

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Form N-14 8C/A

May 17, 2016

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As filed with the Securities and Exchange Commission on May 17, 2016

Securities Act File No. 333-208957

Investment Company Act File No. 811-07920

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

**FORM N-14**  
**REGISTRATION STATEMENT**  
*UNDER*  
*THE SECURITIES ACT OF 1933*

x Pre-Effective Amendment No. 3      " Post-Effective Amendment No.

**WESTERN ASSET HIGH INCOME**  
**OPPORTUNITY FUND INC.**

(Exact Name of Registrant as Specified in Charter)

**620 Eighth Avenue**

**New York, New York 10018**

**(Address of Principal Executive Offices: Number, Street, City, State, Zip Code)**

**1-888-777-0102**

**(Area Code and Telephone Number)**

**Jane E. Trust**

**Legg Mason & Co., LLC**

**100 International Drive**

**Baltimore, MD 21202**

**(Name and Address of Agent for Services)**

*with copies to:*

**Sarah E. Cogan, Esq.**

**Simpson Thacher & Bartlett LLP**

**425 Lexington Avenue**

**New York, New York 10017**

**Robert I. Frenkel, Esq.**

**Legg Mason & Co., LLC**

**100 First Stamford Place**

**Stamford, Connecticut 06902**

**Calculation of Registration Fee under the Securities Act of 1933:**

<b>Title of Securities Being Registered</b>	<b>Amount Being Registered(1)</b>	<b>Proposed Maximum Offering Price per Unit(1)</b>	<b>Proposed Maximum Aggregate Offering Price(1)</b>	<b>Amount of Registration Fee(2)</b>
Common Stock (\$.001 par value)	45,553,786	\$5.15	\$234,602,000	\$23,624.42

- (1) Estimated solely for the purpose of calculating the registration fee.
  
- (2) Previously paid.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to said section 8(a), may determine.**

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WESTERN ASSET MANAGED HIGH INCOME FUND INC.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

620 Eighth Avenue

New York, New York 10018

, 2016

Dear Stockholder:

A Joint Special Meeting of Stockholders (the Meeting) of Western Asset Managed High Income Fund Inc. (MHY) and Western Asset High Income Opportunity Fund Inc. (HIO) and together with MHY, the Funds) will be held at 620 Eighth Avenue, 49th Floor, New York, New York, on Thursday, June 30, 2016 at 11:00 a.m., Eastern Time, for the purposes of considering and voting upon the following:

Proposal 1: A proposal to approve the merger of MHY with and into HIO in accordance with the Maryland General Corporation Law (the Merger).

Proposal 2A: A proposal for MHY stockholders to approve a fundamental investment policy regarding senior securities.

Proposal 2B: A proposal for HIO stockholders to approve a fundamental investment policy regarding senior securities.

The attached Proxy Statement/Prospectus asks for your approval of the proposals. **After careful consideration, the Board of each Fund recommends that you vote FOR the each proposal.**

As a result of the Merger, each share of common stock of MHY would convert into an equivalent dollar amount (to the nearest \$0.001) of full shares of common stock of HIO, based on the net asset value of each Fund on the date preceding the Merger. HIO will not issue fractional shares to MHY stockholders. In lieu of issuing fractional shares, HIO will pay cash to each former holder of MHY common stock in an amount equal to the value of the fractional shares of HIO common stock that the investor would otherwise have received in the Merger. The currently issued and outstanding common stock of HIO will remain issued and outstanding.

Both MHY and HIO are closed-end, diversified management investment companies listed on the New York Stock Exchange. MHY's primary investment objective is high current income. Capital appreciation is a secondary objective. Similarly, HIO's primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation. A more detailed comparison of the Funds' investment objectives and policies appears in the attached Proxy Statement/Prospectus. The current investment objectives and policies of HIO will continue unchanged if the Merger occurs.

The Board believes that the Merger is in the best interests of both MHY stockholders and HIO stockholders. MHY and HIO have near identical investment objectives and substantially similar policies and strategies, which will allow MHY stockholders to continue to have exposure to high-yield fixed income securities. Moreover, the combined Fund will likely benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced market liquidity and additional opportunities for diversification. Furthermore, the Merger will result in a more streamlined high yield product offering, allowing for more focused marketing and stockholder servicing efforts.

In addition, in connection with the Merger, MHY and HIO have proposed a fundamental investment policy regarding senior securities. Since inception, each Fund has not issued senior securities and has no intention to do so in the future. As a result, the stockholders of each Fund are being asked to approve a fundamental investment policy pursuant to which each Fund may not issue senior securities, except in accordance with such Fund's policy regarding borrowing money. If the stockholders of each Fund approve the fundamental investment policy, there will be no change in how their Fund is managed. With respect to MHY, the approval of the Merger (Proposal 1) is not contingent upon the approval of the fundamental investment policy (Proposal 2A). However, with respect to HIO, the approval of the Merger (Proposal 1) is contingent upon the approval of the fundamental investment policy (Proposal 2B).

**Your vote is very important to us regardless of the number of shares you own. Whether or not you plan to attend the Meeting in person, please read the Proxy Statement/Prospectus and cast your vote promptly. To vote, simply date, sign and return the proxy card in the enclosed postage-paid envelope or follow the instructions on the proxy card for voting by touch-tone telephone or on the Internet.**

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If you have any questions about the proposal to be voted on, please call Georgeson Inc. at 1-800-891-3214.

It is important that your vote be received no later than the time of the Meeting.

Sincerely,

Jane E. Trust

President and Chief Executive Officer

Western Asset Managed High Income Fund Inc.

Western Asset High Income Opportunity Fund Inc.

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WESTERN ASSET MANAGED HIGH INCOME FUND INC.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

**IMPORTANT NEWS FOR STOCKHOLDERS**

The enclosed combined Proxy Statement/Prospectus describes (i) a proposal to merge Western Asset Managed High Income Fund Inc. ( MHY ) with and into Western Asset High Income Opportunity Fund Inc. ( HIO, and together with MHY, the Funds ) in accordance with the Maryland General Corporation Law (the Merger ) and (ii) a separate proposal for each Fund to adopt a fundamental investment policy regarding senior securities.

While we encourage you to read the full text of the enclosed combined Proxy Statement/Prospectus, here is a brief overview of the proposals. Please refer to the more complete information contained elsewhere in the combined Proxy Statement/Prospectus about the proposals.

**COMMON QUESTIONS ABOUT THE PROPOSED MERGER**

**Q. Why am I receiving the Proxy Statement/Prospectus?**

A. As a stockholder of either MHY or HIO, you are being asked to vote in favor of (i) a proposal to merge MHY with and into HIO in accordance with the Maryland General Corporation Law and (ii) a separate proposal for each Fund to adopt a fundamental investment policy regarding senior securities.

**Q. How will the Merger affect me?**

A. If the Merger is approved, MHY will be merged with and into HIO in accordance with the Maryland General Corporation Law. MHY's assets and liabilities will be combined with the assets and liabilities of HIO, and stockholders of MHY will become stockholders of HIO.

As a result of the Merger, each share of common stock of MHY would convert into an equivalent dollar amount (to the nearest \$0.001) of full shares of common stock of HIO, based on the net asset value of each Fund on the date preceding the merger. HIO will not issue fractional shares to MHY stockholders. In lieu of issuing fractional shares, HIO will pay cash to each former MHY stockholder in an amount equal to the value of the fractional shares of HIO common stock that the investor would otherwise have received in the merger. The currently issued and outstanding shares of HIO common stock will remain issued and outstanding. Stockholders of HIO will be stockholders in a larger fund.

Upon the consummation of the Merger, all shares of MHY common stock shall cease to be outstanding, shall automatically be cancelled and shall cease to exist and the holders of certificates or book entry shares which, immediately prior to the effective date of the Merger, represented such shares of the MHY common stock shall cease to have any rights with respect thereto, except the right to receive the consideration described above.

**Q. Why is the Merger being recommended?**

A. The Board of Directors of each Fund believes that the Merger is in the best interests of both MHY stockholders and HIO stockholders. MHY and HIO have near identical investment objectives and substantially similar policies and strategies, which will allow MHY stockholders to continue to have exposure to high-yield fixed income securities. Moreover, the combined Fund will likely benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced market liquidity and additional opportunities for diversification. Furthermore, the Merger will result in a more streamlined high yield product offering, allowing for more focused marketing and stockholder servicing efforts.

At a meeting held on November 11 and 12, 2015, the Board of Directors of each Fund, including all of the Directors who are not interested persons of the Funds under the Investment Company Act of 1940, as amended (the Independent Directors), unanimously approved an Agreement and Plan of Merger with respect to both Funds.

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### **Q. Why is a fundamental investment policy being recommended?**

A. In connection with the Merger, MHY and HIO have proposed a fundamental investment policy regarding senior securities. Since inception, each Fund has not issued senior securities and has no intention to do so in the future. As a result, the stockholders of each Fund are being asked to approve a fundamental investment policy pursuant to which each Fund may not issue senior securities, except in accordance with such Fund's policy regarding borrowing money. If the stockholders of each Fund approve the fundamental investment policy, there will be no change in how their Fund is managed. With respect to MHY, the approval of the Merger (Proposal 1) is not contingent upon the approval of the fundamental investment policy (Proposal 2A). However, with respect to HIO, the approval of the Merger (Proposal 1) is contingent upon the approval of the fundamental investment policy (Proposal 2B).

After careful consideration, MHY's Board of Directors, including all of the Independent Directors, and HIO's Board of Directors, including all of the Independent Directors, unanimously recommend that you vote FOR the fundamental investment policy regarding senior securities.

### **Q. Are HIO's investment objectives and policies similar to those of MHY?**

A. MHY and HIO have near identical investment objectives and substantially similar policies and strategies.

MHY's primary investment objective is high current income. Capital appreciation is a secondary objective. Similarly, HIO's primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation.

Under normal market conditions, MHY will invest at least 80% of its assets in high-yield corporate bonds, debentures and notes. Up to 20% of its assets may be invested in common stock or other equity or equity-related securities, including convertible securities, preferred stock, warrants and rights. In addition, MHY may invest up to 20% of its assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars.

In seeking to fulfill its investment objectives, HIO invests, under normal market conditions, at least 80% of its net assets plus any borrowings for investment purposes in high-yielding corporate debt securities and preferred stocks and up to 20% in common stock equivalents, including options, warrants and rights. HIO does not use leverage for investment purposes. In addition, HIO may invest up to 20% of its total assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars. Furthermore, HIO may invest up to 15% of its assets in illiquid securities.

The current investment objectives and policies of HIO will continue unchanged if the Merger occurs.

Please see "Comparison of Investment Objectives, Strategies, and Principal Risks of Investing in the Funds" in the Proxy Statement/Prospectus for a more complete comparison of the Funds' investment objectives, policies and a summary of the principal risks of investing in the Funds.

### **Q. How will the Merger affect fees and expenses?**

A. Legg Mason Partners Fund Adviser, LLC (LMPFA) provides administrative and certain oversight services to MHY. MHY pays an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of MHY's average daily net assets. Similarly, HIO currently pays LMPFA, which is also HIO's investment manager, an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of average daily net assets.

Although HIO's investment management fee is identical to MHY's, MHY also pays 0.14% in other expenses based on its average daily net assets, whereas HIO only pays 0.09% in other expenses based on its average daily net assets. It is anticipated that MHY's shareholders' total expense ratio will decline by 0.05% and HIO's shareholders' total expense ratio will remain the same as a result of the Merger.



**Table of Contents****Q. What are the Funds' capital loss carryovers?**

A. As of their most recent fiscal year ends, the Funds are entitled to capital loss carryovers for federal income tax purposes in the amounts set forth below:

MHY (as of February 29, 2016)			HIO (as of September 30, 2015)		
	Amount of Carryforward	Fiscal Year of Expiration Prior to Merger		Amount of Carryforward	Fiscal Year of Expiration Prior to Merger
	\$ (25,394,492)	No Expiration <sup>(1)</sup>		\$ (24,092,664)	No Expiration <sup>(1)</sup>
	(6,640,949)	2/28/2017		(2,157,094)	9/30/2016
	(35,714,593)	2/28/2018		(17,968,287)	9/30/2017
	(5,212,866)	2/28/2019		(49,024,877)	9/30/2018
				(11,684,123)	9/30/2019
Total	\$ (72,962,900)			\$ (104,927,045)	

<sup>(1)</sup> Both Funds are permitted to carry forward these capital losses for an unlimited period. However, these losses will be required to be utilized prior to their other capital losses with the expiration dates listed above. As a result of this ordering rule, the other capital losses may be more likely to expire unutilized. Additionally, these capital losses retain their character as either short-term or long-term capital losses rather than being considered all short-term as are the Funds' other capital losses listed above.

**Q. Will I have to pay any taxes as a result of the Merger?**

A. The Merger is intended to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. Assuming the Merger qualifies for such treatment, you generally will not recognize a gain or loss for federal income tax purposes as a result of the Merger. MHY stockholders may, however, recognize gain or loss with respect to any cash those stockholders receive pursuant to the Merger in lieu of fractional shares. As a condition to the closing of the Merger, MHY and HIO will each receive an opinion of counsel to the effect that the Merger will qualify for such treatment. Opinions of counsel are not binding on the Internal Revenue Service or the courts. You should talk to your tax advisor about any state, local and other tax consequences of the Merger. See Proposal 1 Information About the Proposed Merger Federal Income Tax Consequences.

**Q. Who will pay for the Merger?**

A. The costs of Merger, including the costs of preparing, printing, assembling and mailing material in connection with this solicitation of proxies are estimated to be approximately \$212,100 for MHY and approximately \$262,500 for HIO. LMPFA, or an affiliate thereof, will bear 50% of each Fund's Merger costs whether or not the Merger is consummated.

**Q. How does the Board of each Fund recommend that I vote on the Merger?**

A. After careful consideration, MHY's Board of Directors, including all of the Independent Directors, and HIO's Board of Directors, including all of the Independent Directors, unanimously recommend that you vote FOR the Merger.

**Q. What will happen if the Merger is not approved?**

A. If the Merger is not approved, MHY and HIO will continue as separate investment companies, and each Board will consider such alternatives as it determines to be in the best interests of such Fund's stockholders, including reproposing the Merger.

**Q. When is the Merger expected to happen?**

A. If each Fund's stockholders approve the Merger, the Merger is expected to occur on or about July 15, 2016.

**Q. Will my vote make a difference?**

A. Your vote is very important and can make a difference in the governance of each Fund, no matter how many shares you own. Your vote can help ensure that the proposal recommended by the Board of Directors of each Fund can be implemented. We encourage all stockholders to participate in the governance of each Fund.

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**Q. Whom do I call if I have questions?**

A. If you need more information, or have any questions about voting, please call Georgeson Inc., the proxy solicitor, at 1-800-891-3214.

**Q. How do I vote my shares?**

A. You can provide voting instructions by telephone by calling the toll-free number on the enclosed proxy card or electronically by going to the Internet address provided on the proxy card and following the instructions, using your proxy card as a guide. Alternatively, you can vote your shares by signing and dating the enclosed proxy card and mailing it in the enclosed postage-paid envelope.

A stockholder may revoke a proxy at any time on or before the Meeting by (1) submitting to the applicable Fund a subsequently dated proxy, (2) delivering to the applicable Fund a written notice of revocation (addressed to the Secretary at the principal executive office of the Funds at the address shown at the beginning of this Proxy Statement/Prospectus) or (3) otherwise giving notice of revocation at the Meeting, at all times prior to the exercise of the authority granted in the proxy card. Merely attending the Meeting, however, will not revoke any previously executed proxy. Unless revoked, all valid and executed proxies will be voted in accordance with the specifications thereon or, in the absence of such specifications, for approval of the proposals.

You may also attend the Meeting and vote in person. However, even if you intend to attend the Meeting, we encourage you to provide voting instructions by one of the methods described above.

**It is important that you vote promptly.**

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**WESTERN ASSET MANAGED HIGH INCOME FUND INC.**

**WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.**

**620 Eighth Avenue**

**New York, New York 10018**

**NOTICE OF A JOINT SPECIAL MEETING OF STOCKHOLDERS**

To the Stockholders:

A Joint Special Meeting of Stockholders (the Meeting) of Western Asset Managed High Income Fund Inc. (MHY) and Western Asset High Income Opportunity Fund Inc. (HIO, and together with MHY, the Funds) will be held at 620 Eighth Avenue, 49th Floor, New York, New York, on Thursday, June 30, 2016 at 11:00 a.m., Eastern Time, to consider and vote upon the following:

Proposal 1: A proposal to approve the merger of MHY with and into HIO in accordance with the Maryland General Corporation Law (the Merger).

Proposal 2A: A proposal for MHY stockholders to approve a fundamental investment policy regarding senior securities.

Proposal 2B: A proposal for HIO stockholders to approve a fundamental investment policy regarding senior securities.

**The Board of each Fund recommends that you vote FOR the proposals upon which you are being asked to vote.**

Stockholders of record at the close of business on May 12, 2016 are entitled to vote at the Meeting and at any adjournments or postponements thereof.

By order of the Board of Directors,

Robert I. Frenkel

Secretary

Western Asset Managed High Income Fund Inc.

Western Asset High Income Opportunity Fund Inc.

, 2016

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**INSTRUCTIONS FOR SIGNING PROXY CARDS**

The following general rules for signing proxy cards may be of assistance to you and avoid the time and expense to MHY involved in validating your vote if you fail to sign your proxy card properly.

1. *Individual Accounts*: Sign your name exactly as it appears in the registration on the proxy card.
2. *Joint Accounts*: Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration.
3. *All Other Accounts*: The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration. For example:

**Registration**

**Corporate Accounts**

- (1) ABC Corp.
- (2) ABC Corp.
- (3) ABC Corp., c/o John Doe, Treasurer
- (4) ABC Corp. Profit Sharing Plan

**Valid Signature**

- ABC Corp. (by John Doe, Treasurer)  
 John Doe, Treasurer  
 John Doe  
 John Doe, Trustee

**Trust Accounts**

- (1) ABC Trust
- (2) Jane B. Doe, Trustee, u/t/d 12/28/78

- Jane B. Doe, Trustee  
 Jane B. Doe

**Custodial or Estate Accounts**

- (1) John B. Smith, Cust., f/b/o John B. Smith, Jr. UGMA
- (2) John B. Smith

- John B. Smith  
 John B. Smith, Jr., Executor

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The information contained in this Proxy Statement/Prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Proxy Statement/Prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED MAY 17, 2016**

**PROXY STATEMENT/PROSPECTUS**

**, 2016**

**PROXY STATEMENT FOR:**

**WESTERN ASSET MANAGED HIGH INCOME FUND INC.**

**WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.**

**620 Eighth Avenue**

**New York, New York 10018**

**888-777-0102**

**PROSPECTUS FOR:**

**WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.**

**620 Eighth Avenue**

**New York, New York 10018**

**888-777-0102**

This combined Proxy Statement and Prospectus (the Proxy Statement/Prospectus) is being furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Western Asset Managed High Income Fund Inc. (MHY) and Western Asset High Income Opportunity Fund Inc. (HIO, and together with MHY, the Funds) for a Joint Special Meeting of Stockholders (the Meeting) for each Fund. The Meeting will be held Thursday, June 30, 2016 at 620 Eighth Avenue, 49th Floor, New York, New York at 10:00 a.m., Eastern Time. At the Meeting, stockholders of MHY and HIO will be asked to consider and vote upon the following:

Proposal 1: A proposal to approve the merger of MHY with and into HIO in accordance with the Maryland General Corporation Law (the Merger).

Proposal 2A: A proposal for MHY stockholders to approve a fundamental investment policy regarding senior securities.

Proposal 2B: A proposal for HIO stockholders to approve a fundamental investment policy regarding senior securities.

If the Merger is approved, each share of common stock, par value \$0.001 per share, of MHY (the MHY Common Shares) would convert into an equivalent dollar amount (to the nearest \$0.001) of full shares of common stock, par value \$0.001 per share, of HIO (the HIO Common Shares), based on the net asset value of each Fund on the date preceding the Merger. HIO will not issue fractional HIO Common Shares to holders of MHY Common Shares. In lieu of issuing fractional shares, HIO will pay cash to each former holder of MHY Common Shares in an amount equal to the value of the fractional HIO Common Shares that the investor would otherwise have received in the Merger. Although the HIO Common Shares received in the Merger will have the same total net asset value as the MHY Common Shares held immediately before the Merger (disregarding fractional shares), their stock price on the New York Stock Exchange (NYSE) may be greater or less than that of the MHY

Common Shares, based on current market prices persisting at the time of the Merger. All HIO Common Shares currently issued and outstanding will remain issued and outstanding following the Merger.

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The Board believes that the Merger is in the best interests of both MHY stockholders and HIO stockholders. MHY and HIO have nearly identical investment objectives and substantially similar policies and strategies, which will allow MHY stockholders to continue to have exposure to high-yield fixed income securities. Moreover, the combined Fund will likely benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced market liquidity and additional opportunities for diversification. Furthermore, the Merger will result in a more streamlined high yield product offering, allowing for more focused marketing and stockholder servicing efforts.

At a meeting held on November 11 and 12, 2015, the Board of Directors of each Fund, including all of the Directors who are not interested persons of the Funds under the Investment Company Act of 1940, as amended (the 1940 Act ) (the Independent Directors ), unanimously approved an Agreement and Plan of Merger with respect to both Funds.

MHY was incorporated in Maryland on December 24, 1992; HIO was incorporated in Maryland on July 30, 1993. Both MHY and HIO are closed-end, diversified management investment companies listed on the NYSE.

MHY's primary investment objective is high current income. Capital appreciation is a secondary objective. Similarly, HIO's primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation. The current investment policies of HIO, which differ from those of MHY, will continue unchanged if the Merger occurs. Please see Proposal 1 Comparison of Investment Objectives, Strategies, and Principal Risks of Investing in the Funds in the Proxy Statement/Prospectus for a more complete comparison of the Funds investment objectives and policies.

The Merger will be effected pursuant to an Agreement and Plan of Merger, a form of which is attached to this Proxy Statement/Prospectus as Appendix A. The material terms and conditions of the Agreement and Plan of Merger are summarized in this Proxy Statement/Prospectus. See Proposal 1 Information About the Proposed Merger-The Agreement and Plan of Merger.

This Proxy Statement/Prospectus serves as a prospectus for HIO Common Shares under the Securities Act of 1933, as amended (the Securities Act ), in connection with the issuance of HIO Common Shares in the Merger.

Assuming the holders of MHY Common Shares approve the Merger and all other conditions to the consummation of the Merger are satisfied or waived, the Funds will jointly file articles of merger (the Articles of Merger ) with the State Department of Assessments and Taxation of Maryland (the SDAT ). The Merger will become effective when the SDAT accepts for record the Articles of Merger or at such later time, which may not exceed 30 days after the Articles of Merger are accepted for record, as specified in the Articles of Merger. The date when the Articles of Merger are accepted for record, or the later date, is referred to in this Proxy Statement/Prospectus as the Closing Date. MHY, as soon as practicable after the Closing Date, will withdraw its registration under the 1940 Act.

The Merger is being structured as a tax-free reorganization for federal income tax purposes. See Proposal 1 Information About the Proposed Merger Federal Income Tax Consequences. Stockholders should consult their tax advisors to determine the actual impact of the Merger on them in light of their individual tax circumstances.

