

AVNET INC
Form 10-Q
November 08, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 29, 2018

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

For the transition period from _____ to _____

Commission File #1-4224

AVNET, INC.

(Exact name of registrant as specified in its charter)

New York 11-1890605
(State or other jurisdiction (IRS Employer
Of incorporation) Identification No.)

2211 South 47th Street, Phoenix, Arizona 85034
(Address of principal executive offices) (Zip Code)
(480) 643-2000

(Registrant's telephone number, including area code.)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically 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 No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

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

As of November 1, 2018, the total number of shares outstanding of the registrant’s Common Stock was 111,226,195 shares, net of treasury shares.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

AVNET, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 29, 2018	June 30, 2018
	(Thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 365,852	\$ 621,125
Receivables, less allowances of \$49,645 and \$48,959, respectively	3,682,512	3,641,139
Inventories	3,395,194	3,141,822
Prepaid and other current assets	114,432	206,513
Total current assets	7,557,990	7,610,599
Property, plant and equipment, net	525,873	522,909
Goodwill	982,306	980,872
Intangible assets, net	199,379	219,913
Other assets	188,226	262,552
Total assets	\$ 9,453,774	\$ 9,596,845
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 10,626	\$ 165,380
Accounts payable	2,352,771	2,269,478
Accrued expenses and other	501,435	534,603
Total current liabilities	2,864,832	2,969,461
Long-term debt	1,554,722	1,489,219
Other liabilities	413,147	453,084
Total liabilities	4,832,701	4,911,764
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common stock \$1.00 par; authorized 300,000,000 shares; issued 113,030,625 shares and 115,825,062 shares, respectively	113,031	115,825
Additional paid-in capital	1,554,564	1,528,713
Retained earnings	3,139,272	3,235,894
Accumulated other comprehensive loss	(185,794)	(195,351)

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Total shareholders' equity	4,621,073	4,685,081
Total liabilities and shareholders' equity	\$ 9,453,774	\$ 9,596,845

See notes to consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	First Quarters Ended	
	September 29, 2018	September 30, 2017
	(Thousands, except per share amounts)	
Sales	\$ 5,089,879	\$ 4,660,943
Cost of sales	4,453,129	4,048,388
Gross profit	636,750	612,555
Selling, general and administrative expenses	475,146	501,593
Restructuring, integration and other expenses	14,788	46,394
Operating income	146,816	64,568
Other income (expense), net	(1,892)	18,921
Interest and other financing expenses, net	(30,093)	(22,015)
Income from continuing operations before taxes	114,831	61,474
Income tax expense	31,302	3,292
Income from continuing operations, net of tax	83,529	58,182
Income from discontinued operations, net of tax	195	121
Net income	83,724	58,303
Earnings per share - basic:		
Continuing operations	\$ 0.73	\$ 0.48
Discontinued operations	0.00	0.00
Net income per share basic	0.73	0.48
Earnings per share - diluted:		
Continuing operations	\$ 0.72	\$ 0.47
Discontinued operations	0.00	0.00
Net income per share diluted	0.72	0.47
Shares used to compute earnings per share:		
Basic	115,260	122,685
Diluted	116,471	123,984
Cash dividends paid per common share	\$ 0.20	\$ 0.18

See notes to consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	First Quarters Ended	
	September 29, 2018	September 30, 2017
	(Thousands)	
Net income	\$ 83,724	\$ 58,303
Other comprehensive income, net of tax:		
Foreign currency translation and other	8,801	88,843
Pension adjustments, net	756	939
Total comprehensive income	\$ 93,281	\$ 148,085

See notes to consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended
September 29, 2018 September 30, 2017

(Thousands)

