AVNET INC
Form 10-Q
April 30, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 3, 2010

Commission File #1-4224
AVNET, INC.
Incorporated in New York

IRS Employer Identification No. 11-1890605
2211 South 47th Street, Phoenix, Arizona 85034
(480) 643-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of April 23, 2010, the total number of shares outstanding of the registrant s Common Stock was 151,825,232 shares, net of treasury shares.

AVNET, INC. AND SUBSIDIARIES
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PART I
FINANCIAL INFORMATION

Item 1. ***Financial Statements***

AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	April 3, 2010	June 27, 2009
	(Thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 754,574	$ 943,921
Receivables, less allowances of $84,747 and $85,477, respectively	3,323,954	2,618,697
Inventories	1,747,720	1,411,755
Prepaid and other current assets	168,450	169,879
Total current assets	5,994,698	5,144,252
Property, plant and equipment, net	302,597	305,682
Goodwill (Notes 2 and 3)	566,187	550,118
Other assets	294,309	273,464
Total assets	$ 7,157,791	$ 6,273,516
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Borrowings due within one year (Note 4)	$ 55,088	$ 23,294
Accounts payable	2,534,605	1,957,993
Accrued expenses and other	520,676	474,573
Total current liabilities	3,110,369	2,455,860
Long-term debt (Note 4)	937,518	946,573
Other long-term liabilities	88,898	110,226
Total liabilities	4,136,785	3,512,659
Commitments and contingencies (Note 6)		
Shareholders equity (Notes 8 and 9):		
Common stock $1.00 par; authorized 300,000,000 shares; issued 151,831,000 shares and 151,099,000 shares, respectively	151,831	151,099
Additional paid-in capital	1,201,284	1,178,524(1)
Retained earnings	1,483,322	1,214,071(1)
Accumulated other comprehensive income (Note 8)	185,259	218,094
Treasury stock at cost, 37,701 shares and 32,306 shares, respectively	(690)	(931)
Total shareholders equity	3,021,006	2,760,857

Total liabilities and shareholders equity	$ 7,157,791	$ 6,273,516

(1) As adjusted for the retrospective application of an accounting standard. See Note 1 to the consolidated financial statements.

See notes to consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Third Quarters Ended		Nine Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
	(Thousands, except per share data)			
Sales	$ 4,756,786	$ 3,700,836	$ 13,946,346	$ 12,464,464
Cost of sales	4,173,999	3,238,366	12,311,931	10,884,315
Gross profit	582,787	462,470	1,634,415	1,580,149
Selling, general and administrative expenses	408,220	374,221	1,190,489	1,173,949
Impairment charges (Note 3)				1,348,845
Restructuring, integration and other charges (Note 12)	7,347	32,679	25,419	55,819
Operating income (loss)	167,220	55,570	418,507	(998,464)
Other income (expense), net	1,499	(8,364)	3,581	(8,196)
Interest expense	(15,327)	(21,360)	(45,925)	(64,088)
Gain on sale of assets (Note 2)	3,202		8,751	
Income (loss) before income taxes	156,594	25,846	384,914	(1,070,748)
Income tax provision	42,089	10,050	115,663	28,086
Net income (loss)	$ 114,505	$ 15,796	$ 269,251	$ (1,098,834)
Net earnings (loss) per share (Note 9):				
Basic	$ 0.75	$ 0.10(1)	$ 1.78	$ (7.29)(1)
Diluted	$ 0.75	$ 0.10(1)	$ 1.76	$ (7.29)(1)
Shares used to compute earnings (loss) per share (Note 9):				
Basic	151,890	151,147	151,519	150,810
Diluted	153,215	151,147	152,932	150,810

(1) As adjusted for the retrospective application of an accounting standard. See Note 1 to the consolidated financial statements.

