ARROW ELECTRONICS INC
Form DEF 14A
April 04, 2006

Table of Contents

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ]	Preliminary Proxy Statement	[ ]	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[X]
Definitive Proxy Statement
[ ]
Definitive Additional Materials
[ ]
Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-2.

Arrow Electronics, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-12.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

Table of Contents

ARROW ELECTRONICS, INC.
50 MARCUS DRIVE
MELVILLE, NEW YORK 11747
ARROW ELECTRONICS LOGO
DANIEL W. DUVAL
CHAIRMAN OF THE BOARD

April 4, 2006

Dear Shareholder:

You are invited to Arrow s Annual Meeting of Shareholders, which will be held on Tuesday, May 2, 2006, at the offices of JPMorgan Chase Bank, N.A., 270 Park Avenue, New York, New York at 11:00 a.m. The formal notice of the meeting and the proxy statement soliciting your vote at the meeting appear on the following pages.

The two matters being put to a vote at the meeting are the election of directors and a proposal to ratify the appointment of our independent auditors. Both matters are discussed more fully in the proxy statement.

The Board recommends the approval of the proposals as being in the best interests of Arrow, and urges you to read the proxy statement carefully before you vote. Your vote is important, regardless of the number of shares you own.

Please make sure you vote whether or not you plan to attend the meeting. You can cast your vote by signing, dating and promptly mailing the enclosed proxy card in the postage-paid return envelope. You can also vote by telephone or through the internet by following the instructions on the proxy card.

Sincerely yours,

Daniel W. Duval
Chairman of the Board

ARROW ELECTRONICS, INC.
50 Marcus Drive
Melville, New York 11747

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TIME AND DATE

11:00 a.m. on Tuesday, May 2, 2006

PLACE

JPMorgan Chase Bank, N.A.
270 Park Avenue
New York, NY 10017

ITEMS OF BUSINESS

The annual meeting will be held for the following purposes:

1. To elect directors of Arrow for the ensuing year.

2. To act upon a proposal to ratify the appointment of Ernst & Young LLP as Arrow s independent auditors for the fiscal year ending December 31, 2006.

RECORD DATE

Only shareholders of record at the close of business on March 17, 2006 are entitled to notice of and to vote at the meeting or any adjournments thereof.

ANNUAL REPORT

Our 2005 Annual Report, which is not a part of the proxy soliciting material, is enclosed.

PROXY VOTING

It is important that your shares be voted at the meeting. You can vote your shares by completing and returning the proxy card sent to you. Most shareholders also have the option of voting their shares through the mail, by telephone or through the internet. To use any of these options, follow the voting instructions on your proxy card. You can revoke your proxy (change or withdraw your vote) at any time prior to its exercise at the meeting by following the instructions in the proxy statement.

By Order of the Board of Directors

Peter S. Brown
Secretary

Table of Contents

ARROW ELECTRONICS, INC.
ANNUAL MEETING OF SHAREHOLDERS
To be Held May 2, 2006

TABLE OF CONTENTS

Table of Contents

Table of Contents

ARROW ELECTRONICS, INC.
50 Marcus Drive
Melville, New York 11747

ANNUAL MEETING OF SHAREHOLDERS
To be Held May 2, 2006

PROXY STATEMENT

The Purpose of this Statement

The Board of Directors of Arrow Electronics, Inc., a New York corporation (Arrow or the company), is sending this proxy statement to all shareholders of record to solicit proxies to be voted at the 2006 Annual Meeting of Shareholders, and any adjournments of the meeting, as described in the accompanying Notice of Annual Meeting. By returning the completed proxy card, or voting over the telephone or internet, you are giving instructions on how your shares are to be voted at the Annual Meeting.

Invitation to the Annual Meeting

You are invited to attend the 2006 Annual Meeting of Shareholders on Tuesday, May 2, 2006, beginning at 11:00 a.m. The meeting will be held at JPMorgan Chase Bank, N.A., 270 Park Avenue, New York, NY 10017.