In addition, in connection with the Merger, MHY and HIO have proposed a fundamental investment policy regarding senior securities. Since inception, each Fund has not issued senior securities and has no intention to do so in the future. As a result, the stockholders of each Fund are being asked to approve a fundamental investment policy pursuant to which each Fund may not issue senior securities, except in accordance with such Fund's policy regarding borrowing money. If the stockholders of each Fund approve the fundamental investment policy, there will be no change in how their Fund is managed. With respect to MHY, the approval of the Merger (Proposal 1) is not contingent upon the approval of the fundamental investment policy (Proposal 2A). However, with respect to HIO, the approval of the Merger (Proposal 1) is contingent upon the approval of the fundamental investment policy (Proposal 2B).

You should retain this Proxy Statement/Prospectus for future reference as it sets forth concisely information about MHY and HIO that you should know before voting on the proposals described below.

A Statement of Additional Information ( SAI ) dated , 2016, which contains additional information about the Merger and the Funds, has been filed with the Securities and Exchange Commission ( SEC ). The SAI, as well as MHY's



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Annual Report to Stockholders for the Fiscal Year Ended February 29, 2016, filed on April 25, 2016 (accession no. 0001193125-16-554185) and HIO's Annual Report to Stockholders for the Fiscal Year Ended September 30, 2015, filed with the SEC on November 24, 2015 (accession no. 0001193125-15-386792), and, which highlight certain important information such as investment performance and expense and financial information, are incorporated by reference into this Proxy Statement/Prospectus. In addition, stockholder reports, proxy materials and other information concerning HIO (File No. 811-07920) and MHY (File No. 811-07396) can be inspected at the NYSE. You may receive free of charge a copy of the SAI, or the annual report and semi-annual report for either Fund, by contacting MHY and HIO at 888-777-0102, by writing either Fund at the address listed above or by visiting our website at [www.lmcef.com](http://www.lmcef.com).

In addition, you can copy and review this Proxy Statement/Prospectus and the complete filing on Form N-14 containing the Proxy Statement/Prospectus (File No. 333-208957) and any of the above-referenced documents at the SEC's Public Reference Room in Washington, DC. You may obtain information about the operation of the Public Reference Room by calling the SEC at 202-551-8090. Reports and other information about each Fund are available on the EDGAR Database on the SEC's Internet site at [www.sec.gov](http://www.sec.gov). You may also obtain copies of this information, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Room, 100 F Street, N.E., Washington, DC 20549.

MHY Common Shares are listed on the NYSE under the symbol MHY, and HIO Common Shares are listed on the NYSE under the symbol HIO. After the Closing Date, HIO Common Shares will continue to be listed on the NYSE under the symbol HIO.

The information contained herein concerning MHY and HIO has been provided by, and is included herein in reliance upon, MHY and HIO, respectively.

**The Securities and Exchange Commission has not approved or disapproved these securities nor passed upon the accuracy or adequacy of this Proxy Statement/Prospectus. Any representation to the contrary is a criminal offense.**

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### **PROPOSAL 1 TO APPROVE THE MERGER OF MHY WITH AND INTO HIO IN ACCORDANCE WITH THE MARYLAND GENERAL CORPORATION LAW**

#### **Summary**

*This summary is qualified in its entirety by reference to the additional information contained elsewhere in this Proxy Statement/Prospectus and the Agreement and Plan of Merger, a form of which is attached to this Proxy Statement/Prospectus as Appendix A.*

#### **Proposed Merger**

The Board believes that the Merger is in the best interests of both MHY stockholders and HIO stockholders. MHY and HIO have nearly identical investment objectives and substantially similar policies and strategies, which will allow MHY stockholders to continue to have exposure to high-yield fixed income securities. Moreover, the combined Fund will likely benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced market liquidity and additional opportunities for diversification. Furthermore, the Merger will result in a more streamlined high yield product offering, allowing for more focused marketing and stockholder servicing efforts.

At a meeting held on November 11 and 12, 2015, the Boards of MHY and HIO, including all of the Independent Directors, unanimously approved the Agreement and Plan of Merger with respect to each Fund. As a result of the Merger:

each MHY Common Share will convert into an equivalent dollar amount (to the nearest \$0.001) of full HIO Common Shares, based on the net asset value per share of each Fund calculated at 4:00 p.m. on the business day preceding the Closing Date;

each holder of MHY Common Shares will become a holder of HIO Common Shares and will receive, on the Closing Date, that number of HIO Common Shares having an aggregate net asset value (disregarding fractional shares) equal to the aggregate net asset value of such stockholder's MHY Common Shares as of the close of business on the business day preceding the Closing Date; and

HIO will not issue any fractional HIO Common Shares to MHY stockholders. In lieu thereof, HIO will pay cash to each former holder of MHY Common Shares in an amount equal to the value of the fractional HIO Common Shares that the investor would otherwise have received in the Merger.

If the Merger is not approved, each Fund will continue as a separate investment company, and the Boards of MHY and HIO will consider such alternatives as they determine to be in the best interests of their respective stockholders, including reproposing the Merger.

For the reasons set forth below in Information About the Proposed Merger-Reasons for the Merger and Board Considerations, the Boards of MHY and HIO, including all of the Independent Directors, have concluded that the Merger would be in the best interests of each Fund, and that the interests of the holders of MHY Common Shares and HIO Common Shares would not be diluted as a result of the Merger. **The Board of each Fund, therefore, is hereby submitting the Merger to the holders of MHY Common Shares and HIO Common Shares and recommends that stockholders of MHY and HIO vote FOR the Merger.**

Because the Merger has been approved by at least 75% of MHY's Continuing Directors as that term is defined in MHY's charter, approval of the Merger requires the affirmative vote of the holders of a majority of the outstanding MHY Common Shares. Similarly, because the Merger has been approved by at least 75% of HIO's Continuing Directors (as that term is defined in HIO's Bylaws) approval of the Merger requires the affirmative vote of the holders of a majority of the outstanding HIO Common Shares. See Voting Information below. If stockholders of each Fund approve the Merger, the Closing Date of the Merger is expected to be on or about July 15, 2016.

Prior to completion of the Merger, MHY and HIO will each have received an opinion of Simpson Thacher & Bartlett LLP to the effect that the Merger will qualify as a tax-free reorganization for federal income tax purposes. Accordingly, for federal income tax purposes, (i) no gain or loss will generally be recognized by MHY (except for consequences regularly attributable to a termination of MHY's taxable year) or (subject to the following sentence) the holders of MHY Common Shares as a result of the Merger, (ii) the aggregate tax basis of the HIO Common Shares (including fractional HIO Common

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Shares purchased by HIO) received by the holders of MHY Common Shares will be the same as the aggregate tax basis of the holders MHY Common Shares immediately prior to the completion of the Merger and (iii) a holder's holding period for HIO Common Shares (including that of fractional HIO Common Shares purchased by HIO) will generally be determined by including the period for which such stockholder held MHY Common Shares converted pursuant to the Merger, provided that such shares were held by such stockholder as capital assets. Holders of MHY Common Shares may, however, recognize gain or loss with respect to cash such holders receive pursuant to the Merger in lieu of fractional shares. For more information about the federal income tax consequences of the Merger, see Information about the Proposed Merger Federal Income Tax Consequences below.

## **Comparison of Investment Objectives, Principal Investment Strategies and Principal Risks**

MHY and HIO have nearly identical investment objectives and substantially similar policies and strategies.

MHY's primary investment objective is high current income. Capital appreciation is a secondary objective. Similarly, HIO's primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation.

Under normal market conditions, MHY will invest at least 80% of its assets in high-yield corporate bonds, debentures and notes. Up to 20% of its assets may be invested in common stock or other equity or equity-related securities, including convertible securities, preferred stock, warrants and rights. In addition, MHY may invest up to 20% of its assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars.

In seeking to fulfill its investment objectives, HIO invests, under normal market conditions, at least 80% of its net assets plus any borrowings for investment purposes in high-yielding corporate debt securities and preferred stocks and up to 20% in common stock equivalents, including options, warrants and rights. In addition, HIO may invest up to 20% of its total assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars. Furthermore, HIO may invest up to 15% of its assets in illiquid securities.

The current investment objectives and policies of HIO will continue unchanged if the Merger occurs.

Neither Fund is intended to be a complete investment program, and there is no assurance that either Fund will achieve its objectives.

The preceding summary of the Funds' investment objectives and certain policies should be considered in conjunction with the discussion below under Comparison of Investment Objectives, Strategies and Principal Risks of Investing in the Funds-Investment Objectives, -Principal Investment Strategies, -Fundamental Investment Restrictions and -Risk Factors.

## **Effect on Expenses**

LMPFA provides administrative and certain oversight services to MHY. MHY pays an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of MHY's average daily net assets. Similarly, HIO currently pays LMPFA, which is also HIO's investment manager, an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of average daily net assets. Although HIO's investment management fee is identical to MHY's, MHY also pays 0.14% in other expenses based on its average daily net assets, whereas HIO only pays 0.09% in other expenses based on its average daily net assets. It is anticipated that MHY's shareholders' total expense ratio will decline by 0.05% and HIO's shareholders' total expense ratio will remain the same as a result of the Merger.

## **Fee Table and Expense Example**

The table below (1) compares the estimated fees and expenses of each Fund, as of February 29, 2016, and (2) shows the estimated fees and expenses of the combined Fund on a pro forma basis as if the Merger occurred on February 29, 2016. The

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estimates are based on the contracts and agreements in effect as of February 29, 2016 and reflect the operating expense accrual rates on that date, which are based on each Fund's net assets as of February 29, 2016. Accordingly, the actual fees and expenses of each Fund and the combined Fund as of the Closing Date of the Merger may differ from those reflected in the tables below due to changes in net assets from those at such dates. No amount of any prior fee waiver or expense reimbursement to HIO or MHY may be recovered by any person.

Changes in net assets may result from market appreciation or depreciation and other factors occurring between February 29, 2016 and the Closing Date of the Merger. As a general matter, changes (positive or negative) in a Fund's expense ratio resulting from fluctuations in the Fund's net assets will be borne by the stockholders of that Fund and the combined Fund. For information concerning the net assets of each Fund as of September 30, 2015, please see Capitalization.

The estimated expenses of MHY and HIO and pro forma expenses following the proposed Merger are set forth below. The percentages in the table below are percentages of the Funds' net assets attributable to Common Shares.

***Fee Table***

	Pre-Merger		
	MHY (Target Fund)	HIO (Acquiring Fund)	HIO (Pro Forma Combined Fund)
Management Fee	0.80%	0.80%	0.80%
Other expenses	0.14%	0.09%	0.09%
Total Annual Fund Operating Expenses	0.94%	0.89%	0.89%

***Example***

The following example helps you compare the costs of investing in the Funds' Common Shares with the costs of investing in other funds. The example assumes that you invest \$1,000 in the Funds' Common Shares for the periods shown, that your investment has a 5% return each year, that you reinvest all distributions and dividends and that the Funds' operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

	1 Year	3 Years	5 Years	10 Years
MHY	\$ 10	\$ 30	\$ 52	\$ 116
HIO	\$ 9	\$ 28	\$ 49	\$ 110
Pro Forma Combined Fund	\$ 9	\$ 28	\$ 49	\$ 108

**Table of Contents****COMPARISON OF INVESTMENT OBJECTIVES, STRATEGIES AND PRINCIPAL RISKS OF INVESTING IN THE FUNDS**

The following chart lists the investment objectives, principal investment policies and fundamental investment restrictions of MHY and HIO and describes the principal differences between the Funds' respective policies. The chart provides MHY and HIO stockholders with a means of comparing the investment objectives, policies and strategies of MHY and HIO.

	<b>Western Asset Managed High Income Fund Inc.</b>	<b>Western Asset High Income Opportunity Fund Inc.</b>	<b>Differences between HIO and MHY</b>
<b>Investment Objective(s)</b>	MHY's primary investment objective is high current income and MHY's secondary investment objective is capital appreciation.	HIO's primary investment objective is high current income and HIO's secondary investment objective is capital appreciation.	No difference.
<b>Principal Investment Policies and Strategies</b>	Under normal market conditions, MHY will invest at least 80% of its assets in high-yield corporate bonds, debentures and notes. Up to 20% of its assets may be invested in common stock or other equity or equity-related securities, including convertible securities, preferred stock, warrants and rights.	Under normal market conditions, HIO will invest at least 80% of its net assets plus any borrowings for investment purposes in high-yield corporate debt securities and preferred stocks and up to 20% in common stock equivalents, including options, warrants and rights.	Substantively identical.
	MHY may invest up to 20% of its assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars.	HIO may invest up to 20% of its total assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars.	No difference.
	MHY may use a variety of derivative instruments for investment purposes as well as for hedging or risk management purposes.	HIO may use a variety of derivative instruments for investment purposes as well as for hedging or risk management purposes. These derivative instruments may include futures contracts, credit default swaps, credit default swap index securities, swap agreements and options on such instruments. As part of its strategies, HIO may purchase and sell futures contracts; purchase and sell (or write) exchange-listed and over-the-counter put and call options on securities, financial indices and futures contracts; enter into interest rate and	Substantively identical.

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	<b>Western Asset Managed High Income Fund Inc.</b>	<b>Western Asset High Income Opportunity Fund Inc.</b>	<b>Differences between HIO and MHY</b>
		currency transactions; and enter into other similar transactions which may be developed in the future to the extent Western Asset determines that they are consistent with the investment objectives and policies and applicable regulatory requirements.	
	MHY may invest up to 15% of its assets in illiquid securities.	HIO may invest up to 15% of its assets in illiquid securities.	No difference.
	MHY may make short sales of securities in order to reduce market exposure and/or to increase its income if, at all times when a short position is open, MHY owns an equal or greater amount of such securities or owns preferred stock, debt or warrants convertible or exchangeable into an equal or greater number of the shares of the securities sold short. Short sales of this kind are referred to as short sales against the box. MHY will segregate the securities against which short sales against the box have been made in a special account with its custodian. Not more than 10% of MHY's total assets (taken at current value) may be held as collateral for such sales at any one time.	HIO may make short sales of securities in order to reduce market exposure and/or to increase its income if, at all times when a short position is open, HIO owns an equal or greater amount of such securities or owns preferred stock, debt or warrants convertible or exchangeable into an equal or greater number of the shares of the securities sold short. Short sales of this kind are referred to as short sales against the box. HIO will segregate the securities against which short sales against the box have been made in a special account with its custodian. Not more than 10% of HIO's total assets (taken at current value) may be held as collateral for such sales at any one time.	No difference.
<b>Fundamental Investment Restrictions</b>	MHY may not purchase any securities which would cause more than 25% of the value of its total assets at the time of purchase to be invested in the securities of issuers conducting their principal business activities in the same industry, provided that there shall be no limit on the purchase of U.S. government securities.	HIO may not purchase any securities which would cause more than 25% of the value of its total assets at the time of purchase to be invested in the securities of issuers conducting their principal business activities in the same industry, provided that there shall be no limit on the purchase of U.S. government securities.	No difference.



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<b>Western Asset Managed High Income Fund Inc.</b>	<b>Western Asset High Income Opportunity Fund Inc.</b>	<b>Differences between HIO and MHY</b>
<p>MHY may not invest in the securities of any issuer (other than U.S. government securities) if, as a result, more than 5% of the value of its total assets would be invested in the securities of the issuer, except that up to 25% of the value of its total assets may be invested without regard to this 5% limitation.</p>	<p>HIO may not purchase the securities of any issuer, other than U.S. government securities, if as a result more than 5% of the value of its total assets would be invested in the securities of the issuer, except that up to 25% of the value of its total assets may be invested without regard to this 5% limitation.</p>	<p>No difference.</p>
<p>MHY may not borrow money, except that (a) it may borrow from banks for temporary or emergency (not leveraging) purposes in an amount not exceeding 10% of the value of its total assets (including the amount borrowed) valued at the time the borrowing is made and (b) it may enter into futures contracts. Whenever borrowings described in (a) exceed 5% of the value of its total assets, it will not make any additional investments.</p>	<p>HIO may not (a) borrow money, except that (i) HIO may borrow from banks for temporary or emergency (not leveraging) purposes in an amount not exceeding 10% of the value of its total assets (including the amount borrowed) valued at market less liabilities (not including the amount borrowed) at the time the borrowing is made (provided that HIO will not make any additional investments while such borrowings exceed 5% of the value of its total assets) and (ii) HIO may enter into futures contracts, or (b) pledge, hypothecate, mortgage or otherwise encumber its assets except to secure borrowings and as margin for commodities transactions.</p>	<p>Substantively identical.</p>
<p>MHY may not pledge, hypothecate, mortgage or otherwise encumber more than 10% of the value of its total assets. For purposes of this restriction, the deposit of assets in escrow in connection with the writing of options, the purchase of securities on a when-issued or delayed-delivery basis, the entry into forward currency contracts and securities lending</p>		
<p>transactions and collateral arrangements with respect to options transactions and margin for futures contracts and options on futures contracts, will not be deemed to be pledges of the portfolio's assets.</p>		

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<b>Western Asset Managed High Income Fund Inc.</b>	<b>Western Asset High Income Opportunity Fund Inc.</b>	<b>Differences between HIO and MHY</b>
MHY may not purchase more than 10% of the voting securities of any one issuer (other than U.S. government securities), except that up to 25% of the value of its total assets may be invested without regard to the 10% limitation.	HIO may not purchase more than 10% of the voting securities of any one issuer (other than U.S. government securities), except that up to 25% of the value of its total assets may be invested without regard to this 10% limitation.	No difference.
MHY may not invest in commodities, except that it may invest in futures contracts and options on futures contracts and options on currencies.	HIO may not invest in commodities, except that it may invest in futures contracts, options on futures contracts and options on currencies.	No difference.
MHY may not make loans to others, except through the purchase of qualified debt obligations, the entry into repurchase agreements and loans of portfolio securities consistent with its investment objectives and policies.	HIO may not make loans to others, except through the purchase of qualified debt obligations, the entry into repurchase agreements and loans of portfolio securities consistent with its investment objectives and policies.	No difference.
MHY may not underwrite the securities of other issuers, except insofar as it may be deemed an underwriter under the Securities Act of 1933, as amended, by virtue of disposing of portfolio securities.	HIO may not underwrite the securities of other issuers, except insofar as it may be deemed an underwriter in the course of disposing of portfolio securities.	No difference.
MHY may not purchase or sell real estate or interests in real estate, except that it may purchase and sell securities that are secured by real estate or interests in real estate and may purchase securities issued by companies that invest or deal in real estate.	HIO may not purchase or sell real estate or interests in real estate, except that it may purchase and sell securities that are secured by real estate or interests in real estate and may purchase securities issued by companies that invest or deal in real estate.	No difference.

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<b>Western Asset Managed High Income Fund Inc.</b>	<b>Western Asset High Income Opportunity Fund Inc.</b>	<b>Differences between HIO and MHY</b>
MHY may not purchase securities on margin, except that it may obtain any short-term credits necessary for the clearance of purchases and sales of securities. For purposes of this restriction, the deposit or payment of initial or variation margin in connection with futures contracts or related options will not be deemed to be a purchase of securities on margin.	HIO may not purchase securities on margin, except that it may obtain any short-term credits necessary for the clearance of purchases and sales of securities. For purposes of this restriction, the deposit or payment of initial or variation margin in connection with futures contracts or related options will not be deemed to be a purchase of securities on margin.	No difference.
MHY may not make short sales of securities or maintain a short position, except that it may engage in short	HIO may not make short sales of securities, except that it may engage in short sales against the box.	No difference.
sales against the box.		
MHY may not invest in securities of other investment companies registered or required to be registered under the 1940 Act, except as may be acquired as part of a merger, consolidation, reorganization, acquisition of assets or an offer of exchange or to the extent permitted by the 1940 Act.	HIO may not invest in securities of other investment companies registered or required to be registered under the 1940 Act, except as may be acquired as part of a merger, consolidation, reorganization, acquisition of assets or an offer of exchange, or to the extent permitted by the 1940 Act	No difference.
MHY may not issue senior securities, except in accordance with its policy regarding borrowing money (assumes the approval of Proposal 2A).	HIO may not issue senior securities, except in accordance with its policy regarding borrowing money (assumes the approval of Proposal 2B).	No difference.

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	<b>Western Asset Managed High Income Fund Inc.</b>	<b>Western Asset High Income Opportunity Fund Inc.</b>	<b>Differences between HIO and MHY</b>
<b>Additional Investment Policies and Strategies</b>	<p>During times when, in the judgment of MHY’s subadviser, conditions in securities markets would make pursuing MHY’s basic investment strategy inconsistent with the best interest of MHY’s stockholders, as a temporary defensive strategy, the subadviser may employ alternative strategies, including investment of all of MHY’s assets in securities rated investment grade by any nationally recognized statistical rating organization, or in unrated securities of comparable quality.</p> <p>When economic conditions warrant a temporary defensive posture, MHY may invest without limitation in short-term money market instruments rated in the two highest ratings categories by a nationally recognized statistical ratings organization, or in unrated instruments of comparable quality. MHY may also invest in money market instruments to help defray operating expenses, to serve as collateral in connection with certain investment techniques and to hold as a reserve pending the payment of dividends to investors. Money market instruments in which MHY typically expects to invest include U.S. government securities; bank obligations (including certificates of deposit, time deposits and bankers acceptances of U.S. or foreign banks); commercial paper; and repurchase agreements.</p>	<p>If, in Western Asset Management Company (Western Asset) judgment, conditions in the securities markets would make pursuing the basic investment strategy inconsistent with the stockholders’ best interests, the investment manager may employ alternative strategies, including investment of all of HIO’s assets in securities rated investment grade by any nationally recognized statistical rating organization.</p> <p>Money market instruments that HIO may acquire will be securities rated in the two highest short-term rating categories by Moody’s or S&amp;P or the equivalent of such rating categories by another major rating service, or comparable unrated securities. Money market instruments in which HIO typically expects to invest include U.S. government securities; bank obligations (including certificates of deposit, time deposits and bankers acceptances of U.S. or foreign banks); commercial paper; and repurchase agreements.</p>	<p>Substantively identical.</p> <p>MHY may invest without limitation in short-term money market instruments to help defray operating expenses, to serve as collateral in connection with certain investment techniques and to hold as a reserve pending the payment of dividends to investors.</p>

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<b>Western Asset Managed High Income Fund Inc.</b>	<b>Western Asset High Income Opportunity Fund Inc.</b>	<b>Differences between HIO and MHY</b>
<p>In order to mitigate the effects of uncertainty in future exchange rates affecting the portfolio's non-dollar investments, MHY may engage in currency exchange transactions and currency futures contracts and related options and purchase options on foreign currencies. MHY may also hedge against the effects of changes in the value of its investments by entering into interest rate futures contracts and related options.</p>	<p>HIO may, but is not required to, utilize various investment techniques to earn income, facilitate portfolio management and mitigate risk. These investment techniques utilize convertible securities, interest rate and currency futures contracts, put and call options on such futures contracts, currency exchange transactions, illiquid securities, securities of unseasoned issuers and securities of foreign governments and corporations including those of developing countries. Any or all of the investment techniques available to the investment manager may be used at any time, and there is no particular strategy that dictates the use of one technique rather than another.</p>	<p>MHY may only engage in currency exchange transactions, currency futures contracts and related options and purchase options on foreign currencies for hedging purposes while HIO may do so to earn income, facilitate portfolio management and mitigate risk.</p>
<p>MHY may invest in zero coupon, pay-in-kind and delayed interest securities as well as custodial receipts or certificates underwritten by securities dealers or banks</p>	<p>HIO may invest in zero coupon, pay-in-kind and delayed interest securities as well as custodial receipts or certificates underwritten by securities dealers or banks that</p>	<p>No difference.</p>
<p>that evidence ownership of future interest payments, principal payments or both</p>	<p>evidence ownership of future interest payments, principal payments or both on certain U.S. government securities.</p>	
<p>on certain U.S. government securities.</p>		
<p>MHY may invest up to 15% of its assets in corporate loans.</p>	<p>HIO may invest up to 15% of its assets in corporate loans.</p>	<p>No difference.</p>
<p>MHY may hold securities or use investment techniques that provide for payments based on or derived from the performance of an underlying asset, index or other economic benchmark.</p>		

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<b>Western Asset Managed High Income Fund Inc.</b>	<b>Western Asset High Income Opportunity Fund Inc.</b>	<b>Differences between HIO and MHY</b>
MHY may enter into interest rate and currency futures contracts and may purchase and sell put and call options on such futures contracts.	HIO may enter into interest rate and currency futures contracts and may purchase and sell put and call options on such futures contracts.	Substantively identical.
MHY may only enter into futures contracts traded on regulated commodity exchanges. MHY may purchase and write put and call options on futures contracts in order to hedge all or a portion of its investments and may enter into closing purchase transactions with respect to options written by MHY in order to terminate existing positions. With respect to options purchased by MHY, MHY will not make daily cash payments to reflect changes in the value of the underlying contracts; however, the value of such options would change daily and such change would be reflected in MHY's net asset value.	HIO may only enter into futures contracts traded on regulated commodity exchanges. HIO may either accept or make delivery of cash or the underlying instrument specified at the expiration of a futures contract or, prior to expiration, enter into a closing transaction involving the purchase or sale of an offsetting contract. HIO may purchase and write put and call options on futures contracts in order to hedge all or a portion of its investments and may enter into closing purchase transactions with respect to options written by HIO in order to terminate existing positions. With respect to options purchased by HIO, HIO will not make daily cash payments to reflect changes in the value of the underlying contracts; however, the value of the options would change daily and that change would be reflected in HIO's net asset value.	
MHY may enter into repurchase agreement transactions with certain member banks of the Federal Reserve System or with certain dealers listed on the Federal Reserve Bank of New York's list of reporting dealers.	HIO may enter into repurchase agreement transactions with certain member banks of the Federal Reserve System or with certain dealers listed on the Federal Reserve Bank of New York's list of reporting dealers.	No difference.