See notes to consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	April 3, 2010	March 28, 2009
	(Thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 269,251	$ (1,098,834)
Non-cash and other reconciling items:		
Depreciation and amortization	46,084	50,501
Deferred income taxes	35,234	(90,728)
Stock-based compensation	24,007	14,416
Impairment charges (Note 3)		1,348,845
Gain on sale of assets (Note 2)	(8,751)	
Other, net	11,793	29,116
Changes in (net of effects from businesses acquired):		
Receivables	(732,466)	621,999
Inventories	(356,434)	247,545
Accounts payable	583,878	(483,231)
Accrued expenses and other, net	(27,305)	148,506
Net cash flows (used for) provided by operating activities	(154,709)	788,135
Cash flows from financing activities:		
Repayment of notes (Note 4)		(298,059)
Proceeds from (repayment of) bank debt, net (Note 4)	14,909	(25,185)
Repayment of other debt, net (Note 4)	(1,440)	(6,049)
Other, net	3,998	1,282
Net cash flows provided by (used for) financing activities	17,467	(328,011)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(42,905)	(89,252)
Cash proceeds from sales of property, plant and equipment	6,334	9,840
Acquisitions of operations and investments, net of cash acquired (Note 2)	(36,361)	(309,864)
Cash proceeds from divestiture activities (Note 2)	11,785	
Net cash flows used for investing activities	(61,147)	(389,276)
Effect of exchange rate changes on cash and cash equivalents	9,042	(25,561)
Cash and cash equivalents:		
(decrease) increase	(189,347)	45,287

at beginning of period		943,921		640,449
at end of period	$	754,574	$	685,736

Additional cash flow information (Note 10)

See notes to consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments necessary to present fairly the Company s financial position, results of operations and cash flows. All such adjustments are of a normal recurring nature, except for (i) the adoption of an accounting standard which changes the accounting for convertible debt that may be settled in cash as discussed below, (ii) the gain on sale of assets discussed in Note 2, (iii) the goodwill and intangible asset impairment charges discussed in Note 3, and (iv) the restructuring, integration and other charges discussed in Note 12.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results may differ from these estimates.

The Company operates on a 52/53 week fiscal year, and as a result, the first nine months of fiscal 2010 contained 40 weeks (with the extra week falling in the Company s first fiscal quarter) while the first nine months of fiscal 2009 contained 39 weeks. Interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year. The information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the fiscal year ended June 27, 2009.

Management has evaluated events and transactions that occurred after the balance sheet date and through the date these consolidated financial statements were issued and considered the effect of such events in the preparation of these consolidated financial statements.

Adoption of accounting standard

The Financial Accounting Standards Board issued authoritative guidance which requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the debt and equity (conversion option) components of the instrument. The standard requires the convertible debt to be recognized at the present value of its cash flows discounted using the non-convertible debt borrowing rate at the date of issuance. The resulting debt discount from this present value calculation is to be recognized as the value of the equity component and recorded to additional paid in capital. The discounted convertible debt is then required to be accreted up to its face value and recorded as non-cash interest expense over the expected life of the convertible debt. In addition, deferred financing costs associated with the convertible debt are required to be allocated between the debt and equity components based upon relative values. During the first quarter of fiscal 2010, the Company adopted this standard, however, there was no impact to the fiscal 2010 consolidated financial statements because the Company s $300.0 million 2% Convertible Senior Debentures (the Debentures), to which this standard applies, were extinguished in fiscal 2009. Due to the required retrospective application of this standard to prior periods, the Company adjusted the prior period comparative consolidated financial statements, which are summarized in the following tables.

	June 27, 2009		
	As Reported	Adjustments	As Adjusted
		(Thousands)	
Additional paid in capital (1)	$ 1,135,334	$ 43,190	$ 1,178,524
Retained earnings (2)	$ 1,257,261	$ (43,190)	$ 1,214,071

(1) Adjustment represents the value of the equity component of

the Debentures, net of deferred taxes.

(2) Adjustment represents the accretion of the debt discount, net of tax, over the expected life of the Debentures, which was five years from the date of issuance, or March 2009, because this was the earliest date the Debenture holders had a right to exercise their put option.