Voting Instructions

This proxy statement, proxy, and voting instructions are being mailed starting April 4, 2006. Please complete, sign, and date the enclosed proxy and return it promptly in the enclosed postage-paid return envelope, or vote your shares by telephone or through the internet. Whether or not you plan to attend the meeting, your prompt response will assure a quorum and reduce solicitation expense.

Table of Contents

Shareholders Entitled to Vote

Only shareholders of Arrow s common stock at the close of business on March 17, 2006, (the record date) are entitled to notice of and to vote at the meeting or any adjournments thereof. As of the record date, there were 121,156,613 shares of Arrow common stock outstanding. Each share of common stock is entitled to one vote on each matter properly brought before the meeting.

Revocation of Proxies

The person giving the proxy may revoke it at any time prior to the time it is voted at the meeting by giving written notice to Arrow s Secretary. If the proxy was given by telephone or through the internet, it may be revoked in the same manner. You may also revoke your proxy by attending the Annual Meeting and voting in person, though merely attending the Annual Meeting will not automatically revoke your proxy.

Cost of Proxy Solicitation

Arrow pays the cost of soliciting proxies. Arrow employees are conducting this solicitation through the mail, in person, and by telephone. In addition, Arrow has retained D.F. King & Co., Inc. to assist in soliciting proxies at an anticipated cost of $9,500 plus expenses. Arrow also will request brokers and other nominees holding Arrow stock to forward these soliciting materials to the beneficial owners of that stock and will reimburse them for their expenses in so doing.

Table of Contents

CERTAIN SHAREHOLDERS

Holders of More than 5% of Common Stock

The following table sets forth certain information with respect to the only shareholders known to management to own beneficially more than 5% of the outstanding common stock of Arrow as of March 17, 2006.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
FMR Corp.(1) 82 Devonshire Street Boston, Massachusetts 02109	15,261,778	12.6%
Mutuelles AXA(2) 26, rue Drouot 75009 Paris, France	16,327,671	13.5%
Wellington Management Company, LLP(3) 75 State Street Boston, Massachusetts 02109	11,894,255	9.8%

(1) Based upon a Schedule 13G dated February 14, 2006 filed with the Securities and Exchange Commission (the SEC) which reflects sole voting power with respect to 1,211,230 shares and sole dispositive power with respect to 15,261,778 shares beneficially owned by FMR Corp., a parent holding company.

(2) Based upon a Schedule 13G dated February 14, 2006 filed with the SEC by AXA Assurances I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle and AXA Courtage Assurance Mutuelle, collectively, Mutuelles AXA (insurance companies), AXA and AXA Financial, Inc. (parent holding companies) which reflects sole dispositive power with respect to 16,327,671 shares, sole voting power with respect to 8,866,459 shares, and shared voting power with respect to 1,700,391 shares beneficially owned by Mutuelles AXA. Of such shares, 14,093,204 are beneficially owned by Alliance Capital Management L.P., an indirect subsidiary of Mutuelles AXA, acquired solely for investment purposes on behalf of client discretionary investment advisory accounts. 3,100 shares are held by AXA Equitable Life Insurance Company, an indirect subsidiary of Mutuelles AXA and 2,231,367 shares are held by AXA Rosenberg Investment Management LLC, each an AXA entity, solely for investment purposes.

(3) Based upon a Schedule 13G dated February 14, 2006 filed with the SEC which reflects shared voting power with respect to 2,888,763 shares and shared dispositive power with respect to 11,894,255 shares beneficially owned by Wellington Management Company, LLP, a registered investment adviser. Of these shares, 9,948,200 or 8.2% of the Company s outstanding common stock, are beneficially owned by Vanguard Windsor Funds Vanguard Windsor Fund, a registered investment company, which has sole voting power with respect to all such shares. This information regarding Vanguard Windsor Funds is based upon a Schedule 13G dated February 13, 2006 filed with the SEC.