Cash flows from operating activities:		
Net income	\$ 83,724	\$ 58,303
Less: Income from discontinued operations, net of tax	195	121
Income from continuing operations	83,529	58,182
Non-cash and other reconciling items:		
Depreciation	25,389	38,263
Amortization	20,810	25,506
Deferred income taxes	36,830	(23,436)
Stock-based compensation	9,044	8,609
Other, net	14,994	4,902
Changes in (net of effects from businesses acquired and divested):		
Receivables	(19,292)	(32,409)
Inventories	(269,649)	(266,998)
Accounts payable	95,119	37,252
Accrued expenses and other, net	(81,753)	22,140
Net cash flows used for operating activities - continuing operations	(84,979)	(127,989)
Net cash flows used for operating activities - discontinued operations	—	—
Net cash flows used for operating activities	(84,979)	(127,989)
Cash flows from financing activities:		
Borrowings (repayments) under accounts receivable securitization, net	(40,000)	28,000
Repayments under senior unsecured credit facility, net	(50,330)	(92,471)
Repayments under bank credit facilities and other debt, net	(1,217)	(24,888)
Repurchases of common stock	(149,094)	(68,113)
Dividends paid on common stock	(22,932)	(22,012)
Other, net	17,328	(579)
Net cash flows used for financing activities - continuing operations	(246,245)	(180,063)
Net cash flows used for financing activities - discontinued operations	—	—
Net cash flows used for financing activities	(246,245)	(180,063)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(41,007)	(26,659)
Acquisitions of businesses, net of cash acquired	—	(14,661)
Other, net	65	1,211

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Net cash flows used for investing activities - continuing operations	(40,942)	(40,109)
Net cash flows provided by investing activities - discontinued operations	120,000	45,391
Net cash flows provided by investing activities	79,058	5,282
Effect of currency exchange rate changes on cash and cash equivalents	(3,107)	6,065
Cash and cash equivalents:		
— decrease	(255,273)	(296,705)
— at beginning of period	621,125	836,384
— at end of period	\$ 365,852	\$ 539,679

See notes to consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and new accounting pronouncements

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments necessary to present fairly Avnet, Inc.'s and its consolidated subsidiaries' (collectively, the "Company" or "Avnet") financial position, results of operations, comprehensive income and cash flows. All such adjustments are of a normal recurring nature.

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

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 30, 2018.

Certain reclassifications have been made in prior periods to conform to the current period presentation including reclassifications as a result of recently adopted accounting pronouncements.

Recently adopted accounting pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09", and collectively with its related subsequent amendments, "Topic 606"). Topic 606 supersedes previous revenue recognition guidance and requires the Company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for such goods or services. The Company adopted Topic 606 on July 1, 2018 using the modified retrospective transition method applied to those contracts which were not completed as of July 1, 2018. Under this transition method, the Company's results in the consolidated statements of operations for the three months ended September 29, 2018 are presented under Topic 606, while the comparative results for the three months ended September 30, 2017 were not retrospectively adjusted, as such results were recognized in accordance with the revenue recognition policy discussed under Summary of Significant Accounting Policies in Note 1 of the Company's Fiscal 2018 Annual Report on Form 10-K.

The adoption of Topic 606 did not have a material impact on the Company's consolidated financial statements as of the adoption date and as of and for the three months ended September 29, 2018. Substantially all of the Company's sales continue to be recognized when products are shipped from the Company's facilities or delivered to customers, depending on the respective contractual terms. For a nominal portion of the Company's contracts where the accounting did change, the adoption of Topic 606 resulted in an increase to the opening balance of retained earnings of \$2.0 million as of July 1, 2018. This impact was primarily due to the acceleration of recognition of net sales and associated gross profit related to certain uncompleted contracts for the manufacture of goods with no alternative use and for which the Company has an enforceable right to payment, including a reasonable profit margin, from the customer for performance completed to date. For these contracts, the Company now recognizes revenue over time as control of the goods transfers through the manufacturing process, rather than when the goods are delivered, and title, risk and reward of ownership are passed to the customer, as under previous revenue recognition guidance.

Refer to Note 2 herein for further discussion regarding revenue recognition and related policies.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, Compensation - Retirement Benefits (Topic 715)- Improving the Presentation of Net Periodic Cost and Net Periodic Postretirement Benefit Cost ("ASU No. 2017-07"). ASU No. 2017-07 requires that the service cost component of net periodic pension costs be included in the same line item as other compensation costs arising from services rendered by employees during the period, with the other components of the net periodic pension costs reported separately from the service cost component and below operating

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

income. The Company adopted this standard effective the first quarter of fiscal year 2019, which required changes to the classification of net periodic pension costs in the consolidated statements of operations for all periods presented. The service cost component of the net periodic pension cost is now included in "Selling, general and administrative expenses" with all other components of net periodic pension costs within "Other income (expense), net" in the consolidated statements of operations. The adoption of ASU No. 2017-07 did not have any impact on the Company's reported amount of income from continuing operations before taxes.