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AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Third Quarter Ended March 28, 2009		
	As Reported	Adjustments	As Adjusted
	(Thousands, except per share data)		
Selling, general and administrative expenses [3]	$ 374,318	$ (97)	$ 374,221
Interest expense [4]	(17,608)	(3,752)	(21,360)
Income tax provision	11,477	(1,427)	10,050
Net income	$ 18,024	$ (2,228)	$ 15,796
Basic EPS	$ 0.12	$ (0.02)	$ 0.10
Diluted EPS	$ 0.12	$ (0.02)	$ 0.10

	Nine Months Ended March 28, 2009		
	As Reported	Adjustments	As Adjusted
	(Thousands, except per share data)		
Selling, general and administrative expenses [3]	$ 1,174,240	$ (291)	$ 1,173,949
Interest expense [4]	(51,903)	(12,185)	(64,088)
Income tax provision	32,730	(4,644)	28,086
Net loss	$ (1,091,584)	$ (7,250)	$ (1,098,834)
Basic EPS	$ (7.24)	$ (0.05)	$ (7.29)
Diluted EPS	$ (7.24)	$ (0.05)	$ (7.29)

(3) Adjustment represents a reduction to deferred financing cost amortization expense as a result of allocating a portion of such costs to the equity component of the Debentures.

(4) Adjustment represents incremental non-cash interest expense as a result of

accreting the
Debenture debt
discount.

2. Acquisitions and divestitures

On March 29, 2010, the Company entered into a definitive agreement to acquire Bell Microproducts Inc. (Bell) in an all cash transaction for $7.00 per Bell share. This per share price equates to an equity value of approximately $252 million and a transaction value of approximately $594 million assuming a net debt position for Bell of $342 million at face value as of December 31, 2009. The Company expects to utilize a combination of cash on hand and available borrowing capacity to fund the acquisition. The acquisition has been approved by the Boards of Directors of both companies and is subject to the approval of Bell s shareholders as well as customary regulatory approvals. The transaction is expected to close in 60 to 90 days. Several putative class actions have since been filed by alleged Bell shareholders in various state courts in California, any of which may impact the outcome of the transaction.

In addition, subsequent to the third quarter of fiscal 2010, the Company acquired two businesses with aggregate annualized revenues of approximately $72 million, which will be reported as part of the TS Asia and TS EMEA regions.

During the first nine months of fiscal 2010, the Company completed two acquisitions with combined annualized revenues of approximately $60 million. Both acquisitions are reported as part of the TS Asia region. During the first nine months of fiscal 2009, the Company acquired five businesses with aggregate annualized revenues of approximately $1.0 billion.

Acquisition-related exit activity accounted for in purchase accounting

During fiscal 2007 and 2006, the Company recorded certain exit-related liabilities through purchase accounting which consisted of severance for workforce reductions, non-cancelable lease commitments and lease termination charges for leased facilities, and other contract termination costs associated with the exit activities. The remaining reserves relate primarily to facility exit costs and other contractual lease obligations which management expects to be substantially utilized by fiscal 2012. The utilization of the remaining reserves during the first nine months of fiscal 2010 is presented in the following table:

	Total (Thousands)
Balance at June 27, 2009	$ 8,317
Amounts utilized	(2,319)
Adjustments	(190)
Other, principally foreign currency translation	7
Balance at April 3, 2010	$ 5,815

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AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Divestitures

During the third quarter and first nine months of fiscal 2010, the Company recognized a gain on the sale of assets as a result of certain earn-out provisions associated with the prior sale of the Company s equity investment in Calence LLC. The gain on sale of assets was $8,751,000 pre-tax, $5,370,000 after tax and $0.03 per share on a diluted basis, of which $5,549,000 pre-tax was recognized in the second quarter and $3,202,000 pre-tax was recognized in the third quarter of fiscal 2010. In addition, the Company sold a cost method investment and received proceeds of approximately $3,034,000 in the second quarter of fiscal 2010. As a result, the Company received a total of $11,785,000 in cash proceeds from divestitures for the first nine months of fiscal 2010.