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<b>Western Asset Managed High Income Fund Inc.</b>	<b>Western Asset High Income Opportunity Fund Inc.</b>	<b>Differences between HIO and MHY</b>
<p>MHY may purchase securities on a when-issued basis or for delayed delivery. MHY will not accrue income with respect to a when-issued or delayed delivery security prior to its stated delivery date and will establish with the Custodian a segregated account consisting of cash, U.S. government securities or other liquid high grade debt obligations in an amount equal to the amount of all when-issued and delayed delivery purchase commitments.</p> <p>MHY is authorized to lend securities it holds to brokers, dealers and other financial organizations. MHY's loans of securities will be collateralized by cash, letters of credit or U.S. government securities that will be maintained at all times in a segregated account in an amount equal to the current market value of the loaned securities.</p>	<p>HIO may purchase securities on a when-issued basis or for delayed delivery. HIO will not accrue income with respect to a when-issued or delayed delivery security prior to its stated delivery date and will establish with the Custodian a segregated account consisting of cash, U.S. government securities or other liquid high grade debt obligations in an amount equal to the amount of all when-issued and delayed delivery purchase commitments.</p> <p>HIO is authorized to lend securities it holds to brokers, dealers and other financial organizations. The amount of such loans, if and when made, may not exceed 20% of the value of HIO's assets. HIO's loans of securities will be collateralized by cash, letters of credit or U.S. government securities that will be maintained at all times in a segregated account in an amount equal to the current market value of the loaned securities. From time to time, HIO may pay a part of the interest earned from the investment of collateral received for securities loaned to the borrower and/or a third party that is unaffiliated with HIO and that is acting as a finder.</p> <p>The portfolio will adhere to the following conditions whenever it lends its securities: (1) HIO must receive at least 100% cash collateral or equivalent securities from the borrower, which amount of collateral will be maintained by daily marking to market; (2) the borrower must increase the collateral whenever the market</p>	<p>No difference.</p> <p>Loans of HIO's securities, if and when made, may not exceed 20% of HIO's assets taken at value. MHY has no such restriction.</p> <p>HIO is bound by restrictive conditions whenever it lends its securities, while MHY is not bound by such restrictive conditions.</p>

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Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
<p>MHY may engage in currency exchange transactions and purchase exchange-traded put and call options on foreign currencies.</p>	<p>value of the securities loaned exceeds the value of the collateral; (3) HIO must be able to terminate the loan at any time; (4) HIO must receive reasonable interest on the loan, as well as any dividends, interest or other distributions on, and any increase in value in, the loaned securities; (5) HIO may pay only reasonable custodian fees in connection with the loan; and (6) voting rights on the loaned securities may pass to the borrower, except that, if a material event adversely affecting the investment in the loaned securities occurs, HIO's Board of Directors must terminate the loan and regain HIO's right to vote the securities.</p>	<p>No difference.</p>
<p>MHY will conduct its currency exchange transactions either on a spot (i.e. cash) basis at the rate prevailing in the currency exchange market or by entering into forward contracts to purchase or sell currencies. MHY's dealings in forward currency exchange transactions will be limited to hedges involving either specific transactions or portfolio positions.</p>	<p>HIO will conduct its currency exchange transactions either on a spot (i.e. cash) basis at the rate prevailing in the currency exchange market or by entering into forward contracts to purchase or sell currencies. HIO will not position hedge with respect to a particular currency to an extent greater than the aggregate market value at any time of the security or securities held in its portfolio denominated or quoted in or currently convertible (such as through the exercise of an option or the consummation of a forward currency contract) in that particular currency. If HIO enters into a transaction hedging or position hedging transaction with respect to a particular currency, it will</p>	<p>HIO is restricted from engaging in position hedging transactions with respect to a particular currency to an extent greater than the aggregate market value at any time of the security or securities held in its portfolio denominated or quoted in or currently convertible in that particular currency. MHY has no such restriction.</p>



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<b>Western Asset Managed High Income Fund Inc.</b>	<b>Western Asset High Income Opportunity Fund Inc.</b>	<b>Differences between HIO and MHY</b>
	<p>cover the transaction through one or more of the following methods: (a) ownership of the underlying currency or an option to purchase such currency; (b) ownership of an option to enter into an offsetting forward currency contract; (c) entering into a forward contract to purchase currency being sold or to sell currency being purchased, provided that such covering contract is itself covered by any one of these methods unless the covering contract closes out the first contract; or (4) depositing into a segregated account with the custodian or a sub-custodian of HIO cash or readily marketable securities in an amount equal to the value of its total assets committed to the consummation of the forward currency contract and not otherwise covered. In the case of transaction hedging, any securities placed in such segregated account must be liquid debt securities. In any case, if the value of the securities placed in the segregated account declines, additional cash or securities will be placed in the account so that the value of the account will equal the value of HIO's total assets committed to the consummation of the forward currency contract and not otherwise covered. Hedging transactions may be made from any foreign currency into dollars or into other appropriate currencies.</p>	

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**Western Asset Managed High Income Fund Inc.**

MHY may purchase put options on a foreign currency in which securities held by MHY are denominated to protect against a decline in the value of such currency in relation to the currency in which the exercise price is denominated. MHY may purchase a call option on a foreign currency to hedge against an adverse exchange rate between the currency denominating a security that it anticipates purchasing and the currency denominating the exercise price. Although the purchase of an option on a foreign currency may constitute an effective hedge against fluctuations in exchange rates, in the event of rate movements adverse to a portfolio's position, MHY may forfeit the entire amount of the premium plus related transaction costs. Options on foreign currencies purchased by MHY may be traded on domestic and foreign exchanges or traded over-the-counter.

MHY may invest in direct obligations of the United States and obligations issued by U.S. government agencies and instrumentalities, which includes Treasury Bills, Treasury Notes and Treasury Bonds. Securities issued by U.S. government agencies and instrumentalities include: securities that are supported by the full faith and credit of the United States (such as Government National Mortgage Association certificates); securities that are supported by the right of the issuer to borrow from the U.S. Treasury (such as securities of Federal Home Loan Banks); and securities that are supported by the credit of the instrumentality (such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds).

**Western Asset High Income Opportunity Fund Inc.**

HIO may purchase put options on a foreign currency in which securities held by HIO are denominated to protect against a decline in the value of such currency in relation to the currency in which the exercise price is denominated. Options on foreign currencies purchased by HIO may be traded on domestic and foreign exchanges or traded over-the-counter.

HIO may invest in direct obligations of the United States and obligations issued by U.S. government agencies and instrumentalities, which includes Treasury Bills, Treasury Notes and Treasury Bonds. Securities issued by U.S. government agencies and instrumentalities include: securities that are supported by the full faith and credit of the United States (such as Government National Mortgage Association certificates); securities that are supported by the right of the issuer to borrow from the U.S. Treasury (such as securities of Federal Home Loan Banks); and securities that are supported by the credit of the instrumentality (such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds).

**Differences between HIO and MHY**

HIO has no specific policy with respect to purchasing a call option on a foreign currency to hedge against an adverse exchange rate of the currency denominating a security that it anticipates purchasing in relation to the currency denominating the exercise price.

No difference.

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<b>Western Asset Managed High Income Fund Inc.</b>	<b>Western Asset High Income Opportunity Fund Inc.</b>	<b>Differences between HIO and MHY</b>
MHY may invest in asset-backed securities, real estate investment trusts ( REITs ), mortgage-backed securities and dollar rolls.	HIO may invest in dollar rolls, asset-backed securities and mortgage-backed securities.	Substantively identical.
MHY may purchase Rule 144A Securities, which are unregistered securities restricted to purchase by qualified institutional buyers pursuant to Rule 144A under the 1933 Act.	N/A	HIO has no specific policy with respect to Rule 144A Securities.

**Risk Factors**

There is no assurance that HIO or MHY will meet their investment objectives. You may lose money on your investment in either Fund. The value of each Fund's shares may go up or down, sometimes rapidly and unpredictably. Market conditions, financial conditions of issuers represented in each Fund's portfolio, investment strategies, portfolio management, and other factors affect the volatility of each Fund's shares. An investment in HIO is not insured or guaranteed by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

The following section includes a summary of the principal risks of investing in HIO. Except as described below, your investment in MHY is subject to the same risks.

*Investment and Market Risk.* An investment in HIO is subject to investment risk, including the possible loss of the entire amount that you invest. Your investment in HIO Common Shares represents an indirect investment in the fixed income securities and other investments owned by HIO, most of which could be purchased directly. The value of HIO's portfolio securities may move up or down, sometimes rapidly and unpredictably. If the current global economic downturn continues or deteriorates further, the ability of issuers to service their obligations could be materially and adversely affected. At any point in time, your HIO Common Shares may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions.

*Fixed Income Securities Risk.* In addition to the risks described elsewhere in this section with respect to valuations and liquidity, fixed income securities, including high-yield securities, are also subject to certain risks, including:

*Issuer Risk.* The value of fixed income securities may decline for a number of reasons that directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services.

*Interest Rate Risk.* The market price of HIO's investments will change in response to changes in interest rates and other factors. During periods of declining interest rates, the market price of fixed income securities generally rises. Conversely, during periods of rising interest rates, the market price of such securities generally declines. The magnitude of these fluctuations in the market price of fixed income securities is generally greater for securities with longer maturities. Fluctuations in the market price of HIO's securities will not affect interest income derived from securities already owned by HIO, but will be reflected in HIO's net asset value. HIO may utilize certain strategies, including investments in structured notes or interest rate swap or cap transactions, for the purpose of reducing the interest rate sensitivity of the portfolio and decreasing HIO's exposure to interest rate risk, although there is no assurance that it will do so or that such strategies will be successful.

*Prepayment Risk.* During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing HIO to reinvest the proceeds from such prepayment in lower yielding securities, which may result in a decline in HIO's income and distributions to stockholders. This is known as prepayment or call risk. Debt securities frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price (typically greater than par) only if certain prescribed conditions are met. An issuer may choose to redeem a debt security if, for example, the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer.



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*Reinvestment Risk.* Reinvestment risk is the risk that income from HIO's portfolio will decline if and when HIO invests the proceeds from matured, traded or called fixed income securities at market interest rates that are below the portfolio's current earnings rate. A decline in income could affect HIO's Common Shares price or its overall return.

*Credit Risk.* Credit risk is the risk that one or more fixed income securities in HIO's portfolio will decline in price or fail to pay interest or principal when due because the issuer of the security experiences a decline in its financial status. If the recent adverse conditions in the credit markets continue to adversely affect the broader global economy, the credit quality of issuers of fixed income securities in which HIO may invest would be more likely to decline, all other things being equal. Changes by a nationally recognized statistical rating organization (NRSRO) in its rating of securities and in the ability of an issuer to make scheduled payments may also affect the value of HIO's investments. Since HIO invests in below investment grade securities, it will be exposed to a greater amount of credit risk than a fund which invests solely in investment grade securities. The prices of lower grade securities generally are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities. High-yield fixed income securities are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal when due and therefore involve a greater risk of default.

*Liquidity Risk.* HIO may invest in illiquid securities. Illiquid securities are securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which HIO has valued the securities. Liquidity risk exists when particular investments are difficult to sell. Securities may become illiquid after purchase by HIO, particularly during periods of market turmoil. When HIO holds illiquid investments, the portfolio may be harder to value, especially in changing markets, and if HIO is forced to sell these investments in order to segregate assets or for other cash needs, HIO may suffer a loss.

*Below Investment Grade (High-Yield or Junk) Securities Risk.* HIO may invest in high-yield debt securities. Debt securities rated below investment grade are commonly referred to as high-yield securities or junk bonds and are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. Debt securities rated C or lower by Moody's, CCC or lower by S&P or CC or lower by Fitch or comparably rated by another NRSRO or, if unrated, determined by Western Asset to be of comparable quality are considered to have extremely poor prospects of ever attaining any real investment standing, to have a current identifiable vulnerability to default, to be unlikely to have the capacity to pay interest and repay principal when due in the event of adverse business, financial or economic conditions and/or to be in default or not current in the payment of interest or principal. Ratings may not accurately reflect the actual credit risk associated with a corporate security.

Debt securities rated below investment grade generally offer a higher current yield than that available from higher grade issues, but typically involve greater risk. These securities are especially sensitive to adverse changes in general economic conditions, to changes in the financial condition of their issuers and to price fluctuation in response to changes in interest rates. During periods of economic downturn or rising interest rates, issuers of below investment grade instruments may experience financial stress that could adversely affect their ability to make payments of principal and interest and increase the possibility of default. The secondary market for high-yield securities may not be as liquid as the secondary market for more highly rated securities, a factor which may have an adverse effect on HIO's ability to dispose of a particular security. There are fewer dealers in the market for high-yield securities than for investment grade obligations. The prices quoted by different dealers may vary significantly, and the spread between the bid and asked price is generally much larger for high-yield securities than for higher quality instruments. Under continuing adverse market or economic conditions, the secondary market for high-yield securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these securities may become illiquid. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the values and liquidity of below investment grade securities, especially in a market characterized by a low volume of trading.

Default, or the market's perception that an issuer is likely to default, could reduce the value and liquidity of securities held by HIO, thereby reducing the value of your investment in HIO's Common Shares. In addition, default may cause HIO to incur expenses in seeking recovery of principal or interest on its portfolio holdings. In any reorganization or liquidation

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proceeding relating to a portfolio company, HIO may lose its entire investment or may be required to accept cash or securities with a value less than its original investment. Among the risks inherent in investments in a troubled entity is the fact that it frequently may be difficult to obtain information as to the true financial condition of such issuer. Western Asset's judgment about the credit quality of an issuer and the relative value of its securities may prove to be wrong. Investments in below investment grade securities may present special tax issues for HIO to the extent that the issuers of these securities default on their obligations pertaining thereto, and the U.S. federal income tax consequences to HIO as a holder of such distressed securities may not be clear.

*Foreign Securities and Emerging Markets Risk.* A fund that invests in foreign (non-U.S.) securities may experience more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies. The securities markets of many foreign countries are relatively small, with a limited number of companies representing a small number of industries. Investments in foreign securities (including those denominated in U.S. dollars) are subject to economic and political developments in the countries and regions where the issuers operate or are domiciled, or where the securities are traded, such as changes in economic or monetary policies. Values may also be affected by restrictions on receiving the investment proceeds from a foreign country. Less information may be publicly available about foreign companies than about U.S. companies. Foreign companies are generally not subject to the same accounting, auditing and financial reporting standards as are U.S. companies. In addition, HIO's investments in foreign securities may be subject to the risk of nationalization or expropriation of assets, imposition of currency exchange controls or restrictions on the repatriation of foreign currency, confiscatory taxation, political or financial instability and adverse diplomatic developments. In addition, there may be difficulty in obtaining or enforcing a court judgment abroad. Dividends or interest on, or proceeds from the sale of, foreign securities may be subject to non-U.S. withholding taxes, and special U.S. tax considerations may apply.

The risks of foreign investment are greater for investments in emerging markets. HIO considers a country to be an emerging market country if, at the time of investment, it is represented in the J.P. Morgan Emerging Markets Bond Index Global or categorized by the World Bank in its annual categorization as middle or low-income. Emerging market countries typically have economic and political systems that are less fully developed, and that can be expected to be less stable, than those of more advanced countries. Low trading volumes may result in a lack of liquidity and in price volatility. Emerging market countries may have policies that restrict investment by foreigners, that require governmental approval prior to investments by foreign persons, or that prevent foreign investors from withdrawing their money at will. An investment in emerging market securities should be considered speculative.

*Non-U.S. Government, or Sovereign, Debt Securities Risk.* HIO invests in non-U.S. government, or sovereign, debt securities. The ability of a government issuer, especially in an emerging market country, to make timely and complete payments on its debt obligations will be strongly influenced by the government issuer's balance of payments, including export performance, its access to international credits and investments, fluctuations of interest rates and the extent of its foreign reserves. A country whose exports are concentrated in a few commodities or whose economy depends on certain strategic imports could be vulnerable to fluctuations in international prices of these commodities or imports. To the extent that a country receives payment for its exports in currencies other than U.S. dollars, its ability to make debt payments denominated in U.S. dollars could be adversely affected. If a government issuer cannot generate sufficient earnings from foreign trade to service its external debt, it may need to depend on continuing loans and aid from foreign governments, commercial banks, and multinational organizations. There are no bankruptcy proceedings similar to those in the United States by which defaulted non-U.S. government debt may be collected. Additional factors that may influence a government issuer's ability or willingness to service debt include, but are not limited to, a country's cash flow situation, the availability of sufficient foreign exchange on the date a payment is due, the relative size of its debt service burden to the economy as a whole, and the issuer's policy towards the International Monetary Fund, the International Bank for Reconstruction and Development and other international agencies to which a government debtor may be subject.

Since 2010, the risks of investing in foreign sovereign debt have increased dramatically as a result of the ongoing European debt crisis which began in Greece and has begun to spread throughout various other European countries. These debt crises and the ongoing efforts of governments around the world to address these debt crises have also resulted in increased volatility and uncertainty in the United States and the global economy and securities markets, and it is impossible to predict the effects of these or similar events in the future on the United States and the global economy and securities markets or on HIO's investments, though it is possible that these or similar events could have a significant adverse impact on the value and risk profile of HIO. Moreover, as the European debt crisis has progressed, the possibility of one or more

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Eurozone countries exiting the European monetary union, or even the collapse of the Euro as a common currency, has arisen. The effects of the collapse of the Euro, or of the exit of one or more countries from the European monetary union, on the United States and the global economy and securities markets are impossible to predict and any such events could have a significant adverse impact on the value and risk profile of HIO. See [Risk Factors](#) [Currency Risk](#).

*Currency Risk.* If HIO invests directly in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in derivatives that provide exposure to foreign (non-U.S.) currencies, it will be subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions intended to protect HIO from decline in the value of foreign (non-U.S.) currencies, that the U.S. dollar will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by HIO. As a result, HIO's investments in foreign currency denominated securities may reduce the returns of HIO. HIO will compute, and expects to distribute, its income in U.S. dollars, and the computation of income is made on the date that the income is earned by HIO at the foreign exchange rate in effect on that date. If the value of the foreign currencies in which HIO receives its income falls relative to the U.S. dollar between the earning of the income and the time at which HIO converts the foreign currencies to U.S. dollars, HIO may be required to liquidate securities in order to make distributions if HIO has insufficient cash in U.S. dollars to meet distribution requirements. See [Dividends and Distributions](#) [Distributions](#) and [HIO Dividend Reinvestment Plan](#). The liquidation of investments, if required, may have an adverse impact on HIO's performance.

HIO may, from time to time, seek to protect the value of some portion or all of its portfolio holdings against currency risks by engaging in currency hedging transactions. In addition, there may be instances in which HIO's portfolio contains synthetic exposure to a particular currency even though HIO does not own any bonds denominated in such a currency. Such transactions may include entering into forward currency exchange contracts, currency futures contracts and options on such futures contracts, the use of other derivatives, as well as purchasing put or call options on currencies, in U.S. or foreign markets. Currency hedging involves special risks, including possible default by the other party to the transaction, illiquidity and, to the extent Western Asset's view as to certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if they had not been used. In addition, in certain countries in which HIO may invest, currency hedging opportunities may not be available. See [Risk Factors](#) [Derivatives Risk](#).

In addition, realizations and drawdowns in HIO's currency exposure may add to volatility to HIO's distributable income. If HIO's currency exposure results in a negative return to HIO, it may result in HIO making distributions, some or all of which consist of a return of capital.

*U.S. Government Debt Securities Risk.* U.S. government debt securities generally do not involve the credit risks associated with investments in other types of debt securities, although, as a result, the yields available from U.S. government debt securities are generally lower than the yields available from other securities. Like other debt securities, however, the values of U.S. government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities but will be reflected in HIO's net asset value. Since the magnitude of these fluctuations will generally be greater at times when HIO's average maturity is longer, under certain market conditions HIO may, for temporary defensive purposes, accept lower current income from short-term investments rather than investing in higher yielding long-term securities.

*Derivatives Risk.* HIO may utilize a variety of derivative instruments such as options, floors, caps and collars, futures contracts, forward contracts, options on futures contracts and indexed securities. Generally derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference rate or index, and may relate to individual debt or equity instruments, interest rates, currencies or currency exchange rates and related indexes. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, credit risk and management risk. Derivatives are also subject to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. Changes in the credit quality of the companies that serve as HIO's counterparties with respect to its derivative transactions will affect the value of those instruments. By using derivatives that expose HIO to counterparties, HIO assumes the risk that

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its counterparties could experience financial hardships that could call into question their continued ability to perform their obligations. In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If HIO is owed this fair market value in the termination of the derivative transaction and its claim is unsecured, HIO will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. As a result, concentrations of such derivatives in any one counterparty would subject HIO to an additional degree of risk with respect to defaults by such counterparty. See

**Counterparty Risk** . Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with an underlying asset, interest rate or index. Suitable derivative transactions may not be available in all circumstances and there can be no assurance that HIO will engage in these transactions to reduce exposure to other risks when that would be beneficial. If HIO invests in a derivative instrument, it could lose more than the principal amount invested. Changes to the derivatives markets as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act and other government regulation may have an adverse effect on HIO's ability to make use of derivative transactions.