During the first quarter of fiscal 2019, the Company adopted ASU 2016-16 - Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This update addresses the recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset other than inventory. This update has been applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings. The adoption of this update resulted in a cumulative reduction to the opening balance of retained earnings of \$5.8 million and a reduction to other assets of \$5.8 million.

Recently issued accounting pronouncements

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force) ("ASU No. 2018-15"). ASU No. 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop internal-use software. ASU No. 2018-15 is effective for the Company in the first quarter of fiscal 2021, with early adoption permitted, and is to be applied either retrospectively or prospectively. The Company is currently evaluating the potential effects of adopting the provisions of ASU No. 2018-15.

In February 2018, the FASB issued Accounting Standards Update 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220):-Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"), which allows entities to reclassify accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the tax legislation enacted by the U.S. federal governments on December 22, 2017 (the "Act"). This update is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the income tax rate change resulting from the Act is recognized. The Company is currently evaluating the impact of the adoption of ASU 2018-02 on its consolidated financial statements.

In August 2017, the FASB issued Accounting Standards Update 2017-12, Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”), which improves the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and makes certain targeted improvements to simplify the qualification and application of the hedge accounting compared to current GAAP. This update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2017-12 on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (“ASU 2016-02”) and issued subsequent amendments to the initial guidance in September 2017 within ASU 2017-13 (collectively, Topic 842). Topic 842 requires companies to generally recognize operating and financing lease liabilities on the balance sheet and corresponding right-of-use assets created by those leases with lease terms of more than 12 months. The Company intends to adopt Topic 842 when it becomes effective in the first quarter of fiscal 2020 using a modified retrospective approach. The Company is currently evaluating the impact of its pending adoption of Topic 842 on its consolidated financial statements and expects that most of its operating lease commitments related to the Company’s real estate portfolio will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption, which will materially increase total assets and total liabilities relative to such amounts prior to adoption.

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

2. Revenue recognition

Prior to the adoption of Topic 606, the Company's revenue recognition policy was in accordance with ASC Topic 605, Revenue Recognition. Effective July 1, 2018, the Company adopted Topic 606 using the modified retrospective transition method, resulting in accounting policy changes surrounding revenue recognition which replace revenue recognition policies discussed in the Summary of Significant Accounting Policies in Note 1 of the Company's Fiscal 2018 Annual Report on Form 10-K. The adoption of Topic 606 did not have a material impact on the Company's consolidated financial statements.

The Company's revenues are generated from the distribution and sale of electronic components including semiconductors, interconnect, passive and electromechanical ("IP&E") devices and other integrated electronic components from the world's leading electronic component manufacturers. The Company's expertise in design, supply chain and logistics enable it to sell to customers of all sizes from startups and mid-sized businesses to enterprise-level original equipment manufacturers ("OEMs"), electronic manufacturing services ("EMS") providers and original design manufacturers ("ODMs"). The Company sells to a variety of markets ranging from automotive to medical to defense and aerospace. The Company also sells integrated solutions including the assembly or manufacture of embedded electronic component products and systems, touch and passive displays, and standard or specialized boards. The Company's revenue arrangements primarily consist of performance obligations related to the transfer of promised products. The Company considers customer purchase orders, which in some cases are governed by master agreements, to be the contracts with a customer. All revenue is generated from contracts with customers.

Revenue is recognized at the point at which control of the underlying products are transferred to the customer, which includes determining whether products are distinct and separate performance obligations. For electronic component and related product sales, this generally occurs upon shipment of the products, however, this may occur at a later date depending on the agreed upon sales terms, such as delivery at the customer's designated location, or when products that are consigned at customer locations are consumed. In limited instances, where products are not in stock and delivery times are critical, product is purchased from the supplier and drop-shipped to the customer. The Company typically takes control of the products when shipped by the manufacturer and then recognizes revenue when control of the product transfers to the customer. The Company does not have material product warranty obligations as the assurance type product warranties provided by the component manufacturers are passed through to the Company's customers.