Table of Contents

Shareholding of Executive Officers and Directors

At March 17, 2006, all of the executive officers and directors of Arrow as a group were the beneficial owners of 3,868,206 shares of the company s common stock, which is 3.2% of the total shares of common stock outstanding. This amount includes 2,775,792 shares (2.3% of the company s outstanding common stock) held by the Arrow Electronics Employee Stock Ownership Plan (the ESOP) of which William E. Mitchell, Peter S. Brown and Paul J. Reilly are the trustees. As trustees, they have shared power to vote the shares held by the ESOP, and for that reason are deemed to be beneficial owners of those shares under SEC regulations. The ESOP total also includes shares allocated to the individual accounts of each of the trustees.

As of March 17, 2006, the named executive officers (the Chief Executive Officer, the Chief Financial Officer and each of the other four most highly compensated executive officers of the company) and directors had beneficial ownership of the company s common stock as follows:

	Shares of Common Stock Beneficially Owned			
	Currently Owned(1)	Common Stock Units(2)	Acquirable w/in 60 Days	% of Outstanding Common Stock
William E. Mitchell	3,033,992(3)			2.5%
Germano Fanelli	32,500			*
Michael J. Long	58,287			*
Harriet Green(4)	2,375			*
Peter S. Brown	2,802,342(3)			2.3%
Paul J. Reilly	2,867,042(3)			2.4%
Daniel W. Duval	63,200	6,550		*
John N. Hanson	42,500	9,730		*
Richard S. Hill		1,150		*
M.F. (Fran) Keeth		5,493		*
Roger King	41,000	10,023		*
Karen Gordon Mills	41,600	16,894		*
Stephen C. Patrick	15,000	6,365		*
Barry W. Perry	35,000	8,949		*
John C. Waddell	31,576	3,152		*
Total Executive Officers and Directors Beneficial Ownership	3,799,900(3)	68,306		3.2%

* Represents holdings of less than 1%.

Table of Contents

(1) Includes vested stock options, restricted shares granted, shares held by the ESOP and shares owned independently.

(2) Includes common stock units deferred by non-employee directors and restricted stock units granted to them under the Arrow Electronics, Inc. 2004 Omnibus Incentive Plan (the Omnibus Incentive Plan).

(3) Includes 2,775,792 shares held by the ESOP, of which Messrs. Mitchell, Brown and Reilly are trustees. Each trustee is deemed a beneficial owner of all of the shares, however the total number of shares shown as beneficially owned by all of the directors and executive officers as a group includes such shares only once.

(4) Harriet Green was an executive officer of the company throughout 2005. She resigned effective as of March 31, 2006. Her holdings here and throughout this proxy statement are shown as of the date indicated in each instance.

Table of Contents

PROPOSAL 1: ELECTION OF DIRECTORS

Each member of the Board of Directors of Arrow (the Board) is to be elected at the meeting to hold office until the next Annual Meeting of Shareholders and until his or her successor has been duly elected and qualified. By resolution of all the current directors, the Board will consist of ten directors unless and until that number is changed by a resolution of the then current Board. Shareholder proxies solicited under this proxy statement cannot be voted for more than ten directors.

The Board of Directors recommends a vote for all of the nominees.

Nominees receiving a plurality of votes cast at the meeting will be elected directors. Consequently, any shares not voted (whether by abstention or broker non-votes) have no effect on the election of directors.

Management does not contemplate that any of the nominees will be unable or unwilling to serve as a director, but should that happen prior to the voting of the proxies, the persons named in the accompanying proxy reserve the right to substitute another person of their choice when voting at the meeting.

All of the nominees are currently directors of Arrow and were elected at Arrow s last annual meeting, except for Richard S. Hill, who was appointed to the Board in February 2006.

Following are the biographies of the ten nominees:

Daniel W. Duval, 69, director since 1987

Mr. Duval has been Chairman of the Board of Arrow since June 2002. He served as Arrow s interim Chief Executive Officer from September 2002 to February 2003. He served as interim President and Chief Executive Officer of Robbins & Myers, Inc., a manufacturer of fluids management systems, from December 2003 through July 2004. Mr. Duval is also a director of Robbins & Myers, Inc., The Manitowoc Company, Inc., Miller-Valentine Group, and Gosiger, Inc.

John N. Hanson, 64, director since 1997

Mr. Hanson has been Chairman of the Board, Chief Executive Officer and President of Joy Global Inc., a manufacturer of mining equipment for both underground and surface applications, for more than five years. He is also a director of the Milwaukee Symphony Orchestra and the Boys & Girls Clubs of Milwaukee.