3. Goodwill and intangible assets

The following table presents the carrying amount of goodwill, by reportable segment, for the nine months ended April 3, 2010:

	Electronics Marketing	Technology Solutions	Total
		(Thousands)	
Carrying value at June 27, 2009	$ 240,388	$ 309,730	$ 550,118
Additions	11,318	10,861	22,179
Adjustments	(142)		(142)
Foreign currency translation	(5,823)	(145)	(5,968)
Carrying value at April 3, 2010	$ 245,741	$ 320,446	$ 566,187

Goodwill additions in EM related to purchase accounting entries during the purchase price allocation period for acquisitions that closed prior to fiscal 2010. Goodwill additions in TS related to two acquisitions in Asia (see Note 2).

As of April 3, 2010, Other assets included customer relationship intangible assets with a carrying value of $49,569,000; consisting of $78,963,000 in original cost value and $29,394,000 of accumulated amortization and foreign currency translation. These assets are being amortized over a weighted average life of nine years. Intangible asset amortization expense was $2,154,000 and $2,119,000 for the third quarter of fiscal 2010 and 2009, respectively, and $6,488,000 and $10,127,000 for the first nine months of fiscal 2010 and fiscal 2009, respectively. The Company recognized $3,830,000 for a cumulative catch up adjustment to amortization expense during the first nine months of fiscal 2009. Amortization expense for the next five years is expected to be approximately $9,000,000 each year.

In the second quarter of fiscal 2009, due to a steady decline in the Company s market capitalization primarily related to the global economic downturn, the Company determined an interim impairment test was necessary. Based on the test results, the Company recognized a non-cash goodwill impairment charge of $1,317,452,000 pre-tax, $1,283,308,000 after tax and $8.51 per share to write off all goodwill related to its EM Americas, EM Asia, TS EMEA and TS Asia reporting units. The Company also evaluated the recoverability of its long-lived assets at each of the four reporting units where goodwill was deemed to be impaired. Based upon this evaluation, the Company recognized a non-cash intangible asset impairment charge of $31,393,000 pre- and after tax and $0.21 per share. The non-cash charges had no impact on the Company s compliance with debt covenants, its cash flows or available liquidity, but did have a material impact on its consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. External financing

Short-term debt consists of the following:

	April 3, 2010	June 27, 2009
	(Thousands)	
Bank credit facilities	$ 53,180	$ 20,882
Other debt due within one year	1,908	2,412
Short-term debt	$ 55,088	$ 23,294

Bank credit facilities consist of various committed and uncommitted lines of credit with financial institutions utilized primarily to support the working capital requirements of foreign operations. The weighted average interest rate on the outstanding bank credit facilities was 2.9% at April 3, 2010 and 1.8% at June 27, 2009.

The Company maintains an accounts receivable securitization program (the Program) with a group of financial institutions that allows the Company to sell, on a revolving basis, an undivided interest of up to $450,000,000 in eligible receivables while retaining a subordinated interest in a portion of the receivables. The Program does not qualify for sale treatment and, as a result, any borrowings under the Program are recorded as debt on the consolidated balance sheet. The Program contains certain covenants, all of which the Company was in compliance with as of April 3, 2010. The Program has a one year term that expires in August 2010. There were no amounts outstanding under the Program at April 3, 2010 or June 27, 2009.

Long-term debt consists of the following:

	April 3, 2010	June 27, 2009
	(Thousands)	
5.875% Notes due March 15, 2014	$ 300,000	$ 300,000
6.00% Notes due September 1, 2015	250,000	250,000
6.625% Notes due September 15, 2016	300,000	300,000
Other long-term debt	89,569	98,907
Subtotal	939,569	948,907
Discount on notes	(2,051)	(2,334)
Long-term debt	$ 937,518	$ 946,573

The Company has a five-year $500,000,000 unsecured revolving credit facility (the Credit Agreement) with a syndicate of banks which expires in September 2012. Under the Credit Agreement, the Company may elect from various interest rate options, currencies and maturities. The Credit Agreement contains certain covenants, all of which the Company was in compliance with as of April 3, 2010. At April 3, 2010, there were $85,251,000 in borrowings outstanding under the Credit Agreement included in Other long-term debt in the preceding table. In addition, there were $2,009,000 in letters of credit issued under the Credit Agreement which represent a utilization of the Credit Agreement capacity but are not recorded as borrowings in the consolidated balance sheet as the letters of credit are not debt. At June 27, 2009, there were $86,565,000 in borrowings outstanding under the Credit Agreement and $1,511,000 in letters of credit issued under the Credit Agreement.