Derivative instruments can be illiquid, may disproportionately increase losses and may have a potentially large impact on HIO's performance.

It is possible that government regulation of various types of derivative instruments, including interest rate swaps, interest rate options, credit linked notes, foreign currency forward contracts, credit default swaps and total return swaps on individual securities and groups or indexes of securities may limit or prevent HIO from using such instruments as part of its investment strategy, which could negatively affect HIO's performance. For example, the U.S. Government recently enacted legislation that provides for new regulation of certain portions of the derivatives market, including clearing, margin, reporting, recordkeeping, and registration requirements. Although the CFTC has released final rules relating to clearing, reporting, recordkeeping and registration requirements, many of the provisions contained in the Dodd-Frank Act are subject to further final rulemaking. New regulations could, among other things, restrict HIO's ability to engage in derivatives transactions (for example, by making certain types of derivatives transactions no longer available to HIO) and/or increase the costs of such derivatives transactions (for example, by increasing margin or capital requirements), and HIO may be unable to execute its investment strategy as a result. It is unclear how the regulatory changes will affect counterparty risk.

HIO is operated by persons who have claimed an exclusion, granted to operators of registered investment companies like HIO, from registration as a commodity pool operator with respect to HIO under the Commodity Exchange Act (the CEA), and who, therefore, are not subject to registration or regulation with respect to HIO under the CEA. As a result, effective December 31, 2012, HIO is limited in its ability to use commodity futures (which include futures on broad-based securities indexes and interest rate futures) or options on commodity futures, engage in swaps transactions or make certain other investments (whether directly or indirectly through investments in other investment vehicles) for purposes other than bona fide hedging. With respect to transactions other than for bona fide hedging purposes, either: (1) the aggregate initial margin and premiums required to establish HIO's positions in such investments may not exceed 5% of the liquidation value of HIO's portfolio (after accounting for unrealized profits and unrealized losses on any such investments); or (2) the aggregate net notional value of such instruments, determined at the time the most recent position was established, may not exceed 100% of the liquidation value of HIO's portfolio (after accounting for unrealized profits and unrealized losses on any such positions). In addition to meeting one of the foregoing trading limitations, HIO may not market itself as a commodity pool or otherwise as a vehicle for trading in the futures, options or swaps markets.

**Derivatives Regulation Risk.** In connection with an ongoing review by the SEC and its staff of the regulation of investment companies' use of derivatives, on August 31, 2011, the SEC issued a concept release to seek public comment on a wide range of issues raised by the use of derivatives by investment companies. The SEC noted that it intends to consider the comments to help determine whether regulatory initiatives or guidance are needed to improve the current regulatory regime for investment companies and, if so, the nature of any such initiatives or guidance. While the nature of any such regulations is uncertain at this time, it is possible that such regulations could limit the implementation of HIO's use of derivatives, which could have an adverse impact on HIO. Neither LMPFA nor Western Asset can predict the effects of these regulations on HIO's portfolio. LMPFA and Western Asset monitor developments and seek to manage HIO's portfolio in a manner consistent with achieving HIO's investment objectives, but there can be no assurance that they will be successful in doing so.







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**Short-Term Incentive Program**

The company's principal short-term incentives—annual bonuses—reinforce individual accountability for optimizing operating results throughout the year, driving profitability, efficiency and shareholder value. Each of the named executives has a short-term incentive program including financial targets, the achievement of which is linked to 80% of the total targeted annual incentive, and individual, non-financial goals, the achievement of which is linked to 20% of the total targeted annual incentive.

Management, in consultation with the compensation committee, establishes annual financial targets utilizing one or more key indicators of the company's strategic progress. For 2007, these financial targets were based on a mix of the company's achievement of specified levels of operating income and average net working capital as a percentage of sales. For corporate executives, including Messrs. Reilly and Brown among the named executive officers, the operating income and working capital financial targets are based on the results obtained by Arrow as a whole. For operating group executives, including Mr. Long and Ms. Morris, three quarters of the financial portion of the annual incentive is determined by the performance of the executive's operating group (Global Components and ECS, respectively) and one quarter of it is determined by the performance of Arrow overall.

The goal reflected in the targets selected is superior performance, which is generally defined as performance beyond both the company's historical achievements and the projected growth of the markets in which the company operates. In 2007, the committee determined that for the named executive officers (other than Mr. Mitchell, whose separate bonus plan is discussed below) to earn 100% of the financial component of their targeted bonuses, the company had to achieve specified operating income targets that ranged between \$207.7 million (on an operating group level) and \$714.1 million (at the consolidated corporate level) and specified targets for net working capital, expressed as a percentage of sales, that ranged between 8.2% and 20.1%. Depending on the actual results, participants could earn from 0% to 200% of the target bonus.

The non-financial goals that are a part of the annual bonus calculation are set at the beginning of each year for the Chief Executive Officer by the compensation committee and for each of the other named executive officers by the Chief Executive Officer. The goals may be strategic or tactical, but all are designed to be specific and measurable and demonstrably further the objectives of the company and/or the executive's business unit, as appropriate.

In light of the company's rapid growth, penetration into new geographical and product markets, and the constant increase in operating efficiency needed to achieve the company's objectives, each of the named executives were given several substantial, non-financial goals. Included among them for 2007 were:

- the development of unified global business and staff structures in place of pre-existing regional organizations;

- the achievement of specific service-level commitments (in staff organizations);

- the successful completion or integration of key acquisitions;

- building senior and mid-level staffing to a required level and maintaining it;

- insuring that the executive's new hires and direct reports learned various aspects of the business, developed specific skills, or moved into new roles; and

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the completion of succession planning for the company's principal businesses.

The participants' actual 2007 awards were determined at year-end based on the performance of the company or business unit, as applicable, against the targets discussed above, and the attainment of the individual, non-financial goals. For 2007, the named executive officers other than Mr. Mitchell achieved between 95.3% and 138.4% of their respective financial targets and between 100% and 150% of their respective individual, non-financial targets.

Both the metrics and the results actually obtained are set forth on the following table. The specific amount paid to each participant is shown in the Summary Compensation Table (with the non-financial target results under the heading "Bonus" and the financial target results included in the amount appearing under the heading "Non-Equity Incentive Plan Compensation.")

Performance Measure	Performance Range (\$ in millions)		Results				M Weight	Weighted Multiple			
			Michael		Catherine			Michael		Catherine	
			Paul J. Reilly	J. Long	Peter S. Brown	Morris		Paul J. Reilly	J. Long	Peter S. Brown	Morris
Operating income	\$ 207.7	\$714.1	96.0%	81.2%	96.0%	94.5%	40%	38.4%	32.5%	38.4%	37.8%
Net working capital as a percentage of sales	8.2%	20.1%	129.4%	109.2%	129.4%	182.4%	40%	51.8%	43.7%	51.8%	73%
Non-Financial		N/A	110%	100%	100%	150%	20%	22%	20%	20%	30%
<b>Total</b>								<b>112.2%</b>	<b>96.2%</b>	<b>110.2%</b>	<b>140.8%</b>

In 2007, Mr. Mitchell's targeted financial goals included earnings per share, operating income and net working capital as a percentage of sales. Mr. Mitchell's bonus was designed to qualify as performance-based compensation, as is discussed more fully below under the heading "Tax Considerations." The earnings per share target was used to establish the maximum bonus that could be paid to Mr. Mitchell. The operating income and net working capital targets were used to establish the amount actually to be paid to Mr. Mitchell, in the exercise of the committee's discretion, for the achievement of financial goals. For 2007, Mr. Mitchell achieved 117.4% of his financial targets and 120% of his non-financial targets, and the committee in its discretion granted him a bonus of \$1,238,160.

**Medium-Term Incentive Program**

In 2007, Arrow provided medium-term incentives to its executives through awards of performance shares under the Omnibus Incentive Plan. Performance share awards are used by the committee to foster retention, and create greater alignment with shareholder interests. Because the executive will earn from 0% to 200% of the targeted number of shares depending on specific performance metrics, performance shares align compensation with the achievement of the corporate strategic goals.

Performance share awards under the Medium-Term Incentive Program link executive compensation to improvements in financial results and the performance of the company's common stock over a three-year period. Each year begins a new three-year performance cycle

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for which the compensation committee establishes financial targets and performance share targets for participating executives. The financial targets are based on each participant's level and breadth of responsibility, his or her potential contribution to the success of the company, and competitive considerations. Each participant's actual award is determined at the end of each three-year cycle based on how the company's actual performance compares with the targets set at the beginning of the cycle, and settled with the payment of shares of Arrow common stock.

Except in the event of death, disability or a termination (without cause or by involuntary termination) that follows a change of control of the company, under the terms of the grant performance shares are forfeited by the participant if he or she leaves the company prior to the vesting of a complete performance cycle. (Forfeiture and the impact of various termination scenarios under each of the incentive plans is discussed more fully below, under the heading Agreements and Potential Payments upon Termination or Change of Control. )

The 2005-2007 performance share cycle was the second completed under the Medium-Term Incentive Program. Accordingly, the company has only limited historical data regarding the extent to which participants have attained established targets under the program. The compensation committee established the medium-term target performance metrics for each cycle at a level designed to significantly challenge the participants. Under the 2004-2006 awards, paid out last year, the then-named executive officers received 87.5% of the targeted number of shares.

As is shown in the table below, financial targets for the 2005-2007 cycle were 1) an average EBIT percentage (earnings before interest and taxes divided by sales) of 4.5% over the three-year period, and 2) an ROIC (return on invested capital) of 12.5%, measured during the last quarter of the cycle. The EBIT achievement was weighted at 33.3% of the total and the ROIC achievement was weighted at 66.7%. Under the terms of the plan, the committee adjusted the financial results actually achieved during the cycle to exclude the impact of acquisitions and restructurings which occurred after the targets were set. For the cycle, each of the named executive officers received 117.1% of the target number of shares.

**2005-2007 Performance Share Cycle  
Metrics and Achievement**

<b>Performance Measure</b>	<b>Performance Target</b>	<b>Adjusted Performance</b>	<b>Resulting Performance Factor</b>	<b>Weight</b>	<b>Weighted Multiple</b>
<b>Average EBIT percentage</b>	<b>4.5%</b>	<b>4.8%</b>	<b>127.3%</b>	<b>33.3%</b>	<b>42.4%</b>
<b>Return on Invested Capital</b>	<b>12.5%</b>	<b>12.8%</b>	<b>112.0%</b>	<b>66.7%</b>	<b>74.7%</b>
<b>Total</b>				<b>100.0%</b>	<b>117.1%</b>

The actual number of shares awarded to each of the named executives with respect to this cycle is set forth below. The number of shares awarded with respect to the prior cycle is also included here, because the shares were awarded early in 2007 for the cycle ending in 2006.

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	<b>Performance Shares Earned</b>		<b>Performance Shares Earned</b>	
	<b>2005</b>	<b>2007</b>	<b>2004</b>	<b>2006</b>
	<b>Performance Period</b>		<b>Performance Period</b>	
<b>William E. Mitchell</b>	<b>76,115</b>		<b>43,750</b>	
<b>Paul J. Reilly</b>	<b>9,368</b>		<b>6,825</b>	
<b>Michael J. Long</b>	<b>11,710</b>		<b>6,825</b>	
<b>Peter S. Brown</b>	<b>9,368</b>		<b>6,825</b>	
<b>M. Catherine Morris</b>	<b>2,693</b>		<b>2,013</b>	

For the 2007-2009 performance share cycle, consistent with and in furtherance of the company's medium-term financial goals, the compensation committee elected to focus on ROIC, establishing a target for average return on invested capital over the final two years of the cycle of 12.5%. The number of performance shares which may be earned by the named executives under the 2007-2009 award is set forth below in the table entitled "Grants of Plan-Based Awards".

Mr. Mitchell received a performance share award with a target of 16,100 shares under the Medium-Term Incentive Program for the 2007-2009 performance cycle. The goals, targets and metrics of this award are the same as those discussed above for the other named executive officers. In 2007, the committee also awarded Mr. Mitchell a grant of 40,000 shares of restricted stock under the Omnibus Incentive Plan, vesting in four equal installments beginning with the first anniversary of the grant, in consideration of his agreement to remain continuously employed by the company for at least a year from the date of grant and in order to provide additional compensation while encouraging stock ownership in the company.

**Long-Term Incentive Program**

In 2007, the company provided long-term incentives to its executives through grants of stock options under the Omnibus Incentive Plan. Stock options are designed to reinforce the importance of producing satisfactory returns to shareholders over the long-term and align the interests of the executives with those of the shareholders by providing the executives with the opportunity to acquire common stock of the company. Options are also issued to foster shared leadership by supporting executive retention.

Each year, the compensation committee reviews the Chief Executive Officer's recommendations for senior management stock option grants and makes grant decisions based on those recommendations, prior grant history, the committee's own assessment of each executive's contribution, potential contribution and performance during the prior year and on the option grant practices of the benchmarked companies discussed above.

The committee also evaluates the Chief Executive Officer in light of the factors discussed above and determines the number of options to be granted to him under the Long-Term Incentive Plan. That grant and those for the other named executive officers are as set forth below. For more detail, including the expense to the company associated with each grant, see the Grant of Plan-Based Awards table, below.

The exercise price of each stock option is equal to 100% of the closing market price of the company's common stock on the grant date. Stock options become exercisable in equal amounts on the first, second, third and fourth anniversaries of the grant date and have a maximum term of ten years.

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	<b>Stock Options Awarded</b>
<b>William E. Mitchell</b>	<b>50,000</b>
<b>Paul J. Reilly</b>	<b>18,000</b>
<b>Michael J. Long</b>	<b>30,000</b>
<b>Peter S. Brown</b>	<b>15,000</b>
<b>M. Catherine Morris</b>	<b>12,000</b>

It is the practice of the Board to grant stock options at the first regularly scheduled board meeting of the calendar year. Grants associated with the hiring or promotion of participants are made at the next regularly scheduled meeting of the Board that follows such an event. Limiting stock option grants to regularly scheduled meetings and only issuing stock options with an exercise price based on fair market value at the grant date ensures that participants will derive benefits only as shareholders realize corresponding gains over an extended time period. None of the options granted by the company discussed elsewhere throughout this proxy statement, have been repriced, replaced or modified in any way since the time of the original grant.

**Retirement Programs and Other Benefits**

In keeping with its total compensation philosophy and in light of the need to provide a total compensation and benefit package which is competitive with those offered at the benchmarked companies, the committee believes that the retirement and other benefit programs discussed below are critical elements of the compensation package made available to the company's executive officers.

**Deferred Compensation**

In order to encourage long-term retention and facilitate executive retirement and financial planning, the company maintains a compensation deferral plan pursuant to which corporate executives may defer pre-tax compensation including up to 80% of salary and 100% of bonuses, incentive compensation and performance shares. Of the named executives, only Mr. Mitchell participates in the deferral plan. His participation and above market earnings on the amount deferred are reflected under the heading Change in Pension Value and NQDC Earnings in the Summary Compensation Table, below. The deferred compensation plan is discussed in more detail under the heading Deferred Compensation Plans, below.

**Qualified Plans**

The named executive officers also participate in the ESOP and the Arrow 401(K) Savings Plan, qualified plans available to all of Arrow's U.S. employees. Company contributions to these plans on behalf of the named executive officers are included under the heading All Other Compensation in the Summary Compensation Table and detailed in the All Other Compensation Detail table, below.

**Management Insurance Plan**

All of the named executive officers participate in Arrow's Management Insurance Plan. In the event of the death of the executive, the company provides a life insurance benefit to the executive's named beneficiary equal to four times the executive's final planned total annual performance-based compensation.

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Current death benefits for each executive are set forth on the Potential Payouts Upon Termination table, below. Premiums paid by the company on behalf of each executive are included under the heading All Other Compensation in the Summary Compensation Table and specified under the heading Management Insurance Plan on the All Other Compensation Table Detail, below.

**Employment and Change of Control Agreements**

Employment agreements for senior management are used by the company to establish key elements of the agreement between the company and the executive, including the promised minimum periods of employment and the fundamental elements of compensation, as well as the details of the individual arrangement which differ from the company's standard plans and programs. The agreements also facilitate the creation of covenants, such as those prohibiting post-employment competition or hiring by executives or limitations on the reasons for which an executive may be terminated, which would not otherwise be part of the employment relationship.

Because these arrangements are complex, are of critical importance to both the company and its executives, and involve a substantial investment by the company, Arrow has entered into employment and change of control agreements with each of the named executive officers that are discussed in detail below, in the section entitled Agreements and Potential Payouts upon Termination or Change of Control, below. Also detailed in that section are the potential payouts for each of the officers under the variety of potential termination scenarios covered by the agreements. Those potential payouts are part of the total compensation package for each executive reassessed by the committee each year.

**SERP**

The company maintains the Arrow Electronics, Inc. Supplemental Executive Retirement Plan (the SERP), an unfunded retirement plan in which 27 current and former executives selected by the Board participate. The committee believes that the SERP encourages long-term retention and maintains management stability. All of the named executive officers participate in the SERP, the details of which are discussed below under the heading Supplemental Executive Retirement Plan.

**Tax Considerations**

A variety of tax and accounting considerations inform the committee's development and implementation of the company's compensation and benefit plans. Among them are Section 162(m) of the Internal Revenue Code, an important factor in the design of the Omnibus Incentive Plan. Compliance with Section 162(m) insures that compensation paid to the chief Executive Officer and certain others is a deductible business expense of the company. Mr. Mitchell's 2007 short-term incentive was a performance-based bonus as defined by Section 162(m), driven by earnings per share and net working capital targets yielding a maximum bonus which could have been awarded under the formula of \$4,195,970. The committee exercised the discretion permitted under Section 162(m) and awarded Mr. Mitchell a total bonus, including amounts associated with his non-financial targets, of \$1,238,160 for 2007.



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As discussed under the heading Agreements and Potential Payments Upon Termination or Change of Control, below, the company's change of control agreements, and the related sections of the various executive employment and award agreements, are designed not to exceed the limitations of Section 4999 of the Internal Revenue Code, avoiding excise taxes for the executive. As is also discussed, the company has undertaken to modify all of such agreements in order to permit the executive to avoid penalty under Section 409A.

**COMPENSATION OF THE NAMED EXECUTIVE OFFICERS****Summary Compensation Table**

The following table provides certain summary information concerning the compensation of the named executive officers for 2007 and 2006.

**Summary Compensation Table**

	Year	Salary (\$)	Bonus (\$) (1)	Stock Awards (\$) (2)	Option Awards (\$) (3)	Non-Equity Plan Incentive Compensation (\$) (4)	Change in Pension Value	All Other Compensation (\$) (6)	Total (\$)
							and NQDC Earnings (\$)(5)		
<b>William E. Mitchell Chief Executive Officer</b>	2007	1,050,000	252,000	2,326,225	1,159,831	986,160	1,229,537	144,399	7,148,152
	2006	990,000	380,880	1,915,976	1,202,297	719,120	809,550	157,501	6,175,324
<b>Paul J. Reilly Chief Financial Officer</b>	2007	500,000	84,300	289,682	161,437	315,700	483,347	47,362	1,881,828
	2006	425,000	71,287	289,069	136,978	178,713	116,550	55,676	1,273,273
<b>Michael J. Long Chief Operating Officer</b>	2007	550,000	130,900	390,315	216,765	419,100	614,099	62,957	2,384,136
	2006	460,000	71,935	330,325	174,316	268,065	169,978	76,668	1,551,287
<b>Peter S. Brown General Counsel</b>	2007	475,000	57,930	248,604	138,824	257,070	279,394	53,141	1,509,963
	2006	460,000	62,595	262,331	121,188	172,405	156,205	52,614	1,287,338
<b>M. Catherine Morris President, ECS</b>	2007	400,000	54,320	109,940	74,174	265,680	76,182	42,915	1,023,211
	2006	300,000	109,839	86,221	55,123	140,161		39,119	730,463

(1)

Amounts shown under the heading Bonus for each of the named executive officers are the actual amounts paid under that portion of the Short-Term Incentive Program award based on each officer's specific individual (non-financial) goals (20% of the total incentive at target) and any discretionary adjustments made by the compensation committee.

- (2) The amounts under Stock Awards include, for each of the named executive officers, an amount equal to the expense to the company for each of their performance share awards calculated utilizing the provisions of S F A S No. 123 R, Share-based Payment. For the

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assumptions underlying the valuation, see Note 12 of the consolidated financial statements in the company's Annual Report for the year ended December 31, 2007. For Mr. Mitchell, also included is a May 2006 grant of 20,000 restricted shares, valued at the fair market value of the company's stock at the date of grant in recognition of his assumption of the duties of Chairman of the Board. These shares vest only upon Mr. Mitchell's retirement, death, disability, or his termination following a change in control. The grant is forfeited if Mr. Mitchell resigns or is terminated (except following a change in control) prior to his retirement. Also included

for Mr. Mitchell  
i s t h e  
February 2007  
grant of 40,000  
restricted shares  
discussed above  
u n d e r t h e  
h e a d i n g  
Medium-Term  
I n c e n t i v e  
Program which  
vests, in equal  
parts, on the  
first, second,  
third and fourth  
anniversaries of  
the grant date.

- (3) Amounts shown  
u n d e r t h e  
heading Option  
Awards also  
reflect the SFAS  
N o . 1 2 3 R  
expense taken  
for each named  
e x e c u t i v e  
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connection with  
their respective  
grants of stock  
options. For  
assumptions  
underlying the  
valuation of  
2005, 2006, and  
2007 option  
awards, see  
Note 1 to the  
consolidated  
f i n a n c i a l  
statements in  
the Company's  
Annual Report  
for the year  
e n d e d  
December 31,  
2007. Stock  
options granted  
to the named  
e x e c u t i v e

officers in 2003 and 2004 have been valued utilizing the Black-Scholes option pricing model, based on the following assumptions: i) exercise price of \$12.18 for options granted on February 3, 2003, \$13.85 for options granted on February 27, 2003, and \$24.60 for options granted on February 27, 2004; ii) risk free interest rate of 2.55% for February 3, 2003, 2.227% for February 27, 2003, and 2.543% for February 27, 2004; iii) expected life of four years for 2003 and 2004; iv) expected volatility of 60% for 2003 and 55% for 2004; and v) no expected dividend yield for 2003 or 2004.

- (4) The amounts shown under Non-Equity Incentive Plan Compensation are the actual amounts paid on that portion of

the Short-Term  
I n c e n t i v e  
Program awards  
b a s e d o n  
financial targets  
(80% of the  
total target  
incentive at  
target.)

- (5) The amounts shown under the heading Change in Pension Value and NQDC Earnings reflect the difference in the present value of each officer's retirement plan participation from year to year, as is discussed below under the heading Supplemental Executive Retirement Plan. For Mr. Mitchell the amount shown also includes the above market portion of the interest earned by his deferred compensation account, discussed in detail below under the heading, Deferred Compensation Plans.
- (6) See the All Other Compensation

Detail table,  
below.

Each of the named executive officers has an employment agreement which impacts or defines certain of the elements of the compensation shown above. The material terms of those agreements are discussed below under the heading Employment Agreements.

**Table of Contents****All Other Compensation Detail**

This table sets forth each of the elements comprising each named executive officer's 2006 and 2007 All Other Compensation from the Summary Compensation Table, above.