Richard S. Hill, 54, director since 2006

Mr. Hill has been Chief Executive Officer and Chairman of the Board of Novellus Systems, Inc., a maker of devices used in the manufacture of advanced integrated circuits, for more than five years. He is a director of Agere Systems Inc. and the University of Illinois Foundation.

M.F. (Fran) Keeth, 59, director since 2004

Mrs. Keeth has been Executive Vice President of Shell Chemicals Limited, a services company responsible for the global petrochemical businesses of the Royal Dutch/ Shell

Table of Contents

Group of companies, since January 2005. She held positions as Executive Vice President of Customer Fulfillment and Product Business Units for Shell Chemicals Limited from July 2001 to January 2005 and Chief Financial Officer and Executive Vice President Finance and Business Systems from September 1997 to July 2001. Mrs. Keeth remains President and Chief Executive Officer of Shell Chemical LP, a U.S. petrochemical member of the Royal Dutch/ Shell Group, a position she has held since July 2001, prior to which she was Chief Financial Officer, beginning in September 1997.

Roger King, 65, director since 1995

Mr. King is retired. He was the Chief Executive Officer of Sa Sa International Holdings Limited, a retailer of cosmetics, from August 1999 to May 2002. He also served as the Executive Director of Orient Overseas (International) Limited, an investment holding company with investments principally in integrated containerized transportation businesses for more than five years ending August 1999. Mr. King also serves as a director of Orient Overseas (International) Limited, China Lot Synergy Holdings Limited (formerly World Metal Holdings Ltd.), Sincere Watch (Hong Kong) Limited and TNT N.V.

Karen Gordon Mills, 52, director since 1994

Mrs. Mills has been a Managing Director of Solera Capital LLC, a venture capital fund, for more than five years. She has also served as President of MMP Group, Inc., a private equity advisory firm, for more than five years. Mrs. Mills is a director of The Scotts Miracle-Gro Company and Latina Media Ventures, LLC.

William E. Mitchell, 62, director since 2003

Mr. Mitchell has been President and Chief Executive Officer of Arrow since February 2003. Mr. Mitchell previously served as Executive Vice President of Solectron Corporation as well as the President of Solectron Global Services, Inc., from March 1999 to January 2003. Mr. Mitchell also serves as a director of Rogers Corporation.

Stephen C. Patrick, 56, director since 2003

Mr. Patrick has served as the Chief Financial Officer of the Colgate-Palmolive Company, a global consumer products company, for more than five years. In his more than 20 years at Colgate-Palmolive he has also held positions as Vice President, Corporate Controller and Vice President of Finance for Colgate Latin America.

Barry W. Perry, 59, director since 1999

Mr. Perry has been Chief Executive Officer and Chairman of the Board of Engelhard Corporation, a surface and materials science company, for more than five years. Mr. Perry is also a director of the Cookson Group, PLC, U.K.

John C. Waddell, 68, director since 1969

Mr. Waddell retired as Chairman of the Board of Arrow in May 1994 and since that time has served as Vice Chairman.

Table of Contents

THE BOARD AND ITS COMMITTEES

The Board meets in general sessions under Chairman Duval, in meetings limited to non-management directors, which are also led by Chairman Duval, and in its various committees. At the Board meeting following the Annual Meeting of Shareholders, the Board intends to elect Mr. Mitchell as Chairman and Mr. Duval as Lead Director. As Lead Director, Mr. Duval will continue to serve as chairman of all meetings of non-management directors.

Committees

The **audit committee** of the Board consists of Mr. Patrick, as Chairman, Mr. Hill, Mrs. Keeth, Mrs. Mills, and Mr. Waddell. The audit committee reviews and evaluates Arrow s financial reporting process and other matters including its accounting policies, reporting practices, internal audit function, and internal accounting controls. The committee also monitors the scope and reviews the results of the audit conducted by Arrow s independent auditors. The Board has determined that Mr. Patrick is an audit committee financial expert as defined by the SEC. In light of the possibility that Mr. Patrick might at some time be unable to attend a meeting of the committee, the Board has also determined that Mrs. Keeth qualifies as an audit committee financial expert.