At April 3, 2010, the carrying value and fair value of the Company s debt was $992,606,000 and $1,045,685,000, respectively. Fair value was estimated primarily based upon quoted market prices.

In the prior year third quarter, substantially all of the 2% Convertible Senior Debentures due March 15, 2034 (the Debentures) were put to the Company by holders of the Debentures who exercised their right to require the Company to purchase the Debentures for cash on March 15, 2009 at the Debentures full principal amount plus accrued interest. The Company paid $298,059,000 plus accrued interest using cash on hand. The remaining Debentures that were not put to the Company in March were repaid on April 30, 2009.

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AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Derivative financial instruments

Many of the Company s subsidiaries, on occasion, purchase and sell products in currencies other than their functional currencies. This subjects the Company to the risks associated with fluctuations in foreign currency exchange rates. The Company reduces this risk by utilizing natural hedging (i.e. offsetting receivables and payables) as well as by creating offsetting positions through the use of derivative financial instruments, primarily forward foreign exchange contracts with maturities of less than sixty days. The Company continues to have exposure to foreign currency risks to the extent they are not hedged. The Company adjusts all foreign denominated balances and any outstanding foreign exchange contracts to fair market value through the consolidated statements of operations. Therefore, the market risk related to the foreign exchange contracts is offset by the changes in valuation of the underlying items being hedged. The asset or liability representing the fair value of foreign exchange contracts, based upon level 2 criteria under the fair value measurements standard, is classified in the captions other current assets or accrued expenses and other, as applicable, in the accompanying consolidated balance sheets and were not material. In addition, the Company did not have material gains or losses related to the forward contracts which are recorded in other income (expense), net in the accompanying consolidated statements of operations.

The Company generally does not hedge its investment in its foreign operations. The Company does not enter into derivative financial instruments for trading or speculative purposes and monitors the financial stability and credit standing of its counterparties.

6. Commitments and contingencies

From time to time, the Company may become a party to, or otherwise involved in other pending and threatened litigation, tax, environmental and other matters arising in the ordinary course of conducting its business. Management does not anticipate that any contingent matters will have a material adverse effect on the Company s financial condition, liquidity or results of operations.

7. Pension plan

The Company s noncontributory defined benefit pension plan (the Plan) covers substantially all domestic employees. Components of net periodic pension costs during the third quarters and nine months ended April 3, 2010 and March 28, 2009 were as follows:

	Third Quarters Ended		Nine Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
	(Thousands)			
Service cost	$	$ 4,051	$	$ 12,153
Interest cost	3,937	4,544	11,811	13,632
Expected return on plan assets	(7,534)	(6,363)	(22,602)	(19,089)
Recognized net actuarial loss	1,422	581	4,266	1,743
Amortization of prior service credit	(1,221)		(3,663)	
Net periodic pension costs	$ (3,396)	$ 2,813	$ (10,188)	$ 8,439

During the first nine months of fiscal 2010, the Company made contributions to the Plan of $7,750,000. Due to the economic downturn and its impact on the business, the Company suspended additional benefits under the Plan; as a result, there is currently no service cost being incurred during the current fiscal year. However, the Company anticipates resuming benefits under the Plan beginning in fiscal 2011. In October 2009, the Company agreed to settle a pension litigation matter, which was approved by the court in April 2010, which will require a plan amendment to provide retroactive benefits to certain pension plan participants and which will result in additional pension expense to the Company of approximately $3 million per year for each of the next 11 years.

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AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)