Name	Year	Perquisites			Benefits			Total (\$)
		Management Insurance Program (\$)	Car Allowance (\$)	Other (\$)(1)	ESOP (\$)	401(K) Company Contribution (\$)	20% Federal Tax Assist on Restricted Stock Vest (\$)	
William E. Mitchell	2007	25,837		24,827	6,750	6,750	80,235	144,399
	2006	25,837		39,961	6,600	6,600	78,503	157,501
Paul J. Reilly	2007	5,583	10,200		6,750	6,750	18,079	47,362
	2006	5,583	10,200		6,600	6,600	26,693	55,676
Michael J. Long	2007	7,878	10,200	13,300	6,750	6,750	18,079	62,957
	2006	7,878	10,200	18,697	6,600	6,600	26,693	76,668
Peter S. Brown	2007	10,351	10,200	2,724	6,750	6,750	16,366	53,141
	2006	10,351	10,200		6,600	6,600	18,863	52,614
M. Catherine Morris	2007	6,062	10,200	3,638	6,750	6,750	9,515	42,915
	2006	6,062	7,400		6,600	6,600	12,457	39,119

(1) For Mr. Mitchell, Other consists of the incremental cost to the company of personal use of aircraft in which the company owns fractional interests, of which \$17,938 related to travel in connection with Mr. Mitchell's service on the boards of Brown-Forman and the Rogers Corporation in 2007 and \$20,955 related to travel in connection with Mr. Mitchell's service on the board



of the Rogers Corporation in 2006.

Incremental cost is calculated as the sum of fuel cost, cost for hours used, total federal excise tax and segment fees, less reimbursements received from Mr. Mitchell, Brown-Forman and the Rogers Corporation.

For Mr. Long, Other for 2007 represents travel costs paid by the company for Mr. Long's wife to accompany him to a company-sponsored event, and, for 2006, it represents the cost to the company of Mr. Long's use of an apartment leased by the company adjacent to its headquarters in Melville, New York. The amounts include payments intended to offset the personal tax consequences to Mr. Long of the imputed income related to the travel and to the use of the apartment.

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For Mr. Brown and Ms. Morris, the amount under the heading "Other" reflects the cost of a company-sponsored physical examination.

**Grants of Plan-Based Awards**

The following table provides information regarding the awards of performance shares and restricted stock pursuant to the Management Incentive Compensation Program to each of the named executive officers in respect of employment during 2006 and 2007. Of the values shown on this table, the actual payments made in 2006 and 2007 of non-equity incentive plan awards are included on the Summary Compensation Table, above. The portion of the expense to the company associated with the 2006 and 2007 awards of equity incentive plans and stock options is also reported there.

**Grants of Plan-Based Awards**

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Stock or	All Other Option Awards: Number of Securities Underlying Awards (#)	Exercise or Base Price of Option (\$/Sh)	Grant Date	Fair Value of Stock and Option
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	Units (#)(3)	Awards (#)(4)	Awards (\$/Sh)	Awards (\$)(5)	
William E. Mitchell	2007	210,000	840,000	1,680,000								
	2006	178,000	712,000	1,424,000								
	3/15/07				4,025	16,100	32,200	16,100		37.58		605,038
	2/27/06				12,500	50,000	100,000	50,000		35.59		1,779,500
	2/28/07							40,000		38.29		1,531,600
	5/2/06							20,000		36.15		723,000
	2/28/07								50,000	38.29		542,165
2/27/06								100,000	35.59		1,341,750	
Paul J. Reilly	2007	70,000	280,000	560,000								
	2006	42,500	170,000	340,000								
	3/15/07				2,163	8,650	17,300	8,650		37.58		325,067
	2/27/06				2,500	10,000	20,000	10,000		35.59		355,900
	2/28/07								18,000	38.29		195,179
2/27/06								15,000	35.59		201,263	
Michael J. Long	2007	110,000	440,000	880,000								
	2006	69,000	276,000	552,000								
	3/15/07				3,600	14,400	28,800	14,400		37.58		541,152
	2/27/06				3,000	12,000	24,000	12,000		35.59		427,080
	2/28/07								30,000	38.29		325,299
	2/27/06								20,000	35.59		268,350
2007	57,000	228,000	456,000									

**Peter S.  
Brown**

	<b>2006</b>	<b>41,000</b>	<b>164,000</b>	<b>328,000</b>							
	<b>3/15/07</b>				<b>1,800</b>	<b>7,200</b>	<b>14,400</b>	<b>7,200</b>		<b>37.58</b>	<b>270,576</b>
	<b>2/27/06</b>				<b>2,000</b>	<b>8,000</b>	<b>16,000</b>	<b>8,000</b>		<b>35.59</b>	<b>284,720</b>
	<b>2/28/07</b>								<b>15,000</b>	<b>38.29</b>	<b>162,650</b>
	<b>2/27/06</b>								<b>12,000</b>	<b>35.59</b>	<b>161,010</b>

**M.  
Catherine  
Morris**

	<b>2007</b>	<b>48,000</b>	<b>192,000</b>	<b>384,000</b>							
	<b>2006</b>	<b>33,332</b>	<b>133,328</b>	<b>266,656</b>							
	<b>3/15/07</b>				<b>1,438</b>	<b>5,750</b>	<b>11,500</b>	<b>5,750</b>		<b>37.58</b>	<b>216,085</b>
	<b>2/27/06</b>				<b>575</b>	<b>2,300</b>	<b>4,600</b>	<b>2,300</b>		<b>35.59</b>	<b>81,857</b>
	<b>2/28/07</b>								<b>12,000</b>	<b>38.29</b>	<b>130,120</b>
	<b>2/27/06</b>								<b>5,250</b>	<b>35.59</b>	<b>70,442</b>

- (1) These columns indicate the potential pay-out for each named executive officer of that portion of his or her Short-Term Incentive Program award which is based on financial targets (80% of the total target incentive at target.) The threshold payment begins at the achievement of 25% of the targeted goal, the target amount at achievement of 100% of the goal, and payment carries forward to a maximum payout of 200% of the target amount.
- Mr. Mitchell s

program, under  
the company's  
Omni-bus  
Incentive Plan,  
has the same  
threshold,

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t a r g e t a n d  
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payout of 200%  
of the target  
amount.

(3) This column reflects the number of restricted stock shares and performance shares granted as a part of the medium-term Management Incentive Plan, including those awards reflected in the estimated payout section referenced in footnote 2, above. The terms of these awards are discussed under the heading Medium-Term Incentive Program , above.

(4) This column, and the two that follow reflect the number of stock options granted, their exercise price, and the closing stock value on the date of grant. The terms of these grants are described above, under the heading Long-Term Incentive Program .

(5)

Grant date fair values for restricted stock and performance shares reflect the number of shares awarded (at target for the performance shares) times the grant date closing market price of Arrow common stock. Grant date fair values for stock option awards are calculated using the Black-Scholes option pricing model based on assumptions set forth at Note 1 to the company's Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2007.

**Outstanding Equity Awards at Fiscal Year-End**

The Outstanding Equity Table shows: (i) the number of outstanding stock option awards that are vested and unvested; (ii) the exercise price and expiration date of these options; (iii) the aggregate number and value as of December 31, 2007 of all unvested restricted stock; and (iv) the aggregate number and value as of December 31, 2007 of all performance shares granted under a performance plan whose performance period has not yet been completed.

The values ascribed to these awards in the table below may or may not be realized by their recipients, depending on share prices at the time of vesting or exercise and the achievement of the metrics upon which the performance share awards depend. Each amount on this table is based on the closing market price of the company's common stock on December 31, 2007, which was \$39.28. For each named executive officer, the expense taken by the company with respect to each award is included in the Summary Compensation Table, above. For additional information regarding the impact of a change of control on equity awards, see the table below under the heading "Stock Option, Restricted Stock and Performance Share Award Agreements."

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## Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards				Number of Shares or units of Stock Held That Have Not Vested (#)(2)	Stock Awards		
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Not Exercisable (#)	Exercise Price (\$)(1)	Option Expiration Date(1)		Market Value of Shares or Units of Stock Held that Have Not Vested (\$)(2)	Equity Incentive Plan Awards: Number of Unearned Shares, or Other Rights That Have Not Vested (#)(3)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(3)
William E. Mitchell	100,000		12.18	2/03/2013				
	56,250	18,750	24.60	2/27/2014				
	50,000	50,000	26.90	2/28/2015				
	25,000	75,000	35.59	2/27/2016				
		50,000	38.29	2/28/2017	60,000	2,356,800	131,100	5,149,608
Paul J. Reilly	4,000		15.44	3/03/2009				
	7,500		20.38	12/15/2009				
	7,500		25.85	2/21/2011				
	7,500		22.50	10/08/2011				
	10,000		26.45	2/27/2012				
	10,000		13.85	2/27/2013				
	7,500	2,500	24.60	2/27/2014				
	7,500	7,500	26.90	2/28/2015				
	3,750	11,250	35.59	2/27/2016				
	18,000	38.29	2/28/2017					
						26,650	1,046,812	
Michael J. Long	2,500		13.85	2/27/2013				
		2,750	24.60	2/27/2014				
		9,000	26.90	2/28/2015				
	5,000	15,000	35.59	2/27/2016				
		30,000	38.29	2/28/2017				
						36,400	1,429,792	
Peter S. Brown		2,750	24.60	2/27/2014				



		<b>6,000</b>	<b>26.90</b>	<b>2/28/2015</b>		
	<b>3,000</b>	<b>9,000</b>	<b>35.59</b>	<b>2/27/2016</b>		
		<b>15,000</b>	<b>38.29</b>	<b>2/28/2017</b>		
					<b>23,200</b>	<b>911,296</b>
<b>M.</b>						
<b>Catherine</b>						
<b>Morris</b>		<b>1,300</b>	<b>24.60</b>	<b>2/27/2014</b>		
		<b>2,625</b>	<b>26.90</b>	<b>2/28/2015</b>		
	<b>1,312</b>	<b>3,938</b>	<b>35.59</b>	<b>2/27/2016</b>		
		<b>12,000</b>	<b>38.29</b>	<b>2/28/2017</b>		
					<b>10,350</b>	<b>406,548</b>

(1) These columns reflect the exercise price and expiration date, respectively for all of the stock options under each award. Each option was granted ten years prior to its expiration date. All of the awards were issued under the Long - Term Incentive Program discussed above. All of the awards vest in four equal amounts on the first, second, third and fourth anniversaries of the grant date, and have an exercise price equal to the closing market price of the common stock on the grant date.

(2) These columns reflect the

number of  
unvested  
restricted shares  
held by each  
named  
executive  
officer under  
each award of  
restricted shares  
and the dollar  
value of those  
shares based on  
the closing  
market price of  
the company's  
common stock  
on  
December 31,  
2007.

- (3) These columns  
show the  
number of  
shares of Arrow  
common stock  
each named  
executive  
officer would  
receive under  
each grant of  
performance  
shares,  
assuming that

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the financial targets associated with each award are achieved at 100%, and the dollar value of those shares based on the closing market price of the company's common stock on December 31, 2007.

**Options Exercised and Stock Vested in Last Fiscal Year**

The following table provides information concerning the value realized by each named executive officer upon the exercise of stock options and the vesting of restricted and performance shares.

The value realized on the exercise of stock options shown below is based on the difference between the exercise price per share paid by the executive and the closing market price of the common stock on the exercise date. The value realized on the vesting of restricted and performance shares is based on the number of shares vesting and the closing market price of the common stock on the vesting date.

**Option Exercises and Stock Vested**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
<b>William E. Mitchell</b>				
Restricted Shares			11,250	401,175
2004 2006 Perf. Shares			43,750	1,675,188
2005 2007 Perf. Shares			76,115	2,482,110
<b>Paul J. Reilly</b>	3,500	34,125		
Restricted Shares			2,375	90,393
2004 2006 Perf. Shares			6,825	261,329
2005 2007 Perf. Shares			9,368	305,490
<b>Michael J. Long</b>	26,750	373,925		
Restricted Shares			2,375	90,393
2004 2006 Perf. shares			6,825	261,329
2005 2007 Perf. Shares			11,710	381,863
<b>Peter S. Brown</b>	32,650	631,053		
Restricted Shares			2,150	81,829
2004 2006 Perf. Shares			6,825	261,329
2005 2007 Perf. Shares			9,368	305,490
<b>M. Catherine Morris</b>	13,675	155,132		
Restricted Shares			1,250	47,575
2004 2006 Perf. Shares			2,013	77,078

<b>2005</b>	<b>2007 Perf. Shares</b>	<b>2,693</b>	<b>87,819</b>
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**Supplemental Executive Retirement Plan**

Arrow maintains an unfunded Supplemental Executive Retirement Plan under which the company will pay supplemental pension benefits to certain employees upon retirement. There are 27 current and former corporate officers participating in the SERP. The Board determines who is eligible to participate.

For participants other than Mr. Mitchell, the gross SERP benefit is calculated by multiplying 2.5% of final average performance-based compensation (salary and short-term incentive bonus) by the participant's years of credited service (up to a maximum of 18 years.) Final average compensation is the highest average of any three years during the participant's final five years

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of service. The gross benefit is reduced by 50% of the Social Security benefit and by the sum of the benefits provided by the company's ESOP and 401(k) matching contributions.

The benefits provided under the SERP are payable as a life annuity with 60 payments guaranteed commencing at age 60, assuming continued employment through normal retirement, except for Mr. Mitchell, who will be eligible for payments under the plan at 65. At normal retirement (generally, age 60) Mr. Reilly, Mr. Long, Mr. Brown and Ms. Morris would receive estimated annual SERP payments of \$492,156, \$720,262, \$174,631 and \$276,468, respectively. Under the terms of his employment agreement, Mr. Mitchell will be eligible for payments under the amended SERP at age 65, in an estimated annual amount of \$485,078.

The years of credited service (as of year end) for each of the named executive officers and the present value of their respective accumulated benefits as of December 31, 2007 are set out on the following table. None of the named executive officers received any payments under the SERP in or with respect to 2007. The present value calculation assumes each recipient remains employed until normal retirement age (age 60, except for Mr. Mitchell, for whom, by contract, retirement age is deemed to be age 65.) The remainder of the assumptions underlying the calculation of the present value of the benefits are discussed at Note 13 to the company's Consolidated Financial Statements on Form 10-K for the year ended December 31, 2007.

**Pension Benefits**

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
William E. Mitchell	<i>SERP</i>	4.91	3,503,543	
Paul J. Reilly	<i>SERP</i>	11.58	1,169,116	
Michael J. Long	<i>SERP</i>	12.16	1,445,184	
Peter S. Brown	<i>SERP</i>	6.33	914,659	
M. Catherine Morris	<i>SERP</i>	1.33	76,182	

The SERP provides that if a participant is terminated without cause within two years after a change in control of the company (as defined below under the heading "Change of Control Agreements"), he or she will receive his or her annual benefit under the SERP but not until reaching age 60. The amount of the payment is based on the amount accrued up to the time of the termination. No payments will be made if the participant was not yet age 50 at the time of the termination.

Benefits under the SERP terminate, with no further obligation to the recipient, if he or she becomes involved in any way with an entity which competes with Arrow (except for limited ownership of stock in a publicly-traded company.)

Should a participant become disabled before retiring, he or she continues to accrue years of service during such disability and may elect to receive the pension benefit accrued at any time up until the participant reaches age 65.

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The present values of the SERP benefits accrued through year-end by the participating named executive officers in the event of termination, death, disability or a change of control of the company are set forth on the Potential Payouts Upon Termination table, below.

**Deferred Compensation Plans**

The company maintains an Executive Deferred Compensation Plan in which deferred income as well as investment gains on the deferred amounts are nontaxable to the executive until distributed.

A participating executive may defer up to 80% of his or her salary and 100% of bonuses, incentive compensation and performance shares. The participant chooses from a selection of mutual funds and other investments in which the deferred amount is then deemed to be invested. Earnings on the amounts deferred are defined by the returns actually obtained by the deemed investment and added to the account. (The deemed investment is used solely for this purpose and the participant has no ownership interest in it.) The deferred compensation and the amount earned are general assets of the company, and the obligation to distribute the amounts according to the participants designation, is a general obligation, of the company.

Of the named executive officers, Mr. Mitchell is the only participant in the Executive Deferred Compensation Plan.

**Nonqualified Deferred Compensation**

Name	Year	Executive	Registrant	Aggregate	Aggregate	Aggregate
		Contribution	Contributions	Earnings	Withdrawals	
		in	in	in	/	
		Last Fiscal	Last Fiscal	Last Fiscal	Distributions	Balance
		Year	Year	Year		at Last FYE
		(\$)	(\$)	(\$)	(\$)	(\$)
William E. Mitchell	2007	330,000		104,730		1,149,349
	2006	270,000		62,189		714,619

The 2007 amount deferred by Mr. Mitchell was a portion of the amount he would have received early in 2007 as part of his 2006 compensation. Accordingly, that amount is reflected in the Summary Compensation Table for 2006. Based on the amounts actually earned in 2007 by the funds selected by Mr. Mitchell, his deferral account had aggregate earnings of \$104,730 in 2007, a return deemed to be above-market because it was greater than 120% of the December 2007 applicable federal long-term rate or 5.68%. Accordingly, the above market portion of the total earnings, \$64,139, was included on the Summary Compensation Table, above, under the column heading Change in Pension Value and NQDC Earnings.

The 2006 amount deferred by Mr. Mitchell was part of the amount he would have received early in 2006 as part of his 2005 compensation. Accordingly, that is reflected in the Summary Compensation Table for 2005. Based on the amounts actually earned in 2006 by the funds selected by Mr. Mitchell, his deferral account had aggregate earnings of \$62,189, a return deemed to be above-market because it was greater than 120% of the December 2006 applicable federal long-term rate or 5.89%. Accordingly, the above market portion of the total earnings, \$23,761, was included on the Summary Compensation Table, above, under the column heading Change in Pension Value and NQDC Earnings.

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**AGREEMENTS AND POTENTIAL PAYMENTS  
UPON TERMINATION OR CHANGE OF CONTROL**

**Employment Agreements**

In February 2003, Mr. Mitchell entered into an employment agreement with Arrow that was amended in March 2005 to extend the period of Mr. Mitchell's employment from January 2006 to March 2009, and to replace Arrow's obligation to pay certain of his expenses (including, but not limited to, expenses related to club dues, automobile and local transportation, tax preparation, and financial planning) with an annual payment of \$100,000, which is now part of his base salary. The amendment also provides for liquidated damages in the event of Mr. Mitchell's termination without cause during the term of the agreement. The agreement provides for a minimum base salary of \$750,000 per year. Mr. Mitchell's current base salary is reflected above under the heading "Base Salary." The agreement also established the terms of Mr. Mitchell's participation in the SERP discussed above under the heading "Supplemental Executive Retirement Plan."

Each of the other named executive officers has an employment agreement with Arrow that has a twelve-month term which is automatically renewed for an additional twelve months unless terminated by either party on not less than twelve months' notice. The agreement provides for a minimum base salary and target incentive under the short-term incentive program of:

	<b>Minimum Base Salary</b>	<b>Minimum Target Incentive</b>
<b>Mr. Reilly</b>	<b>\$ 400,000</b>	<b>\$ 150,000</b>
<b>Mr. Long</b>	<b>\$ 330,000</b>	<b>\$ 270,000</b>
<b>Mr. Brown</b>	<b>\$ 450,000</b>	<b>\$ 175,000</b>
<b>Ms. Morris</b>	<b>\$ 400,000</b>	<b>\$ 240,000</b>

The current base salary of each of the named executive officers is reflected above under the heading "Base Salary."

Each of the employment agreements with the named executive officers:

prohibits the executive from competing with the company, disclosing its proprietary information or hiring its employees upon his or her termination, for any reason, for a period of either two years, with respect to Mr. Mitchell and Ms. Morris, or one year, with respect to Messrs. Reilly, Long and Brown;

permits the company to terminate the executive for cause (defined, generally, as malfeasance, willful misconduct, active fraud or gross negligence ) and have no further obligation to him and or her; and

provides that in the event the company terminates the executive without cause, he or she will continue to receive, through the end of the then-remaining term of the agreement, all of his or her base salary and benefits (such as life, health and disability insurance) and the vesting of any unvested restricted stock or stock options which would have vested through the then-remaining term of the agreement. Furthermore, in such circumstance

Mr. Mitchell would be entitled to an amount equal to his base salary in lieu of short-term, annual incentive payments;

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Mr. Reilly, Mr. Long, Mr. Brown and Ms. Morris would be entitled to an amount equal to two thirds of their targeted short-term annual incentives;

Mr. Brown would also be deemed vested in any SERP benefit accrued as of the date of such termination; and

Ms. Morris would also be entitled to performance share awards, at target levels, which would have vested in the then-remaining term of her agreement and continuation of health insurance premiums for the then-remaining term of the agreement.

The estimated compensation that each of the named executive officers would receive under the employment agreements under various circumstances is set forth in the Potential Payouts Upon Termination table below.

**Change of Control Agreements**

The Board believes that the possibility of a change of control of Arrow may raise uncertainty among management, possibly leading to distraction and departure. Further, in the event it should receive a proposal for transfer of control of the company, the Board wishes to be able to rely on the advice of management without members of management being influenced by the uncertainties of their individual positions. The Board also believes, however, that the mere occurrence of a change of control should not generate the potential for a windfall if an executive resigns (a so-called single-trigger agreement). Accordingly, the Board has determined that the questions of uncertainty and securing unbiased management services in such circumstances are sufficiently addressed by protecting the executive from involuntary termination following a change of control (a so-called double-trigger agreement.)

Accordingly, the company has entered into agreements with each of the named executive officers which provide for lump-sum payments by the company or its successor following a change of control. Change of Control means that any person, group or company (other than one which includes Arrow or its subsidiaries or one or more of its executive officers) (i) acquires 30% or more of Arrow's voting stock without the approval of Arrow's then incumbent Board of Directors, or (ii) replaces a majority of Arrow's then incumbent Board of Directors without their approval.

The named executive officers are eligible for payments if, within two years following the Change of Control, their employment is terminated (i) without cause by the company or (ii) for good reason by the executive, as each is defined in the agreements. In such event, the eligible terminated executive is entitled to receive: (i) all unpaid salary through the date of termination (as defined in the agreement) and all earned and unpaid benefits and awards (including both cash and stock components); (ii) a lump-sum payment of 2.99 times the executive's annualized includable compensation as defined in Internal Revenue Code Section 280G(d)(1); and (iii) continuation of benefits at the levels in effect at the time of the change of control for up to three years. If, at the end of the three years following the date of termination, the executive has not reached retirement date and is not receiving equivalent benefits from a new employer, the company will arrange to convert the executive's coverages to individual policies or programs.

Under the terms of the relevant agreements (summarized below under the heading Stock Option, Restricted Stock and Performance Share Award Agreements ) for each of the named executives, in the event of an involuntary termination following a change in control, all outstanding options vest and remain exercisable for the remainder of their term, all unvested restricted stock vests, and all unearned performance shares are delivered immediately, at 100% of the targeted amount.



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The amounts payable to the named executive officers pursuant to such agreements will be reduced, if necessary, to avoid excise tax under Section 4999 of the Internal Revenue Code. The estimated compensation and the estimated value of additional benefits that each of the named executive officers would receive under the change of control agreements is set forth in the Potential Payouts Upon Termination table below.

**Impact of Internal Revenue Code §409A**

Each of the change of control agreements between the company and the named executive officers either has been amended or is subject to amendment in order to ensure compliance with Internal Revenue Code §409A, generally by deferring any payment due upon termination for six months and adding an interest component to the amount due (at the six-month Treasury rate.)