The **compensation committee** of the Board consists of Mr. Perry, as Chairman, Mr. Duval, Mrs. Keeth, Mr. King, and Mrs. Mills. The compensation committee determines the salary of the Chief Executive Officer, reviews and approves the salaries and the incentive compensation of senior corporate officers, grants or approves awards under the Omnibus Incentive Plan, and implements the company s short-term incentive plans. The committee also advises the Board generally with regard to other compensation and employee benefit matters, and collects information in connection with the evaluation of the performance of the Chief Executive Officer.

The **corporate governance committee** of the Board consists of Mr. Hanson, as Chairman, Mr. Duval, Mr. Hill, Mr. King, and Mr. Waddell. The corporate governance committee will consider shareholder recommendations for nominees for membership on the Board. Such recommendations may be submitted to Arrow s Secretary, Peter S. Brown, at Arrow Electronics, Inc., 50 Marcus Drive, Melville, New York, 11747, who will forward them to the corporate governance committee. The committee s expectations as to the specific qualities and skills required for directors are set forth in Section 4 of Arrow s corporate governance guidelines (available at the investor relations section of the company s website, www.arrow.com). Under those guidelines, the committee considers potential nominees recommended by current directors, company officers, employees, shareholders, and others. The committee has retained the services of a third-party executive recruitment firm to assist committee members in the identification and evaluation of potential nominees for the Board. The committee s initial review of the potential candidate is typically based on any written materials provided to the committee. In connection with the evaluation of potential nominees, the committee determines whether to interview the nominee, and if warranted, the committee, the Chairman of the Board, the Chief Executive Officer, and others as appropriate, interview the potential nominees. The corporate governance committee also has primary responsibility for developing the corporate governance guidelines for Arrow and for making recommendations with respect to committee assignments and other governance issues. The committee regularly reviews and makes recommendations to the Board regarding the compensation of non-employee directors.

Table of Contents

Independence

The company s corporate governance guidelines provide that the Board should consist primarily of independent, non-management directors. For a director to be considered independent under the guidelines, the Board must determine that the director does not have any direct or indirect material relationship with the company and that he or she is not involved in any activity or interest that might appear to conflict with his or her fiduciary duties to the company.

Each independent non-management director must also satisfy the Director Qualification Standards adopted by the Board, which essentially incorporate the independence criteria in the New York Stock Exchange listing standards. Neither such a director nor any member of his or her immediate family may: i) be an employee (or, in the case of a family member, an executive officer) of the company during the preceding three years; ii) receive more than $100,000 from the company (except for director or committee fees) during any twelve-month period within the preceding three years; iii) be employed by or be a partner of the company s outside audit firm (or, if a former employee or partner, have worked on the audit of the company within the past three years); iv) be an executive officer of another company where any of Arrow s executive officers serves as a member of that other company s compensation committee; or v) be an employee (or, in the case of a family member, an executive officer) of a company which received payment from Arrow in excess of the larger of $1 million or 2% of such other company s gross revenues in any of the preceding three years.

In addition to applying the Director Qualification Standards, the Board will consider all relevant facts and circumstances in making an independence determination. In making this determination regarding Mr. Hill, the Board considered that Mr. Hill is an independent director of Agere Systems, Inc., a semiconductor manufacturer for which the company is an authorized distributor. In 2005, the company sold approximately $22,600,000 of Agere products worldwide, approximately 1% of Agere s total sales and .2% of the company s sales. In addition to the immateriality of the amount of sales involved, the Board determined that this relationship did not impair Mr. Hill s independence because he is an independent director of Agere, and receives compensation from Agere only in connection with his services as such. In addition, Novellus Systems, Inc., of which Mr. Hill is Chairman and CEO, purchased less than $10,000 of product from Arrow in 2005. The Board has determined that all of its directors and nominees, other than Mr. Mitchell, satisfy both the New York Stock Exchange s independence requirements and the company s guidelines.

