 and \$490,000, respectively, in outstanding borrowings under the asset securitization program, which was included in "Long-term debt" in the company's consolidated balance sheets. Total collateralized accounts receivable of approximately \$2,574,100 and \$2,270,500, respectively, were held by AFC and were included in "Accounts receivable, net" in the company's consolidated balance sheets. Any accounts receivable held by AFC would likely not be available to other creditors of

the company in the event of bankruptcy or insolvency proceedings before repayment of any outstanding borrowings under the asset securitization program.

Both the revolving credit facility and asset securitization program include terms and conditions that limit the incurrence of additional borrowings and require that certain financial ratios be maintained at designated levels. The company was in compliance with all covenants as of September 29, 2018 and is currently not aware of any events that would cause non-compliance with any covenants in the future.

During March 2018, the company redeemed \$300,000 principal amount of its 3.00% notes due March 2018.

During June 2017, the company completed the sale of \$500,000 principal amount of 3.875% notes due in 2028. The net proceeds of the offering of \$494,625 were used to redeem the company's 6.875% senior debenture due June 2018 and refinance a portion

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of the company's 6.00% notes due April 2020, 5.125% notes due March 2021, and 7.50% notes due January 2027. The company recorded a loss on extinguishment of debt of \$59,545 for the first nine months of 2017.

During September 2017, the company completed the sale of \$500,000 principal amount of 3.25% notes due in 2024. The net proceeds of the offering of \$493,810 were used to redeem the company's debt obligations and for general corporate purposes.

Interest and other financing expense, net, includes interest and dividend income of \$12,986 and \$33,543 for the third quarter and first nine months of 2018, respectively. Interest and other financing expense, net, includes interest and dividend income of \$7,758 and \$22,768 for the third quarter and first nine months of 2017, respectively.

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Note I – Financial Instruments Measured at Fair Value

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

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The following table presents assets (liabilities) measured at fair value on a recurring basis at September 29, 2018:

	Balance Sheet Location	Level 1	Level 2	Level 3	Total
Cash equivalents (a)	Cash and cash equivalents/ other assets	\$17,501	\$ —	—	—\$17,501
Equity investments (b)	Other assets	44,068	—	—	44,068
Interest rate swaps	Other liabilities				