**Potential Payouts Upon Termination**

The following table sets forth the estimated payments and value of benefits that each of the named executive officers would be entitled to receive under their employment and change of control agreements, as applicable, in the event of the termination of his employment under various scenarios, assuming that the termination occurred on December 31, 2007. The amounts represent the entire value of the estimated liability, even if some or all of that value has been disclosed elsewhere in this proxy statement.

None of the named executive officers receives any payment at, following or in connection with being terminated for cause. None of the named executive officers was eligible for retirement (or early retirement) as at year-end 2007 other than Mr. Mitchell.

In both the table below and the Share-based Award Agreement Terms Related to Post-Employment Scenarios table which follows it:

**Death** refers to the death of executive;

**Disability** refers to the executive becoming permanently and totally disabled during the term of his employment;

**Termination Without Cause or Resignation for Good Reason** means that the executive is asked to leave the company for some reason other than those specified in his or her employment agreement or the executive voluntarily leaves the company because the company is in breach of the agreement (all as defined in each specific employment agreement);

**Change of Control Termination** means the occurrence of both a change of control and the termination of the executive without cause or his or her resignation for cause within two years of the change; and

**Retirement** means the executive's voluntary departure at or after retirement age as defined in one of the company's retirement plans (typically age 60, except for Mr. Mitchell, for whom regular retirement age has been set at age 65 by contract).

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Name	Benefit	Termination Scenario				
		Death (\$)	Disability (\$)	Termination Without Cause or Resignation for Good Reason (\$)	Change of Control Termination (\$)	Retirement (\$)
William E. Mitchell	Severance Payment			1,312,500	7,767,336	
	Settlement of MICP Bonus Award			1,050,000		
	Settlement of Performance Shares	5,149,608	5,149,608		5,149,608	5,149,608
	Settlement of Stock Options	1,220,500	1,220,500	1,103,500	1,220,500	1,220,500
	Settlement of Restricted Shares	2,356,800	2,356,800	785,600	2,356,800	2,356,800
	Accrued Vacation Payout	80,769	80,769	80,769	80,769	80,769
	Management Insurance Benefit	8,400,000				
	Welfare Benefits Continuation				24,993	
	Life Insurance Premium				77,511	
	SERP		4,764,347		3,796,350	3,503,543
<b>Total</b>		<b>17,207,677</b>	<b>13,572,024</b>	<b>4,332,369</b>	<b>20,473,867</b>	<b>12,311,220</b>
Paul J. Reilly	Severance Payment			500,000	2,588,982	
	Settlement of MICP Bonus Award			233,333		
	Settlement of Performance Shares	1,046,812	1,046,812		1,046,812	
	Settlement of Stock Options	188,883	188,883	101,418	188,883	
	Accrued Vacation Payout	38,462	38,462	38,462	38,462	
	Management Insurance Benefit	3,400,000				
	Welfare Benefits Continuation				31,417	
	Life Insurance Premium				16,749	
SERP		1,414,411		1,169,116		
<b>Total</b>		<b>4,674,157</b>	<b>2,688,568</b>	<b>873,213</b>	<b>5,080,421</b>	
Michael J. Long	Severance Payment			550,000	3,744,642	
	Settlement of MICP Bonus Award			366,667		
	Settlement of Performance Shares	1,429,792	1,429,792		1,429,792	
	Settlement of Stock Options	236,840	236,840	121,955	236,840	
	Accrued Vacation Payout	42,308	42,308	42,308	42,308	
	Management Insurance Benefit	4,400,000				
	Welfare Benefits Continuation				28,081	
	Life Insurance Premium				23,634	
	SERP		1,657,988			
<b>Total</b>		<b>6,108,940</b>	<b>3,366,928</b>	<b>1,080,930</b>	<b>5,505,297</b>	

Peter S. Brown	Severance Payment		554,167	3,639,072
	Settlement of MICP Bonus Award		190,000	
	Settlement of Performance Shares	911,296	911,296	911,296
	Settlement of Stock Options	162,710	162,710	162,710
	Accrued Vacation Payout	36,538	36,538	36,538
	Management Insurance Benefit	3,040,000		
	Welfare Benefits Continuation			31,417
	Life Insurance Premium			31,053
	SERP		1,014,637	1,058,552
				914,659
	<b>Total</b>	<b>4,150,544</b>	<b>2,125,181</b>	<b>1,983,472</b>
				<b>5,726,745</b>
M. Catherine Morris	Severance Payment		400,000	1,918,517
	Settlement of MICP Bonus Award		160,000	
	Settlement of Performance Shares	406,548	406,548	406,548
	Settlement of Stock Options	77,993	77,993	77,993
	Accrued Vacation Payout	30,769	30,769	30,769
	Management Insurance Benefit	2,560,000		
	Welfare Benefits Continuation		8,856	26,567
	Life Insurance Premium			18,186
	SERP		748,025	
	<b>Total</b>	<b>3,075,310</b>	<b>1,263,335</b>	<b>733,111</b>
				<b>2,478,580</b>

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**Narrative Explanation of the Calculation of Amounts**

Had the death, disability, retirement, or a change of control termination of any of the named executive officers occurred, all of his or her restricted shares, options and performance shares would have fully vested. The options would remain exercisable for the remainder of their original term.

Had a termination by the company without cause or resignation of the executive for good reason occurred, performance shares then unearned would have been forfeited (except for Ms. Morris ), while any restricted stock and option awards which would have vested in the then remaining term of the executive s employment agreement would have vested immediately.

None of the named executive officers would have received severance or bonus pay in the event of death, disability or retirement. Had a termination by the company without cause or resignation of the executive for good reason occurred, however, each executive would have received a severance amount equal to his or her salary for the remaining term of their agreements and two thirds of their targeted short-term incentive bonus for that period, except for Mr. Mitchell, whose contract provides for a payment in lieu of such bonus equal to his then current base annual salary.

Under the terms of their change of control agreements, had a change of control termination occurred, each executive would have received 2.99 times his or her annualized includable compensation as defined in Section 280G(d)(1) of the Internal Revenue Code.

Performance shares and restricted stock are valued at the closing market price on December 31, 2007 and stock options are valued based on the difference between the exercise price and the closing market price on December 31, 2007 of in-the-money options.

**Stock Option, Restricted Stock and Performance Share Award Agreements**

The various share and share-based awards made to the named executive officers are evidenced by written agreements each of which contains provisions addressing alternative termination scenarios. These provisions are summarized on the following table.

**Share-based Award Agreement Terms Related to Post-Employment Scenarios**

	<b>Termination Scenario</b>					
	<b>Voluntary Quit</b>	<b>Death or Disability</b>	<b>Termination Without Cause or Resignation for Good Reason</b>	<b>Involuntary Termination for Cause</b>	<b>Involuntary Termination without cause within Two Years of a Change of Control</b>	<b>Retirement normal retirement age</b>
<b>Stock Option</b>	Any part of option then unexercised, whether vested or unvested, forfeits	All options vest immediately, entire award exercisable until original expiration date (ten years from grant)	Options which would have vested during remainder of employment agreement terms vest; all vested options remain exercisable	Any part of option then unexercised, whether vested or unvested, forfeits	All options vest immediately, entire award exercisable until original expiration date (ten years from grant)	All options vest immediately, entire award exercisable until original expiration date (ten years from grant)
<b>Restricted Stock</b>	Unvested stock forfeits	All shares vest immediately if recipient is employed at time of occurrence	Shares which would have vested during remainder of employment agreement terms vest	Unvested stock forfeits	All shares vest immediately	All shares vest immediately if retirement at normal retirement age

<b>Performance Shares</b>	<b>All then-unsettled awards forfeit</b>	<b>Recipient receives targeted number of shares immediately</b>	<b>All then-unsettled awards forfeit</b>	<b>All then-unsettled awards forfeit</b>	<b>Recipient receives targeted number of shares immediately</b>	<b>Award is settled end of cycle and recipient was still employed</b>
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**RELATED PERSONS TRANSACTIONS**

The company has a variety of procedures for the identification and review of related party transactions.

Arrow's Worldwide Code of Business Conduct and Ethics (the Code) prohibits employees, officers and directors from entering into transactions that present a conflict of interest absent a specific waiver. The Code also requires that any such transaction, which may become known to any employee, officer or director, be properly reported to the company. Any conflict of interest disclosed under the Code requires a waiver from senior management. If the conflict of interest involves senior management, a waiver from the Board of Directors is required. Any such waiver is disclosed on the company's website.

The company's corporate governance guidelines specify the standards for independence of directors. Any related party transaction involving a director requires the review and approval of the Board of Directors.

As part of the process related to the financial close of each quarter, the company sends out a disclosure checklist to management of each operating unit and financial function around the world, which seeks to ensure complete and accurate financial disclosure. One part of the checklist seeks to identify any related party transactions. Any previously undisclosed transaction would initially be reviewed by (i) the company's disclosure committee to determine whether the transaction should be disclosed in the company's SEC filings; and (ii) by senior management of the company, including the General Counsel and the Chief Financial Officer, for consideration of the appropriateness of the transaction. If such transaction involves members of senior management, it is elevated to the Board of Directors for review.

The Board has reviewed and approved the one related-party transaction occurring in or pursuant to which payment was made in 2007:

The company entered into an agreement in 1980 with Mr. Waddell, now one of the company's non-employee directors, in which it agreed to pay Mr. Waddell's designated beneficiary, a member of his immediate family, a benefit of \$1,000,000 upon Mr. Waddell's death. In December 2003, the company and Mr. Waddell's beneficiary entered into an agreement pursuant to which the beneficiary will receive the 2003 present-value, annuitized equivalent of the death benefit, in the form of annual payments of \$45,000 for the remainder of the beneficiary's life up to a maximum of 12 years.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires Arrow's officers and directors and persons who own more than ten percent of a registered class of Arrow's equity securities to file reports of ownership and changes in ownership with the SEC. Arrow believes that during fiscal year 2007 its officers and directors complied with all applicable Section 16(a) filing requirements.

**SUBMISSION OF SHAREHOLDER PROPOSALS**

Arrow anticipates that the next Annual Meeting of Shareholders will be held on or about May 1, 2009. If a shareholder intends to present a proposal at Arrow's Annual Meeting of Shareholders to be held in 2009 and seeks to have the proposal included in Arrow's Proxy Statement relating to that meeting, pursuant to Rule 14a-8 of the Securities Exchange Act of

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1934, as amended, the proposal must be received by Arrow no later than the close of business on November 20, 2008.

Arrow's by-laws govern the submission of nominations for director and other business proposals that a shareholder wishes to have considered at Arrow's Annual Meeting of Shareholders to be held in 2009 which are not included in the company's proxy statement for that meeting. Under the by-laws, subject to certain exceptions, nominations for director or other business proposals to be addressed at the company's next annual meeting may be made by a shareholder entitled to vote who has delivered a notice to the Secretary of Arrow no later than the close of business on March 10, 2009 and not earlier than February 9, 2009. The notice must contain the information required by the by-laws. These advance notice provisions are in addition to, and separate from, the requirements that a shareholder must meet in order to have a proposal included in the proxy statement under the rules of the SEC. A proxy granted by a shareholder will give discretionary authority to the proxies to vote on any matters introduced pursuant to the above advance notice by-law provisions, subject to applicable rules of the SEC.

By Order of the Board of Directors,  
Peter S. Brown,  
*Secretary*

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**ANNEX A**  
**Arrow Electronics, Inc.**  
**2004 Omnibus Incentive Plan**

**(as amended February 28, 2007 and February 27, 2008)**

**Article 1. Establishment, Purpose, and Duration**

**1.1 Establishment.** Arrow Electronics, Inc., a New York corporation (hereinafter referred to as the Company ), establishes an incentive compensation plan to be known as the 2004 Omnibus Incentive Plan (hereinafter referred to as the Plan ), as set forth in this document.

The Plan permits the grant of Cash-Based Awards, Non-Qualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Covered Employee Annual Incentive Awards, and Other Stock-Based Awards.

The Plan shall become effective upon shareholder approval (the Effective Date ) and shall remain in effect as provided in Section 1.3 hereof.

**1.2 Purpose of the Plan.** The purpose of the Plan is to promote the interests of the Company and its shareholders by strengthening the Company s ability to attract, motivate, and retain Employees and Directors of the Company upon whose judgment, initiative, and efforts the financial success and growth of the business of the Company largely depend, and to provide an additional incentive for such individuals through stock ownership and other rights that promote and recognize the financial success and growth of the Company and create value for shareholders. This Plan is intended to replace all Prior Plans.

**1.3 Duration of the Plan.** Unless sooner terminated as provided herein, the Plan shall terminate (i) ten years from the Effective Date with respect to the Shares initially authorized for issuance under the Plan (the Initial Share Authorization ) and (ii) with respect to the 5,000,000 Shares subsequently authorized for issuance under the Plan (the Additional Share Authorization ), ten years from the date the Board of Directors amended the Plan to authorize the Additional Share Authorization. After the Plan is terminated, no Awards may be granted but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and the Plan s terms and conditions. Notwithstanding the foregoing, no Incentive Stock Options may be granted (i) with respect to the Initial Share Authorization, after February 26, 2014, and (ii) with respect to the Additional Share Authorization, more than ten years after the Board s authorization of the Additional Share Authorization.

**Article 2. Definitions**

Whenever used in the Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

**2.1 Affiliate** shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations of the Exchange Act.

**2.2 Annual Award Limit or Annual Award Limits** have the meaning set forth in Section 4.3.

**2.3 Award** means, individually or collectively, a grant under this Plan of Cash-Based Awards, Non-Qualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Covered Employee Annual Incentive Awards, or Other Stock-Based Awards, in each case subject to the terms of this Plan.

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- 2.4 Award Agreement** means either (i) a written agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted under this Plan, or (ii) a written statement issued by the Company to a Participant describing the terms and provisions of such Award.
- 2.5 Beneficial Owner** or **Beneficial Ownership** shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.
- 2.6 Board** or **Board of Directors** means the Board of Directors of the Company.
- 2.7 Cash-Based Award** means an Award granted to a Participant as described in Article 10.
- 2.8 Code** means the U.S. Internal Revenue Code of 1986, as amended from time to time.
- 2.9 Committee** means the compensation committee of the Board or any other committee designated by the Board to administer this Plan. The members of the Committee shall be appointed from time to time and shall serve at the discretion of the Board.
- 2.10 Company** means Arrow Electronics, Inc., a New York corporation, and any successor thereto as provided in Article 21 herein.
- 2.11 Covered Employee** means a Participant: (a) who is a covered employee, as defined in Code Section 162(m) and the regulations promulgated under Code Section 162(m), or any successor statute or (b) who the Committee determines could potentially become a covered employee during the lifetime of an Award.
- 2.12 Covered Employee Annual Incentive Award** means an Award granted to a Covered Employee as described in Article 12.
- 2.13 Director** means any individual who is a member of the Board of Directors of the Company.
- 2.14 Disability** means total and permanent disability as determined by the Committee.
- 2.15 Effective Date** has the meaning set forth in Section 1.1.
- 2.16 Employee** means any employee of the Company, its Affiliates, and/or Subsidiaries.
- 2.17 Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.
- 2.18 Fair Market Value** or **FMV** means a price that is based on the opening, closing, actual, high, low, or average selling prices of a Share on the New York Stock Exchange ( NYSE ) or other established stock exchange (or exchanges) on the applicable date, the preceding trading days, the next succeeding trading day, or an average of trading days, as determined by the Committee in its discretion. Such definition(s) of FMV shall be determined by the Committee at its discretion. If, however, the required accounting standards used to account for equity Awards granted to Participants are substantially modified subsequent to the Effective Date of the Plan such that fair value accounting for such Awards becomes required, the Committee shall have the ability to determine an Award's FMV based on the relevant facts and circumstances. If Shares are not traded on an established stock exchange, FMV shall be determined by the Committee based on objective criteria.
- 2.19 Full Value Award** means an Award other than in the form of an ISO, NQSO, or SAR, and which is



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settled by the issuance of Shares.

- 2.20 Freestanding SAR** means a SAR that is granted independently of any Options, as described in Article 7.
- 2.21 Grant Price** means the price established at the time of grant of a SAR pursuant to Article 7, used to determine whether there is any payment due upon exercise of the SAR.
- 2.22 Incentive Stock Option** or **ISO** means an Option to purchase Shares granted under Article 6 to an Employee and that is designated as an Incentive Stock Option and that is intended to meet the requirements of Code Section 422, or any successor provision.
- 2.23 Insider** shall mean an individual who is, on the relevant date, an officer, Director, or more than ten percent (10%) Beneficial Owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, as determined by the Board in accordance with Section 16 of the Exchange Act.
- 2.24 Non-Employee Director** means a Director who is not an Employee.
- 2.25 Non-Employee Director Award** means any NQSO, SAR, or Full Value Award granted, whether singly, in combination, or in tandem, to a Participant who is a Non-Employee Director pursuant to such applicable terms, conditions, and limitations as the Board may establish in accordance with this Plan.
- 2.26 Non-Qualified Stock Option** or **NQSO** means an Option that is not intended to meet the requirements of Code Section 422, or that otherwise does not meet such requirements.
- 2.27 Option** means an Incentive Stock Option or a Non-Qualified Stock Option, as described in Article 6.
- 2.28 Option Price** means the price at which a Share may be purchased by a Participant pursuant to an Option.
- 2.29 Other Stock-Based Award** means an equity-based or equity-related Award not otherwise described by the terms of this Plan, granted pursuant to Article 10.
- 2.30 Participant** means any eligible person as set forth in Article 5 to whom an Award is granted.
- 2.31 Performance-Based Compensation** means compensation under an Award that satisfies the requirements of Section 162(m) of the Code for deductibility of remuneration paid to Covered Employees.
- 2.32 Performance Measures** means measures as described in Article 11 on which the performance goals are based and which are approved by the Company's shareholders pursuant to this Plan in order to qualify Awards as Performance-Based Compensation.
- 2.33 Performance Period** means the period of time during which the performance goals must be met in order to determine the degree of payout and/or vesting with respect to an Award.
- 2.34 Performance Share** means an Award granted to a Participant, as described in Article 9.
- 2.35 Performance Unit** means an Award granted to a Participant, as described in Article 9.

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- 2.36 Period of Restriction** means the period when Restricted Stock or Restricted Stock Units are subject to a substantial risk of forfeiture (based on the passage of time, the achievement of performance goals, or upon the occurrence of other events as determined by the Committee, in its discretion), as provided in Article 8.
- 2.37 Person** shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a group as defined in Section 13(d) thereof.
- 2.38 Plan** means the Arrow Electronics, Inc. 2004 Omnibus Incentive Plan.
- 2.39 Plan Year** means the calendar year.
- 2.40 Prior Plans** means the Company's Arrow Electronics, Inc. Stock Option Plan, as amended and restated effective as of February 27, 2002, the Arrow Electronics, Inc. Restricted Stock Plan, as amended and restated effective as of February 27, 2002, the Arrow Electronics, Inc. 2002 Non-Employee Directors Stock Option Plan, and the Non-Employee Directors Deferral Plan.
- 2.41 Restricted Stock** means an Award granted to a Participant pursuant to Article 8.
- 2.42 Restricted Stock Unit** means an Award granted to a Participant pursuant to Article 8, except no Shares are actually awarded to the Participant on the date of grant.
- 2.43 Share** means a Share of common stock of the Company, \$1.00 par value per Share.
- 2.44 Stock Appreciation Right** or **SAR** means an Award, designated as a SAR, pursuant to the terms of Article 7 herein.
- 2.45 Subsidiary** means any corporation or other entity, whether domestic or foreign, in which the Company has or obtains, directly or indirectly, a proprietary interest of more than fifty percent (50%) by reason of stock ownership or otherwise.
- 2.46 Tandem SAR** means a SAR that is granted in connection with a related Option pursuant to Article 7 herein, the exercise of which shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR shall similarly be canceled).
- 2.47 Third Party Service Provider** means any consultant, agent, advisor, or independent contractor who renders services to the Company, a Subsidiary, or an Affiliate that (a) are not in connection with the offer and sale of the Company's securities in a capital raising transaction, and (b) do not directly or indirectly promote or maintain a market for the Company's securities.

**Article 3. Administration**

**3.1 General.** The Committee shall be responsible for administering the Plan, subject to this Article 3 and the other provisions of the Plan. The Committee may employ attorneys, consultants, accountants, agents, and other persons, any of whom may be an Employee, and the Committee, the Company, and its officers and Directors shall be entitled to rely upon the advice, opinions, or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Participants, the Company, and all other interested persons. The Committee shall have the authority to bring an action in the name of the Company in any court of competent jurisdiction to enforce, define or defend any action or determination under the Plan.



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**3.2 Authority of the Committee.** Subject to the terms of the Plan, the Committee shall have full and exclusive discretionary power to interpret the terms and the intent of the Plan and any Award Agreement or other agreement or document ancillary to or in connection with the Plan, to determine eligibility for Awards and to adopt such rules, regulations, forms, instruments, and guidelines for administering the Plan as the Committee may deem necessary or proper. Such authority shall include, but not be limited to, selecting Award recipients, establishing all Award terms and conditions, including the terms and conditions set forth in Award Agreements, and, subject to Article 19, adopting modifications and amendments to the Plan or any Award Agreement, including without limitation, any that are necessary to comply with the laws of the countries and other jurisdictions in which the Company, its Affiliates, and/or its Subsidiaries operate.

**3.3 Delegation.** The Committee may delegate to one or more of its members or to one or more officers of the Company, and/or its Subsidiaries and Affiliates or to one or more agents or advisors such administrative duties or powers as it may deem advisable, and the Committee or any person to whom it has delegated duties or powers as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan. The Committee may, by resolution, authorize one or more officers of the Company to do any of the following on the same basis as can the Committee: (a) designate Employees to be recipients of Awards; (b) designate Third Party Service Providers to be recipients of Awards; and (c) determine the size of any such Awards. The Committee shall not delegate such responsibilities with respect to Awards granted to an officer who is considered an Insider or Covered Employee. The resolution providing for such delegation shall set forth the total number of Awards such officer(s) may grant; and, the officer(s) shall report periodically to the Committee regarding the nature and scope of the Awards granted pursuant to the authority delegated.