As required by the guidelines and the New York Stock Exchange s listing rules, all members of the audit, compensation and corporate governance committees are independent, non-management directors.

No member of the compensation committee is a present or former employee of the company, except for Mr. Duval, who served as interim Chief Executive Officer from September 2002 to February 2003. Under the rules of the New York Stock Exchange, such interim service does not alter Mr. Duval s status as an independent, non-management director. No member of the compensation committee is an employee or director of any company where any employee or director of Arrow serves on the compensation committee.

All members of the audit committee also satisfy an additional SEC independence requirement, which provides that they may not accept directly or indirectly any consulting, advisory or other compensatory fee from Arrow or any of its subsidiaries other than their directors compensation.

Table of Contents

Meetings and Attendance

In general, it is the practice of the Board for all of its non-management directors to meet in executive session at each Board meeting, with the Chairman of the Board presiding. Consistent with Arrow s corporate governance guidelines, in 2005 these non-management director meetings included one under the guidance of the chairman of the compensation committee to evaluate the performance of the Chief Executive Officer and one under the guidance of the chairman of the corporate governance committee to discuss senior management development and succession.

During 2005 there were 12 meetings of the Board, 11 meetings of the audit committee, 6 meetings of the compensation committee, and 5 meetings of the corporate governance committee. All directors attended 75% or more of all of the meetings of the Board and the committees on which they served.

It is the policy of the Board that all of its members attend the Annual Meeting of Shareholders absent exceptional cause, and all then incumbent members of the Board did so in 2005.

Directors Compensation

The independent non-management members of the Board (that is, all members except Mr. Mitchell) receive the following:

Annual fee	$	40,000
Fee for each Board or committee meeting attended	$	2,000
Annual fee for service as committee chair	$	10,000

For the directors terms beginning with the May 2006 Annual Meeting, the annual fee for non-employee directors will be increased to $50,000. As Chairman of the Board, Mr. Duval has received an additional fee of $200,000 per year. Assuming that Mr. Mitchell becomes Chairman and Mr. Duval becomes Lead Director at the Board meeting to be held immediately following the Annual Meeting of Shareholders, Mr. Duval would no longer receive the annual $200,000 Chairman s fee, but would instead receive an additional annual fee as Lead Director of restricted stock units valued at $30,000. All of such stock units would be converted to shares of common stock one year after Mr. Duval retires from the Board. Mr. Mitchell would not receive any fee for his services as Chairman, but would receive a one-time grant of 20,000 restricted shares of Arrow common stock in recognition of his appointment, which would vest upon his retirement, death, disability or a change in control of Arrow. The entire grant would be forfeited if Mr. Mitchell resigned or was terminated prior to his retirement.

Each non-employee director receives an annual grant of restricted stock units valued at $40,000 based on the fair market value of Arrow s common stock at the date of grant. The units vest one year after the grant, but are subject to a number of restrictions until one year after the recipient leaves the Board, at which point the units will be settled with the issuance of shares of Arrow stock. Beginning with the May 2006 Annual Meeting, the value of the restricted stock unit grants will be increased to $60,000 based on the fair market value of Arrow s common stock at the date of grant.

Non-employee directors may, in their discretion, defer a percentage of their annual retainers and meeting fees to be paid upon termination from the Board. Unless a non-employee director elects to defer a different percentage, 50 percent of the non-employee director s annual retainer fee is deferred and converted to phantom stock units of Arrow common stock. Upon termination of the

Table of Contents

non-employee director s service on the Board, each whole phantom stock unit, if any, credited to his or her account will be converted into one share of common stock. Other amounts that are deferred may be invested for the benefit of the director under the terms of the Non-Employee Director Deferral Plan, or should a director so choose, be converted into the phantom stock units.

In 2005, Messrs. Duval, Hanson and Patrick made personal use of an aircraft in which the company owns fractional interests, with an incremental cost to the company of $1,244 per person. The calculation of this incremental cost includes only those variable costs incurred as a result of the personal flight activity and is net of reimbursements received from Messrs. Duval, Hanson and Patrick.

Mr. Mitchell receives no fees, equity or other compensation in connection with his board or committee service.

Availability of More Information

Arrow s corporate governance guidelines, the charter of the corporate governance committee, the audit committee charter, the compensation committee charter, the company s Worldwide Code of Business Conduct and Ethics and the Finance Code of Ethics can be found at the investor relations section of the company s website, www.arrow.com.

Shareholders and others who wish to communicate with the Chairman of the Board or any of the other independent, non-management members of the Board may do so by submitting such communication to Arrow s Secretary, Peter S. Brown, at Arrow Electronics, Inc., 50 Marcus Drive, Melville, NY 11747, who will present any such communication to the independent directors in accordance with their instructions.

REPORT OF THE AUDIT COMMITTEE

The audit committee represents and assists the Board by overseeing the company s financial statements and internal controls, the independent auditor s qualifications and independence, and the performance of the company s internal audit function and of its independent auditor. The committee operates under the Audit Committee Charter, a copy of which is available at the investor relations section of the company s website, www.arrow.com.

The audit committee currently consists of five directors, all of whom are independent in accordance with New York Stock Exchange listing standards and other applicable regulations. The Board has determined that Mr. Patrick is an audit committee financial expert as defined by the SEC. In light of the possibility that Mr. Patrick might at some time be unable to attend a meeting of the committee, the Board has also determined that Mrs. Keeth qualifies as an audit committee financial expert.

Company management has the primary responsibility for financial statements and for the reporting process, including the establishment and maintenance of Arrow s systems of internal controls over financial reporting. The company s independent auditors are responsible for auditing the financial statements prepared by management, expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, and auditing the company s internal controls over financial reporting and management s assessment of those controls.

Table of Contents

In fulfilling its oversight responsibilities, the audit committee reviewed and discussed with both management and the independent auditors the company s quarterly earnings releases, quarterly reports on Form 10-Q and the 2005 Annual Report on Form 10-K. Such reviews included a discussion of critical or significant accounting policies, the reasonableness of significant judgments, the quality (not just the acceptability) of the accounting principles, the reasonableness and clarity of the financial statement disclosures, and such other matters as are required to be reviewed with them under the standards promulgated by the Public Company Accounting Oversight Board. Also discussed with both management and the independent auditors were the design and efficacy of the company s internal controls over financial reporting.

In addition, the audit committee received from and discussed with the independent auditors the written disclosure required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and considered the compatibility of non-audit services rendered to Arrow with the auditors independence. The committee also discussed with the independent auditors those matters required to be considered by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended.

The audit committee also discussed with the independent auditors and Arrow s internal audit group the overall scope and plans for their respective audits. The committee periodically met with the independent auditors and the internal audit group, with and without management present, to discuss the results of their examinations, their evaluations of Arrow s internal controls, and the overall quality of Arrow s financial reporting.

In reliance on these reviews and discussions, the audit committee recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2005 for filing with the SEC.

Stephen C. Patrick, Chairman
M.F. (Fran) Keeth
Karen Gordon Mills
John C. Waddell

Table of Contents

PRINCIPAL ACCOUNTING FIRM FEES

The aggregate fees billed by Arrow s principal accounting firm, Ernst & Young LLP, for auditing the annual financial statements and the company s internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act and related regulations included in the Form 10-K, the reviews of the quarterly financial statements included in the Forms 10-Q, statutory audits, issuance of comfort letters, assistance with and review of documents filed with the SEC, and consultations on various accounting and reporting matters for each of the last two fiscal years are set forth as Audit Fees in the table below.

Also set forth for each year are audit-related fees. Such fees are for services rendered in connection with business acquisitions, employee benefit plan audits, and other accounting consultations. Tax fees relate to assistance in tax return preparation and tax audits, tax interpretation and compliance, and tax planning in various tax jurisdictions around the world. Ernst & Young did not provide any services related to financial information systems design or implementation or personal tax work for any of the company s officers.