**Article 4. Shares Subject to the Plan and Maximum Awards**

**4.1 Number of Shares Available for Awards.**

- (a) Subject to adjustment as provided in Section 4.4 herein, the maximum number of Shares available for issuance to Participants under the Plan (the Share Authorization ) shall be:
    - (i) Nine million ninety six thousand eight hundred sixty nine (9,096,869) Shares; plus
    - (ii) (a) four million two hundred three thousand one hundred thirty one (4,203,131) authorized Shares not issued or subject to outstanding awards under the Company's Prior Plans as of the Effective Date and (b) any Shares subject to the eleven million three hundred sixty two thousand six hundred forty five (11,362,645) outstanding awards as of the Effective Date under the Prior Plans that on or after the Effective Date cease for any reason to be subject to such awards (other than by reason of  
  
exercise or settlement of the awards to the extent they are exercised for or settled in vested and non-forfeitable Shares).
  - (b) To the extent that a Share is issued pursuant to the grant or exercise of a Full Value Award, it shall reduce the Share Authorization by 1.69 Shares; and, to the extent that a Share is issued pursuant to the grant or exercise of an Award other than a Full Value Award, it shall reduce the Share Authorization by one (1) Share.
  - (c) Subject to adjustment as provided in Section 4.4, and subject to the limit set forth in Section 4.1(a) on the number of Shares that may be issued in the aggregate under the Plan, and in order to comply with the requirements of Section 422 of the Code and the regulations thereunder, the maximum number of Shares available for issuance pursuant to ISOs and NQSOs shall be:
    - (i) Thirteen million three hundred thousand (13,300,000) Shares that may be issued pursuant to Awards in
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the form of ISOs, plus a number of shares equal to the number of shares subject to outstanding awards under the Prior Plans as of the Effective Date that thereafter cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested and non-forfeitable Shares) up to a maximum of eleven million three hundred sixty two thousand six hundred forty five (11,362,645); and

- (ii) Thirteen million three hundred thousand (13,300,000) Shares that may be issued pursuant to Awards in the form of NQSOs, plus a number of shares equal to the number of shares subject to outstanding awards under the Prior Plans as of the Effective Date that thereafter cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested and non-forfeitable Shares) up to a maximum of eleven million three hundred sixty two thousand six hundred forty five (11,362,645).
- (d) Subject to adjustment in Section 4.4 and subject to the limit set forth in Section 4.1(a) on the number of Shares that may be issued in the aggregate under the Plan, the maximum number of shares that may be issued to Non-Employee Directors shall be four hundred thousand (400,000) Shares, and no Non-Employee Director may be granted an award covering more than twenty thousand (20,000) Shares in any Plan Year, except that this annual limit on Non-Employee Director Awards shall be increased to forty thousand (40,000) Shares for any Non-Employee Director serving as Chairman of the Board; provided, however, that in the Plan Year in which an individual is first appointed or elected to the Board as a Non-Employee Director, such individual may be granted an Award covering no more than an additional forty thousand (40,000) Shares (a New Non-Employee Director Award ).
- (e) Except with respect to a maximum of five percent (5%) of the Shares authorized in Section 4.1(a), any Full Value Awards, which vest on the basis of the Participant's employment with or provision of service to the Company, shall not provide for vesting which is any more rapid than annual pro rata vesting over a three (3) year period, and any Full Value Awards which vest upon the attainment of performance goals, shall provide for a performance period of at least twelve (12) months.

**4.2 Share Usage.**

- (a) Shares covered by an Award shall only be counted as used to the extent they are actually issued and delivered to a Participant, or, if permitted by the Committee, a Participant's designated transferee. Any Shares related to Awards which terminate by expiration, forfeiture, cancellation, or otherwise without the issuance of such Shares, are settled in cash in lieu of Shares, or are exchanged with the Committee's permission, prior to the issuance of Shares, for Awards not involving Shares, shall be available again for grant under the Plan. Moreover, if the Option Price of any Option granted under the Plan or the tax withholding requirements with respect to any Award granted under the Plan are satisfied by tendering Shares to the Company (by either actual delivery or by attestation), or if a SAR is exercised, only the number of Shares issued, net of the Shares tendered, if any, will be deemed delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. The maximum number of Shares available for issuance under the Plan shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional Shares or credited as additional Restricted Stock, Restricted Stock Units, Performance Shares, or Stock-Based Awards. The Shares available for issuance under the Plan may be authorized and unissued Shares or treasury Shares.
- (b) The Committee shall have the authority to grant Awards as an alternative to or as the form of payment for grants or rights earned or due under other compensation plans or arrangements of the Company.

**4.3 Annual Award Limits.** The following limits (each an Annual Award Limit and, collectively, Annual Award Limits ) shall apply to grants of Awards under the Plan:

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- (a) **Options:** The maximum aggregate number of Shares that may be granted in the form of Options, pursuant to all Awards of such type granted in any one Plan Year to any one Participant shall be five hundred thousand (500,000), plus the amount of the Participant's unused applicable Annual Award Limit for Options as of the close of the previous Plan Year.
- (b) **SARs:** The maximum number of Shares that may be granted in the form of Stock Appreciation Rights, pursuant to all Awards of such type granted in any one Plan Year to any one Participant shall be five hundred thousand (500,000), plus the amount of the Participant's unused applicable Annual Award Limit for SARs as of the close of the previous Plan Year.
- (c) **Restricted Stock or Restricted Stock Units:** The maximum aggregate grant with respect to Awards of Restricted Stock or Restricted Stock Units granted in any one Plan Year to any one Participant shall be five hundred thousand (500,000), plus the amount of the Participant's unused applicable Annual Award Limit for Restricted Stock or Restricted Stock Units as of the close of the previous Plan Year.
- (d) **Performance Units or Performance Shares:** The maximum aggregate Award of Performance Units or Performance Shares that a Participant may receive in any one Plan Year shall be five hundred thousand (500,000) Shares, or equal to the value of five hundred thousand (500,000) Shares determined as of the date of vesting or payout, as applicable, plus the amount of the Participant's unused applicable Annual Award Limit for Performance Units or Performance Shares as of the close of the previous Plan Year.
- (e) **Cash-Based Awards:** The maximum aggregate amount awarded or credited with respect to Cash-Based Awards to any one Participant in any one Plan Year may not exceed the value of five million dollars (\$5,000,000) determined as of the date of vesting or payout, as applicable, plus the amount of the Participant's unused applicable Annual Award Limit for Cash-Based Awards as of the close of the previous Plan Year.
- (f) **Covered Employee Annual Incentive Award.** The maximum aggregate amount awarded or credited with respect to Covered Employee Annual Incentive Awards to any one Participant in any one Plan year may not exceed the value of five million dollars (\$5,000,000) determined as of the date of vesting or payout, as applicable, plus the amount of the Participant's unused applicable Annual Award Limit for Covered Employee Annual Incentive Awards as of the close of the previous Plan Year.
- (g) **Other Stock-Based Awards.** The maximum aggregate grant with respect to other Stock-Based Awards pursuant to Section 10.2 granted in any one Plan Year to any one Participant shall be five hundred thousand (500,000), plus the amount of the Participant's unused applicable Annual Award Limit for Other Stock-Based Awards as of the close of the previous Plan Year.

**4.4 Adjustments in Authorized Shares.** In the event of any corporate event or transaction (including, but not limited to, a change in the Shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, combination of Shares, exchange of Shares, dividend in kind, or other like change in capital structure or distribution (other than normal cash dividends) to shareholders of the Company, or any similar corporate event or transaction, the Committee, in its sole discretion, in order to prevent dilution or enlargement of Participants' rights under the Plan, shall substitute or adjust, as applicable, the number and kind of Shares that may be issued under the Plan or under particular forms of Awards, the number and kind of Shares subject to outstanding Awards, the Option Price or Grant Price applicable to outstanding Awards, the Annual Award Limits, and other value determinations applicable to outstanding Awards.



The Committee shall, as and in the manner it deems necessary or appropriate, make adjustments in the terms of any Awards under the Plan to reflect or related to such changes or distributions and to modify any other terms of outstanding Awards, including modifications of performance goals and changes in the length of

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Performance Periods. The determination of the Committee as to the foregoing adjustments shall be conclusive and binding on Participants under the Plan.

Subject to the provisions of Article 19, without affecting the number of Shares reserved or available hereunder or the number or types of options that may be granted hereunder, the Committee may authorize the issuance or assumption of awards under this Plan in connection with any merger, consolidation, acquisition of property or stock or reorganization upon such terms and conditions as it may deem appropriate; provided, however, that, subject to adjustment as provided above, the maximum amount of Shares with respect to which ISOs, NQSOs and/or other Awards may be granted under this paragraph is as set forth in section 4.1 (c) hereof.

### **Article 5. Eligibility and Participation**

**5.1 Eligibility.** Individuals eligible to participate in this Plan include all Employees, Directors, and Third Party Service Providers.

**5.2 Actual Participation.** Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible individuals, those to whom Awards shall be granted and shall determine, in its sole discretion, the nature of, any and all terms permissible by law, and the amount of each Award, except that in the case of Non-Employee Directors, such determinations shall be made by the Board pursuant to Section 13.1.

### **Article 6. Stock Options**

**6.1 Grant of Options.** Subject to the terms and provisions of the Plan, Options may be granted to Participants in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee, in its sole discretion; provided that ISOs may be granted only to eligible employees of the Company or of any parent or subsidiary corporation (as permitted by Section 422 of the Code and the regulations thereunder).

**6.2 Award Agreement.** Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the maximum duration of the Option, the number of Shares to which the Option pertains, the conditions upon which an Option shall become vested and exercisable, and such other provisions as the Committee shall determine which are not inconsistent with the terms of the Plan. The Award Agreement also shall specify whether the Option is intended to be an ISO or a NQSO.

**6.3 Option Price.** The Option Price for each grant of an Option under this Plan shall be as determined by the Committee and shall be specified in the Award Agreement; provided, however, the Option Price shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted.

**6.4 Duration of Options.** Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant; provided, however, no Option shall be exercisable later than the tenth (10th) anniversary date of its grant. Notwithstanding the foregoing, for Options granted to Participants outside the United States, the Committee has the authority to grant Options that have a term greater than ten (10) years.

**6.5 Exercise of Options.** Options granted under this Article 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which terms and restrictions need not be the same for each grant or for each Participant.

**6.6 Payment.** Options granted under this Article 6 shall be exercised by the delivery of a notice of exercise to the Company or an agent designated by the Company in a form specified or accepted by the Committee, or by complying with any alternative procedures which may be authorized by the Committee, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

A condition of the issuance of the Shares as to which an Option shall be exercised shall be the payment of the Option Price. The Option Price of any Option shall be payable to the Company in full either: (a) in cash or its

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equivalent; (b) by tendering (either by actual delivery or attestation) previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the Option Price (provided that the Shares that are tendered must have been held by the Participant for at least six (6) months prior to their tender to satisfy the Option Price or have been purchased on the open market); (c) by a combination of (a) and (b); or (d) any other method approved or accepted by the Committee in its sole discretion.

Subject to any governing rules or regulations, as soon as practicable after receipt of written notification of exercise and full payment (including satisfaction of any applicable tax withholding), the Company shall deliver to the Participant evidence of book entry Shares, or upon the Participant's request, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s).

Unless otherwise determined by the Committee, all payments under all of the methods indicated above shall be paid in United States dollars.

**6.7 Restrictions on Share Transferability.** The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Article 6 as it may deem advisable, including, without limitation, minimum holding period requirements, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, or under any blue sky or state securities laws applicable to such Shares.

**6.8 Termination of Employment.** Each Participant's Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's employment or provision of services to the Company, its Affiliates, or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Options issued pursuant to this Article 6, and may reflect distinctions based on the reasons for termination.

### **6.9 Transferability of Options.**

- (a) **Incentive Stock Options.** No ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all ISOs granted to a Participant under this Article 6 shall be exercisable during his or her lifetime only by such Participant.
- (b) **Non-Qualified Stock Options.** Except as otherwise provided in a Participant's Award Agreement or otherwise determined at any time by the Committee, no NQSO granted under this Article 6 may be sold, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution; provided that the Board or Committee may permit further transferability, on a general or a specific basis, and may impose conditions and limitations on any permitted transferability. Further, except as otherwise provided in a Participant's Award Agreement or otherwise determined at any time by the Committee, or unless the Board or Committee decides to permit further transferability, all NQSOs granted to a Participant under this Article 6 shall be exercisable during his or her lifetime only by such Participant. With respect to those NQSOs, if any, that are permitted to be transferred to another person, references in the Plan to exercise or payment of the Option Price

by the Participant shall be deemed to include, as determined by the Committee, the Participant's permitted transferee.

**6.10 Notification of Disqualifying Disposition.** If any Participant shall make any disposition of Shares issued pursuant to the exercise of an ISO under the circumstances described in Section 421(b) of the Code (relating to certain disqualifying dispositions), such Participant shall notify the Company of such disposition within ten (10) days thereof.

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**6.11 Substituting SARs.** In the event the Company no longer uses APB Opinion 25 to account for equity compensation and is required to or elects to expense the cost of Options pursuant to FAS 123 (or a successor standard), the Committee shall have the ability to substitute, without receiving Participant permission, SARs paid only in Stock (or SARs paid in Stock or cash at the Committee's discretion) for outstanding Options; provided, the terms of the substituted Stock SARs are substantially equivalent to the terms for the Options and the excess of the Fair Market Value of the underlying Shares over the aggregate Grant Price of the SARs is equivalent to the excess of the Fair Market Value of the underlying Shares over the aggregate Option Price of the Options. If this provision creates adverse accounting consequences for the Company, it shall be considered void by the Committee.

**Article 7. Stock Appreciation Rights**

**7.1 Grant of SARs.** Subject to the terms and conditions of the Plan, SARs may be granted to Participants at any time and from time to time as shall be determined by the Committee. The Committee may grant Freestanding SARs, Tandem SARs, or any combination of these forms of SARs.

Subject to the terms and conditions of the Plan, the Committee shall have complete discretion in determining the number of SARs granted to each Participant and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs.

The Grant Price for each grant of a Freestanding SAR shall be determined by the Committee and shall be specified in the Award Agreement. The Grant Price may be based on one hundred percent (100%) of the FMV of the Shares on the date of grant, set at a premium to the FMV of the Shares on the date of grant, or indexed to the FMV of the Shares on the date of grant, with the index determined by the Committee, in its discretion. The Grant Price of Tandem SARs shall be equal to the Option Price of the related Option.

**7.2 SAR Agreement.** Each SAR Award shall be evidenced by an Award Agreement that shall specify the Grant Price, the term of the SAR, and such other provisions as the Committee shall determine.

**7.3 Term of SAR.** The term of a SAR granted under the Plan shall be determined by the Committee, in its sole discretion, and except as determined otherwise by the Committee and specified in the SAR Award Agreement, no SAR shall be exercisable later than the tenth (10th) anniversary date of its grant. Notwithstanding the foregoing, for SARs granted to Participants outside the United States, the Committee has the authority to grant SARs that have a term greater than ten (10) years.

**7.4 Exercise of Freestanding SARs.** Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes.

**7.5. Exercise of Tandem SARs.** Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable.

Notwithstanding any other provision of this Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (a) the Tandem SAR will expire no later than the expiration of the underlying ISO; (b) the value of the payout with respect to the Tandem SAR may be for no more than one hundred percent (100%) of the excess of the Fair Market Value of the Shares subject to the underlying ISO over the aggregate Option Price of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (c) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the ISO exceeds the aggregate Option Price of the ISO.

**7.6 Payment of SAR Amount.** Upon the exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

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- (a) The excess of the Fair Market Value of a Share on the date of exercise over the Grant Price; by
- (b) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, Shares, or any combination thereof, or in any other manner approved by the Committee in its sole discretion. The Committee's determination regarding the form of SAR payout shall be set forth in the Award Agreement pertaining to the grant of the SAR.

**7.7 Termination of Employment.** Each Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with Participants, need not be uniform among all SARs issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

**7.8 Non-Transferability of SARs.** Except as otherwise provided in a Participant's Award Agreement or otherwise at any time by the Committee, no SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement or otherwise at any time by the Committee, all SARs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant. With respect to those SARs, if any, that are permitted to be transferred to another person, references in the Plan to exercise of the SAR by the Participant or payment of any amount to the Participant shall be deemed to include, as determined by the Committee, the Participant's permitted transferee.

**7.9 Other Restrictions.** The Committee shall impose such other conditions and/or restrictions on any Shares received upon exercise of a SAR granted pursuant to the Plan as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Participant hold the Shares received upon exercise of a SAR for a specified period of time.

**Article 8. Restricted Stock and Restricted Stock Units**

**8.1 Grant of Restricted Stock or Restricted Stock Units.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock and/or Restricted Stock Units to Participants in such amounts as the Committee shall determine. Restricted Stock Units shall be similar to Restricted Stock except that no Shares are actually awarded to the Participant on the date of grant.

**8.2 Restricted Stock or Restricted Stock Unit Agreement.** Each Restricted Stock and/or Restricted Stock Unit grant shall be evidenced by an Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock or the number of Restricted Stock Units granted, and such other provisions as the Committee shall determine.

**8.3 Transferability.** Except as provided in this Plan or an Award Agreement, the Shares of Restricted Stock and/or Restricted Stock Units granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Award Agreement (and in the case of Restricted Stock Units until the date of delivery or other payment), or upon earlier satisfaction of any other conditions, as specified by the Committee, in its sole discretion, and set forth in the Award Agreement or otherwise at any time by the Committee. All rights with respect to the Restricted Stock and/or Restricted Stock Units granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant, except as otherwise provided in an Award Agreement or at any time by the Committee.

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**8.4 Other Restrictions.** The Committee shall impose such other conditions and/or restrictions on any Shares of Restricted Stock or Restricted Stock Units granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock or each Restricted Stock Unit, restrictions based upon the achievement of specific performance goals, time-based restrictions on vesting following the attainment of the performance goals, time-based restrictions, and/or restrictions under applicable laws or under the requirements of any stock exchange or market upon which such Shares are listed or traded, or holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Stock or Restricted Stock Units. In the case of Restricted Stock and/or Restricted Stock Units granted to Covered Employees which awards are intended to constitute Performance Based Compensation the applicable performance goal(s) for such Awards shall be selected from those listed in Article 11.

To the extent deemed appropriate by the Committee, the Company may retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied or lapse.

Except as otherwise provided in this Article 8 or under applicable law, Shares of Restricted Stock covered by each Restricted Stock Award shall become freely transferable by the Participant after all conditions and restrictions applicable to such Shares have been satisfied or lapse (including satisfaction of any applicable tax withholding obligations), and Restricted Stock Units shall be paid in cash, Shares, or a combination of cash and Shares as the Committee, in its sole discretion shall determine.

**8.5 Certificate Legend.** In addition to any legends placed on certificates pursuant to Section 8.4, each certificate representing Shares of Restricted Stock granted pursuant to the Plan may bear a legend such as the following or as otherwise determined by the Committee in its sole discretion:

The sale or transfer of Shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in the Arrow Electronics, Inc. 2004 Omnibus Incentive Plan, and in the associated Award Agreement. A copy of the Plan and such Award Agreement may be obtained from Arrow Electronics, Inc.

**8.6 Voting Rights.** Unless otherwise determined by the Committee and set forth in a Participant's Award Agreement, to the extent permitted or required by law, as determined by the Committee, Participants holding Shares of Restricted Stock granted hereunder may be granted the right to exercise full voting rights with respect to those Shares during the Period of Restriction. There shall be no voting rights with respect to any Restricted Stock Units granted hereunder.

**8.7 Termination of Employment.** Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Restricted Stock and/or Restricted Stock Units following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Awards of Restricted Stock or Restricted Stock Units granted pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

**8.8 Section 83(b) Election.** The Committee may provide in an Award Agreement that the Award of Restricted Stock is conditioned upon the Participant making or refraining from making an election with respect to the Award under Section 83(b) of the Code. If a Participant makes an election pursuant to Section 83(b) of the Code concerning a Restricted Stock Award, the Participant shall be required to file promptly a copy of such election with the Company.

**Article 9. Performance Units/ Performance Shares**

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**9.1 Grant of Performance Units/ Performance Shares.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Performance Units and/or Performance Shares to Participants in such amounts and upon such terms as the Committee shall determine.

**9.2 Value of Performance Units/ Performance Shares.** Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the value and/or number of Performance Units/ Performance Shares that will be paid out to the Participant. In the case of Performance Units and or Performance Shares granted to Covered Employees which awards are intended to constitute Performance Based Compensation the applicable performance goal(s) for such Awards shall be selected from those listed in Article 11.

**9.3 Earning of Performance Units/ Performance Shares.** Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Performance Units/ Performance Shares shall be entitled to receive payout on the value and number of Performance Units/ Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved.

**9.4 Form and Timing of Payment of Performance Units/ Performance Shares.** Payment of earned Performance Units/ Performance Shares shall be as determined by the Committee and as evidenced in the Award Agreement. Subject to the terms of the Plan, the Committee, in its sole discretion, may pay earned Performance Units/ Performance Shares in the form of cash or in Shares (or in a combination thereof) equal to the value of the earned Performance Units/ Performance Shares at the close of the applicable Performance Period, or as soon as practicable after the end of the Performance Period. Any Shares may be granted subject to any restrictions deemed appropriate by the Committee and as evidenced in the Award Agreement. The determination of the Committee with respect to the form of payout of such Awards and restrictions shall be set forth in the Award Agreement pertaining to the grant of the Award.

**9.5 Dividends and Other Distributions.** At the discretion of the Committee, Participants holding Performance Shares may be entitled to receive dividend equivalents with respect to dividends declared with respect to the Shares. Such dividend equivalents may be in the form of cash, Shares, Restricted Stock, or Restricted Stock Units and may be subject to such accrual, forfeiture, or payout restrictions as determined by the Committee in its sole discretion and as evidenced in the Award Agreement.

**9.6 Termination of Employment.** Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Performance Units and/or Performance Shares following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Awards of Performance Units or Performance Shares issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

**9.7 Non-Transferability.** Except as otherwise provided in a Participant's Award Agreement or otherwise determined at any time by the Committee, Performance Units/ Performance Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement or otherwise determined at any time by the Committee, a Participant's rights under the Plan shall be exercisable during his or her lifetime only by such Participant.

**Article 10. Cash-Based Awards and Other Stock-Based Awards**

**10.1 Grant of Cash-Based Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Cash-Based Awards to Participants in such amounts and upon such terms as the Committee may determine.

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**10.2 Other Stock-Based Awards.** The Committee may grant other types of equity-based or equity-related Awards not otherwise described by the terms of this Plan (including the grant or offer for sale of unrestricted Shares) in such amounts and subject to such terms and conditions, as the Committee shall determine. Such Awards may involve the transfer of actual Shares to Participants, or payment in cash or otherwise of amounts based on the value of Shares and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

**10.3 Value of Cash-Based and Other Stock-Based Awards.** Each Cash-Based Award shall specify a payment amount or payment range as determined by the Committee. Each Other Stock-Based Award shall be expressed in terms of Shares or units based on Shares, as determined by the Committee. The Committee may establish performance goals in its discretion. If the Committee exercises its discretion to establish performance goals, the number and/or value of Cash-Based Awards or Other Stock-Based Awards that will be paid out to the Participant will depend on the extent to which the performance goals are met. In the case of Cash-Based Awards and/or Other Stock-Based Awards granted to Covered Employees which Awards are intended to constitute Performance Based Compensation the applicable performance goals for such Awards shall be selected from those listed in Article 11.

**10.4 Payment of Cash-Based Awards and Other Stock-Based Awards.** Payment, if any, with respect to a Cash-Based Award or an Other Stock-Based Award shall be made in accordance with the terms of the Award, in cash or Shares as the Committee determines.

**10.5 Termination of Employment.** The Committee shall determine the extent to which the Participant shall have the right to receive Cash-Based Awards and Other Stock-Based Awards following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, such provisions may be included in an agreement entered into with each Participant, but need not be uniform among all Awards of Cash-Based Awards and Other Stock-Based Awards issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

**10.7 Non-Transferability.** Except as otherwise determined by the Committee, neither Cash-Based Awards nor Other Stock-Based Awards may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided by the Committee, a Participant's rights under the Plan, if exercisable, shall be exercisable during his or her lifetime only by such Participant. With respect to those Cash-Based Awards or Other Stock-Based Awards, if any, that are permitted to be transferred to another person, references in the Plan to exercise or payment of such Awards by or to the Participant shall be deemed to include, as determined by the Committee, the Participant's permitted transferee.

**Article 11. Performance Measures**

**11.1 Performance Measures.** Unless and until the Committee proposes for shareholder vote and the shareholders approve a change in the general Performance Measures set forth in this Article 11, the performance goals upon which the payment or vesting of an Award to a Covered Employee that is intended to qualify as Performance-Based Compensation shall be limited to the following Performance Measures:

- (a) net income;
  - (b) earnings per share;
  - (c) sales growth;
  - (d) income before taxes;
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- (e) net operating profit;
- (f) return measures (including, but not limited to, return on assets, capital, equity, or sales);
- (g) cash flow (including, but not limited to, operating cash flow and free cash flow);
- (h) earnings before, interest, taxes, depreciation, and/or amortization;
- (i) operating margins including gross profit, operating expenses and operating income as a percentage of sales;
- (j) productivity ratios;
- (k) share price (including, but not limited to, growth measures and total shareholder return);
- (l) expense targets;
- (m) operating efficiency;
- (n) customer satisfaction;
- (o) working capital targets; and
- (p) economic value-added.

Any Performance Measure(s) may be used to measure the performance of the Company, Subsidiary, and/or Affiliate as a whole or any business unit of the Company, Subsidiary, and/or Affiliate or any combination thereof, as the Committee may deem appropriate, or any of the above Performance Measures as compared to the performance of a group of comparator companies, or published or special index that the Committee, in its sole discretion, deems appropriate, or the Company may select Performance Measure (j) above as compared to various stock market indices. The Committee also has the authority to provide for accelerated vesting of any Award based on the achievement of performance goals pursuant to the Performance Measures specified in this Article 11.

**11.2 Evaluation of Performance.** The Committee may provide in any such Award that any evaluation of performance may include or exclude any of the following events that occurs during a Performance Period: (a) asset write-downs, (b) litigation or claim judgments or settlements, (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results, (d) any reorganization and restructuring programs, (e) extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year, (f) acquisitions or divestitures, and (g) foreign exchange gains and losses. To the extent such inclusions or exclusions affect Awards to Covered Employees, they shall be prescribed in a form that meets the requirements of Code Section 162(m) for deductibility.

**11.3 Adjustment of Performance-Based Compensation.** Awards that are designed to qualify as Performance-Based Compensation, and that are held by Covered Employees, may not be adjusted upward. The Committee shall retain the discretion to adjust such Awards downward, either on a formula or discretionary basis or any combination, as the Committee determines.

**11.4 Committee Discretion.** In the event that applicable tax and/or securities laws change to permit Committee discretion to alter the governing Performance Measures without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval. In

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addition, in the event that the Committee determines that it is advisable to grant Awards that shall not qualify as Performance-Based Compensation, the Committee may make such grants without satisfying the requirements of Code Section 162(m) and may base vesting on Performance Measures in addition to or other than those set forth in Section 11.1.

**Article 12. Covered Employee Annual Incentive Award**

Notwithstanding any other provision of this Plan to the contrary, for each Plan Year a Covered Employee Annual Incentive Award shall be paid to any Participant who is an executive officer of the Company and, in the Committee's determination, is likely to be a covered employee within the meaning of Section 162(m) of the Code only in accordance with the provisions of this Article. Within the first ninety (90) days of each Plan Year, the Committee shall establish (i) the performance goals, selected from the list of Performance Measures in Section 11.1, that must be achieved in order for a Covered Employee Annual Incentive Award to be paid to any Covered Employee for the Plan Year, and (ii) the amount of each Covered Employee's Covered Employee Annual Incentive Award that could be paid based on attainment of such performance goals for the Plan Year. As soon as practicable following the end of each Plan Year, the Committee shall certify whether each Covered Employee otherwise satisfied the requirements of this Plan to receive a Covered Employee Annual Incentive Award. Upon the Committee's certification thereof, the Covered Employee Annual Incentive Awards shall be paid to the Covered Employees or such lesser amounts as the Committee in its discretion shall prescribe taking into account the otherwise applicable provisions of this Plan and the performance of the Company and the Covered Employees during the Plan Year, provided that such action does not preclude the Covered Employee Annual Incentive Award to any Covered Employee from qualifying as performance based compensation under Section 162(m) of the Code. The Committee shall not exercise any discretion in its administration of the Plan that would be inconsistent with the purposes of Section 162(m) of the Code.

**Article 13. Non-Employee Director Awards**

**13.1 Non-Employee Director Awards.** Non-Employee Directors may only be granted Awards under the Plan in accordance with this Article 13 and which shall not be subject to management's discretion. From time to time, the Board shall set the amount(s) and type(s) of equity awards that shall be granted to all Non-employee Directors on a periodic, nondiscriminatory basis pursuant to the Plan, as well as any additional amount(s), if any, to be awarded, also on a periodic, nondiscriminatory basis, based on each of the following: the number of committees of the Board on which a Non-Employee Director serves, service of a Non-Employee Director as the chair of a Committee of the Board, service of a Non-Employee Director as Chairman of the Board, or the first selection or appointment of an individual to the Board as a Non-Employee Director. Subject to the limits set forth in Section 4.1(d) and the foregoing, the Board shall grant such Awards to Non-Employee Directors and the Non-Employee Chairman of the Board, and grant New Non-Employee Director Awards, as it shall from time to time determine.

**13.2 Non-Employee Director Deferrals.**

- (a) **Mandatory Deferral:** Fifty percent (50%) of each payment comprising any annual retainer fees payable by the Company to each Non-Employee Director shall automatically be withheld by the Company and deferred hereunder, except to the extent that the Non-Employee Director has made an Optional Deferral Election in accordance with Section 13.2(b).
- (b) **Optional Deferral Elections:** A Non-Employee Director may submit a written election to the Secretary of the Company not to have the deferral provisions of Section 13.2(a) apply to the Non-Employee Director's retainer fees or to have a deferral of a percentage other than fifty percent (50%) apply (an Optional Deferral Election) as follows:
  - (i) Prior to the Effective Date of the Plan, each Non-Employee Director may submit an Optional Deferral Election, which may specify that no portion of the Non-Employee Director's retainer fees will be

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deferred under Section 13.2 or that a selected percentage other than fifty percent (50%) of the Non-Employee Director's retainer fees will be deferred under Section 13.2. Such Optional Deferral Election will be effective unless and until it is revoked in writing.

- (ii) Each Non-Employee Director initially elected after the Effective Date of the Plan may submit an Optional Deferral Election prior to the Non-Employee Director's receipt of any portion of any retainer fee which may specify that no portion of the Non-Employee Director's retainer fees will be deferred under Section 13.2 or that a selected percentage other than fifty percent (50%) of the Non-Employee Director's retainer fees will be deferred under Section 13.2, such Optional Deferral Election will be effective unless and until it is revoked in writing.
- (iii) On an ongoing basis, each Non-Employee Director who has not made a standing Optional Deferral Election may make an Optional Deferral Election requesting the cessation of deferrals from his or her future payments of annual retainer fees or specifying that a selected percentage other than fifty percent (50%) of the Non-Employee Director's retainer fees will be deferred under Section 13.2. In addition, any Non-Employee Director who has previously made a standing Optional Deferral Election may submit a new Optional Deferral Election, which will supersede the prior Optional Deferral Election. Any such election will take effect as of the commencement of the calendar year following the year in which the election is made and will be honored unless and until it is revoked in writing prior to the commencement of the calendar year in which such revocation is to become effective. However, any amounts deferred prior to the effective date of the new Optional Deferral Election will continue to be deferred under Section 13.2.
- (c) **Maintenance of Deferred Accounts:** A recordkeeping account shall be established and maintained in the name of each Non-Employee Director. Amounts which are deferred hereunder shall be converted into units ( Units ) based on the Fair Market Value of the Company's common stock, and such Units (including any fractional Units) shall be credited to the Non-Employee Director's account. The conversion and crediting of deferrals shall occur as of the date that such deferred amounts would otherwise have been payable to the Non-Employee Director. Dividend equivalents earned on the basis of whole Units previously credited to a Non-Employee Director's account shall be credited to the Non-Employee Director's account as Units, including fractional Units, on the date any such dividend has been declared to be payable on Shares. Units, excluding fractional Units, shall earn dividend equivalents from the date such Units are credited to a Non-Employee Director's account until the date such Units are converted into Shares and distributed. Dividend equivalents shall be computed by multiplying the dividend paid per Share during the period Units are credited to a Non-Employee Director's account times the number of whole Units so credited, but Units shall earn such dividend equivalents only as, if, and when dividends are declared and paid on Shares.
- (d) **Method of Distribution of Deferrals:** No distribution of deferrals may be made except as provided in this Section 13.2(d) or in a deferral agreement between the Company and a Non-employee Director. As of the last business day of the calendar month in which a Non-Employee Director's service as a director of the Company ceases, each whole Unit then credited to the Non-Employee Director's deferral account shall be converted into one Share and any fractional Unit shall be converted into cash by multiplying such fraction by the Fair Market Value of a Share as of such date. Such Shares and cash shall be distributed to the Non-Employee Director in a single lump sum, as soon as practicable following such date. At the written request of a Non-Employee Director, the Board of Directors, in its sole discretion, may accelerate payment of amounts deferred hereunder, upon a showing of unforeseeable emergency by such Non-Employee Director. For purposes of this paragraph, unforeseeable emergency is defined as severe financial hardship resulting from extraordinary and unanticipated circumstances arising as a result of one or more recent events beyond the control of the Non-Employee Director. In any event, payment may not be made to the extent such emergency is or may be relieved: (1) through reimbursement or compensation by insurance or otherwise; (2) by liquidation of the Non-Employee Director's assets, to the extent the liquidation of such assets would not, itself, cause severe financial hardship;

and (3) by cessation of deferrals under the Plan. Examples of events that are not considered to be unforeseeable emergencies include the need to send a Non-Employee Director's child to college or the desire to purchase a home.

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**Article 14. Dividend Equivalents**

Any Participant selected by the Committee may be granted dividend equivalents based on the dividends declared on Shares that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. Such dividend equivalents shall be converted to cash or additional Shares by such formula and at such time and subject to such limitations as may be determined by the Committee.

Dividend equivalents granted with respect to Options or SARs that are intended to be Performance-Based Compensation shall be payable, with respect to pre-exercise periods, regardless of whether such Option or SAR is subsequently exercised.

**Article 15. Beneficiary Designation**

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

**Article 16. Deferrals**

The Committee may permit or, in an Award Agreement, require officers or Non-Employee Directors to defer receipt of the payment of cash or the delivery of Shares that would otherwise be due to such officers or Non-Employee Directors by virtue of the exercise of an Option or SAR, the lapse or waiver of restrictions with respect to Restricted Stock or Restricted Stock Units, or the satisfaction of any requirements or performance goals with respect to Performance Shares, Performance Units, Cash-Based Awards, Covered Employee Annual Incentive Awards, Other Stock-Based Awards, or Cash-Based Awards. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals.

**Article 17. Rights of Participants**

**17.1 Employment.** Nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company, its Affiliates, and/or its Subsidiaries, to terminate any Participant's employment or service on the Board or to the Company at any time or for any reason not prohibited by law, nor confer upon any Participant any right to continue his or her employment or service as a Director or Third Party Service Provider for any specified period of time.

Neither an Award nor any benefits arising under this Plan shall constitute an employment contract with the Company, its Affiliates, and/or its Subsidiaries and, accordingly, subject to Articles 3 and 19, this Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Committee without giving rise to any liability on the part of the Company, its Affiliates, and/or its Subsidiaries.

**17.2 Participation.** No individual shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

**17.3 Rights as a Shareholder.** Except as otherwise provided herein, a Participant shall have none of the rights of a shareholder with respect to Shares covered by any Award until the Participant becomes the record holder of such Shares.

**17.4 No Third Party Beneficiaries.** This Plan does not confer any right or remedy other than to Participants, the Company, and their respective permitted successors and assigns, and no action may be brought

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against the Company, the Board, the Committee, or any of the Committee's delegates by any third party claiming as a third party beneficiary to the Plan or any Award Agreement.

### **Article 18. Corporate Events**

Unless otherwise set forth in the Award Agreement, upon a dissolution or liquidation of the Company, or a sale of substantially all of the assets of the Company, its Subsidiaries, and its Affiliates and the acquiring entity does not substitute new and equivalent Awards for the outstanding Awards hereunder, or a merger or consolidation in which the surviving corporation does not substitute new and equivalent Awards for the outstanding Awards hereunder, (each a Corporate Event) each Participant shall be given at least ten days prior written notice of the occurrence of such Corporate Event, every Award outstanding hereunder shall become fully vested and exercisable, all restrictions on such Awards shall lapse and each Participant may exercise any Award that is in the form of an Option or SAR, in whole or in part, prior to or simultaneously with such Corporate Event. Unless otherwise set forth in the Award Agreement, upon the occurrence of any such Corporate Event, any Option or SAR not exercised pursuant hereto shall terminate. Unless otherwise set forth in the Award Agreement, furthermore, upon the occurrence of a Corporate Event, the Company shall have the option to cancel every outstanding Award hereunder (other than Options and SARs outstanding the cancellation which would be handled by the preceding sentence) and to pay the holder of such Awards the value of those Awards as determined by the Board or Committee in their sole discretion.

### **Article 19. Amendment, Modification, Suspension, and Termination**

**19.1 Amendment, Modification, Suspension, and Termination.** Subject to Section 19.3, the Committee may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan and any Award Agreement in whole or in part; provided, however, that, without the prior approval of the Company's shareholders and except as provided in Sections 4.4 and 6.11 hereof, Options issued under the Plan will not be repriced, replaced, or regranted through cancellation, or by lowering the Option Price of a previously granted Option, and no amendment of the Plan shall be made without shareholder approval if shareholder approval is required by law, regulation, or stock exchange rule, including, but not limited to, the Securities Exchange Act of 1934, as amended, the Internal Revenue Code of 1986, as amended, and, if applicable, the New York Stock Exchange Listed Company Manual.

**19.2 Adjustment of Awards Upon the Occurrence of Certain Unusual or Non-recurring Events.** The Committee shall, as and in the manner it deems necessary or appropriate, make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual, unforeseen or nonrecurring events (including, without limitation, the events described in Section 4.4 hereof, restructuring charges and income or expenses related to acquisitions and dispositions, tax and litigation settlements, and capital projects not contemplated at the time an Award was made) affecting the Corporation or the financial statements of the Corporation or of changes in applicable laws, regulations, or accounting principles, in order to prevent the unintended dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. The determination of the Committee as to the foregoing adjustments shall be conclusive and binding on Participants under the Plan.

**19.3 Awards Previously Granted.** Notwithstanding any other provision of the Plan to the contrary, no termination, amendment, suspension, or modification of the Plan or an Award Agreement shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award or any predecessor plans.

### **Article 20. Withholding**

**20.1 Tax Withholding.** The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the minimum statutory amount to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

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**20.2 Share Withholding.** With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock and Restricted Stock Units, or upon the achievement of performance goals related to Performance Shares, or any other taxable event arising as a result of an Award granted hereunder, the Committee may decide to permit Participants to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax that could be imposed on the transaction. If permitted by the Committee, all Participant elections related to share withholding shall be irrevocable, made in writing, and signed by the Participant, and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

**Article 21. Successors**

All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

**Article 22. General Provisions**

**22.1 Forfeiture Events.**

- (a) The Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of employment for cause, termination of the Participant's provision of services to the Company, Affiliate, and/or Subsidiary, violation of material Company, Affiliate, and/or Subsidiary policies, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company, its Affiliates, and/or its Subsidiaries.
- (b) If Section 304 of the Sarbanes-Oxley Act of 2002 applies to any Award or payment in settlement of any Award, the Participant shall and hereby agrees to reimburse the Company for any such amounts or Awards as provided by Section 304 of the Sarbanes-Oxley Act of 2002.

**22.2 Legend.** The certificates for Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer of such Shares.

**22.3 Gender and Number.** Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

**22.4 Severability.** In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

**22.5 Requirements of Law.** The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

**22.6 Delivery of Title.** The Company shall have no obligation to issue or deliver evidence of title for Shares issued under the Plan prior to:

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- (a) Obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and
- (b) Completion of any registration or other qualification of the Shares under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

**22.7 Inability to Obtain Authority.** The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

**22.8 Investment Representations.** The Committee may require any person receiving Shares pursuant to an Award under this Plan to represent and warrant in writing that the person is acquiring the Shares for investment and without any present intention to sell or distribute such Shares.

**22.9 Employees, Directors, Third Party Service Providers, and Participants Based Outside of the United States.** Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company, its Affiliates, and/or its Subsidiaries operate or have Employees, Directors, Third Party Service Providers, or Participants, the Committee, in its sole discretion, shall have the power and authority to:

- (a) Determine which Affiliates and Subsidiaries shall be covered by the Plan;
- (b) Determine which Employees, Directors, Third Party Service Providers, or Participants outside the United States are eligible to participate in the Plan;
- (c) Modify the terms and conditions of any Award granted to Employees, Directors, Third Party Service Providers, or Participants outside the United States to comply with applicable foreign laws;
- (d) Establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable. Any subplans and modifications to Plan terms and procedures established under this Section 22.9 by the Committee shall be attached to this Plan document as appendices; and
- (e) Take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local government regulatory exemptions or approvals.

Notwithstanding the above, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate applicable law.

**22.10 Uncertificated Shares.** To the extent that the Plan provides for issuance of certificates to reflect the transfer of Shares, the transfer of such Shares may be effected on a uncertificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange.

**22.11 Unfunded Plan.** Participants shall have no right, title, or interest whatsoever in or to any investments that the Company, and/or its Subsidiaries, and/or Affiliates may make to aid it in meeting its obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, legal representative, or any other person. To the extent that any person acquires a right to receive payments from the Company, and/or its Subsidiaries, and/or Affiliates under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company, a Subsidiary, or an Affiliate, as the case may be. All payments to be made hereunder shall be paid from the general funds of the Company, a Subsidiary, or an Affiliate,



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as the case may be and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in the Plan. The Plan is not subject to ERISA.

**22.12 No Fractional Shares.** No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, Awards, or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

**22.13 Retirement and Welfare Plans.** Neither Awards made under the Plan nor Shares or cash paid pursuant to such Awards, except pursuant to Covered Employee Annual Incentive Awards, will be included as compensation for purposes of computing the benefits payable to any Participant under the Company's or any Subsidiary's or Affiliate's retirement plans (both qualified and non-qualified) or welfare benefit plans unless such other plan expressly provides that such compensation shall be taken into account in computing a participant's benefit.

**22.14 Nonexclusivity of the Plan.** The adoption of this Plan shall not be construed as creating any limitations on the power of the Board or Committee to adopt such other compensation arrangements as it may deem desirable for any Participant.

**22.15 No Constraint on Corporate Action.** Nothing in this Plan shall be construed to: (i) limit, impair, or otherwise affect the Company's or a Subsidiary's or an Affiliate's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or, (ii) limit the right or power of the Company or a Subsidiary or an Affiliate to take any action which such entity deems to be necessary or appropriate.

**22.16 Right of First Refusal.** Unless otherwise set forth in the Award Agreement, shares acquired under the Plan by a Participant may not be sold or otherwise disposed of in any way (including a transfer or gift or by reason of the death of the Participant) until the Participant (or his legal representative, legatee or distributee of his or her estate) first offers to sell the Shares to the Company as herein provided. The price per Share at which the Shares shall be offered to the Company shall be the closing price per Share reported on the Consolidated Tape (as such price is reported in the *Wall Street Journal* or if such publication is unavailable then *Reuters*) on the date the Participant's offer is received by the Secretary of the Company. If the Company fails to accept the offer to purchase such Shares within seven days after such date, the Shares shall thereafter be free of all restrictions under the Plan.

**22.17 Ratification of Actions.** By accepting any Award or other benefit under the Plan, each Participant and each person claiming under or through each Participant shall be conclusively deemed to have indicated his or her acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee.

**22.18 Governing Law.** The Plan and each Award Agreement shall be governed by the laws of the State of New York excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of New York, to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

**22.19 Jury Waiver.** Every Participant, every person claiming under or through a Participant, and the Company hereby waives to the fullest extent permitted by applicable law any right to a trial by jury with respect to any litigation directly or indirectly arising out of, under, or in connection with the Plan or any Award Agreement issued pursuant to the Plan.

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VOTE BY INTERNET [www.proxyvote.com](http://www.proxyvote.com) You may use the internet to vote and to access proxy materials until 11:59 p.m. Eastern Daylight Time, May 1, 2008, the day before the Annual Meeting.

VOTE BY PHONE 1-800-690-6903 C/O BNY MELLON SHAREOWNER SERVICES Use any telephone to transmit your voting instructions until 11:59 P.M. Eastern Daylight Time the day before the Annual Meeting. Have your 480 WASHINGTON BLVD proxy card in hand when you call and then follow the instructions. JERSEY CITY, NJ 07310

VOTE BY MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Arrow Electronics, Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS If you would like to reduce the costs incurred by Arrow Electronics, Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: ARREL1 KEEP THIS PORTION FOR YOUR RECORDS DETACH AND RETURN THIS PORTION ONLY THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. ARROW ELECTRONICS, INC. Vote On Directors For Withhold For All To withhold authority to vote for any individual 1. Authority to vote FOR the election of directors in All All Except nominee(s), mark For All Except and write the accordance with the accompanying Proxy Statement. number(s) of the nominee(s) on the line below. Nominees: 01) Daniel W. Duval 07) Michael J. Long 0 0 0 02) Gail E. Hamilton 08) Karen Gordon Mills 03) John N. Hanson 09) William E. Mitchell 04) Richard S. Hill 10) Stephen C. Patrick 05) M.F. (Fran) Keeth 11) Barry W. Perry 06) Roger King 12) John C. Waddell

Vote On Proposals For Against Abstain 2. Ratification of the appointment of Ernst & Young LLP as Arrow s independent registered public accounting firm for the fiscal 0 0 0 year ending December 31, 2008 3. Proposal to Amend the Arrow Electronics, Inc. 2004 Omnibus Incentive Plan 0 0 0 For address changes and/or comments, please 0 check this box and write them on the back where indicated. If acting as attorney, executor, trustee or in other representative capacity, please sign name and title. Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

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Vote by Internet or Telephone or Mail 24 Hours a Day, 7 Days a Week Internet and telephone voting is available through 11:59 PM Eastern Daylight Time on Thursday, May 1, 2008. Your telephone or Internet vote authorizes the named proxies to vote the shares in the same manner as if you marked, signed and returned your proxy card. If you vote your proxy by Internet or by telephone, you do NOT need to mail your proxy card. You can view the Arrow Annual Report and Proxy Statement on the Internet at: [www.arrow.com/annualreport2007](http://www.arrow.com/annualreport2007) and at [www.proxyvote.com](http://www.proxyvote.com) T Detach here . T PROXY ARROW ELECTRONICS, INC. PROXY for Annual Meeting of Shareholders, May 2, 2008 This Proxy is Solicited by the Board of Directors The undersigned hereby appoints William E. Mitchell, Peter S. Brown and Paul J. Reilly, and any one or more of them, with full power of substitution, as proxy or proxies of the undersigned to vote all shares of stock of ARROW ELECTRONICS, INC. which the undersigned would be entitled to vote if personally present at the Annual Meeting of Shareholders to be held on May 2, 2008, at 11:00 a.m., at the Grand Hyatt New York, 109 East 42nd Street, New York, New York, or any adjournments thereof, as set forth on the reverse hereof. This proxy is being solicited by the management and will be voted as specified. If not otherwise specified, it will be voted for the directors and the proposals, and otherwise in accordance with management s discretion. Please Return This Proxy Promptly in the Enclosed Envelope Address Changes/Comments: \_\_\_\_ (If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)