		2005		2004
Audit Fees	$	6,167,050	$	6,476,686
Audit-Related Fees		272,500		282,246
Tax Fees		1,070,200		1,490,838
Total	$	7,509,750	$	8,249,770

The amounts in the table above do not include fees charged by Ernst & Young to Marubun/ Arrow, a joint venture between the company and the Marubun Corporation, which totaled $145,300 (audit-related fees) and $20,100 (tax fees) in 2005 and $117,000 (audit-related fees) and $10,600 (tax fees) in 2004.

Consistent with the audit committee charter, all audit, audit-related and tax services were pre-approved by the audit committee, or by a designated member thereof. The committee has determined that the provision of the non-audit services described above is compatible with maintaining Ernst & Young s independence.

PROPOSAL 2: RATIFICATION OF APPOINTMENT OF AUDITORS

Shareholders will be asked to ratify the appointment of Ernst & Young as Arrow s independent auditors for 2006. Arrow expects that representatives of Ernst & Young will be present at the meeting with the opportunity to make a statement if they desire to do so and that they will be available to answer appropriate inquiries raised at the meeting.

The Board recommends that the shareholders vote for the ratification of the appointment of Ernst & Young LLP.

Table of Contents

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The primary role of the compensation committee is to oversee compensation practices for Arrow s senior executive officers. The committee s responsibilities include reviewing salaries, benefits and other compensation of Arrow s senior executives and making recommendations to the full Board with respect to these matters. All members of the committee are independent, non-employee directors.

Compensation Philosophy

The committee and the company s senior management review the company s executive compensation and benefit programs to ensure that they are consistent with the company s compensation philosophy. In keeping with the overarching principles of that philosophy, the company s compensation and benefit programs must achieve the following objectives:

support the achievement of Arrow s vision, business strategy, and operating imperatives;

reinforce a high-performance culture with clear emphasis on accountability and variable pay;

align the interests of senior management with those of shareholders;

ensure plan designs and actions reflect good corporate governance practices;

provide fully competitive total compensation opportunities; and

ensure a reasonable return on our total compensation expenditures.

In furtherance of these objectives, the committee approved a set of programs which work together to reward the company s senior managers for sustained superior performance. These programs are designed to:

generate levels of total compensation that will attract and retain superior executives;

offer a competitive base salary while being mindful of our desire to leverage pay from fixed to variable;

link annual incentives, which vary directly with company and individual performance, to the company s annual operating goals;

utilize performance share awards to reward executives for consistent performance over a three-year period by linking rewards to three-year financial goals designed to increase shareholder value; and

encourage long-term decision-making, and thereby enhance shareholder value through the use of stock options.

Senior Executive Officer Compensation for 2005

In setting compensation for the Chief Executive Officer, and reviewing and approving the compensation of the members of the remainder of the senior executive team, the committee reviews the competitiveness of the total compensation package relative to those companies and industries identified as peers or competitors for talent. Such companies include Arrow s competitors, customers and suppliers, and a group of companies of similar size and scope drawn from other industries**.** Because Arrow manages to a total compensation philosophy, decisions regarding each element of

Table of Contents

compensation are made in consideration to the individual s contributions, current pay mix, and market conditions.

In order to maximize the effectiveness of the compensation plans, the committee works to ensure that all of the individual components of the compensation program work together to achieve desired behaviors, business results, and shareholder value creation. The objectives of each element of Arrow s total executive compensation system are set forth below.

Base Salary

Base salary represents an integral component of the overall total compensation opportunity. The primary purpose of base salary is to recognize an employee s level of responsibility, immediate contributions, knowledge, skills, experience, and abilities.

The committee reviews each executive officer s base salary annually. The factors which influence committee determinations regarding base salary include prevailing levels of pay among executives of similar companies in industries with which Arrow competes for executive talent, internal pay equity considerations, level of responsibility, prior experience, breadth of knowledge, and job performance.

In conducting its salary deliberations, the committee does not strictly tie senior executive base pay to a defined competitive standard. Rather, the committee elects to maintain flexibility so as to permit salary recommendations that best reflect the individual contributions made by the company s top executives. Each of the named executive officers has an employment agreement, which provides for a minimum base salary.

In order to continue to reinforce Arrow s pay-for-performance philosophy, base salary adjustments for executives in 2005 averaged 3.7%.

Variable Pay