For contracts related to the specialized manufacture of products for customers with no alternative use and for which the Company has an enforceable right to payment, including a reasonable profit margin, the Company recognizes revenue over time as control of the products transfer through the manufacturing process. The contract assets

associated with such specialized manufacturing products are not material as these contracts represent less than 2% of the Company's total sales.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. The Company estimates different forms of variable consideration at the time of sale based on historical experience, current conditions and contractual obligations. Revenue is recorded net of customer discounts and rebates. When the Company offers the right or has a history of accepting returns of product, historical experience is utilized to establish a liability for the estimate of expected returns and an asset for the right to recover the product expected to be returned. These adjustments are made in the same period as the underlying sales transactions.

The Company considers the following indicators amongst others when determining whether it is acting as a principal in the contract and recording revenue on a gross basis: (i) the Company is primarily responsible for fulfilling the promise to provide the specified products or services, (ii) the Company has inventory risk before the specified products have been transferred to a customer or after transfer of control to the customer and (iii) the Company has discretion in establishing the price for the specified products or services. If a transaction does not meet the Company's indicators of being a principal in the transaction, then the Company is acting as an agent in the transaction and the associated revenues are recognized on a net basis.

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Sales and other tax amounts collected from customers for remittance to governmental authorities are excluded from revenue. The Company has elected to treat shipping and handling of product as a fulfillment activity. The practical expedient not to disclose information about remaining performance obligations has also been elected as these contracts have an original duration of one year or less. The Company does not have any payment terms that exceed one year from the point it has satisfied the related performance obligations.

3. Discontinued operations

In February 2017, the Company completed the sale of its Technology Solutions business (“TS business”) to Tech Data Corporation (the “Buyer”). The TS business and the financial impacts of the divestiture are classified as discontinued operations in all periods presented. In August 2018, the Company executed a settlement agreement with the Buyer resulting in a final adjustment of \$120.0 million and a final geographic allocation of the TS business sales price for tax reporting purposes. The incremental consideration received from the sale of the TS business has been classified as cash flow from discontinued operations investing activities.

In connection with the sale of the TS business, the Company entered into a Transition Services Agreement (“TSA”), pursuant to which the Buyer will pay the Company to provide certain information technology, distribution, facilities, finance and human resources related services for various periods of time depending upon the services not to exceed approximately two years from the closing date. Expenses incurred by the Company to provide such services under the TSA are classified within selling, general and administrative expenses and amounts billed to the Buyer to provide such services are classified as a reduction of such expenses. In fiscal 2018, the Buyer formally terminated substantially all TSA services outside of certain minor information technology services and all remaining TSA services are expected to be terminated during the first half of fiscal 2019.

4. Goodwill and long-lived assets

Goodwill

The following table presents the change in goodwill by reportable segment for the three months ended September 29, 2018.

	Electronic Components (Thousands)	Premier Farnell	Total
Carrying value at June 30, 2018 (1)	\$ 479,699	\$ 501,173	\$ 980,872
Additions from acquisitions	—	—	—
Foreign currency translation	704	730	1,434
Carrying value at September 29, 2018 (1)	\$ 480,403	\$ 501,903	\$ 982,306

(1) Includes accumulated impairment of \$1,045,110 from fiscal 2009 and \$181,440 from fiscal 2018

The Company evaluates each quarter if facts and circumstances indicate that it is more likely than not that the fair value of reporting units is less than its carrying value, which would require the Company to perform an interim goodwill impairment test. Indicators the Company evaluates to determine whether an interim goodwill impairment test is necessary include, but are not limited to (i) a sustained decrease in share price or market capitalization as of any fiscal quarter end, (ii) changes in the macroeconomic or industry environments, (iii) the results of and the amount of time passed since the last goodwill impairment test and (iv) the long-term expected financial performance of its reporting units. During the first quarter of fiscal 2019, the Company concluded that an interim goodwill impairment test was not required.

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Intangible Assets

The following table presents the Company's acquired intangible assets at September 29, 2018, and June 30, 2018, respectively.

	September 29, 2018			June 30, 2018		
	Acquired Amount (Thousands)	Accumulated Amortization	Net Book Value	Acquired Amount	Accumulated Amortization	Net Book Value
Customer related	\$ 300,707	\$ (165,105)	\$ 135,602	\$ 300,126	\$ (148,416)	\$ 151,710
Trade name	54,487	(18,952)	35,535	54,391	(16,711)	37,680
Technology and other	52,964	(24,722)	28,242	52,793	(22,270)	30,523
	\$ 408,158	\$ (208,779)	\$ 199,379	\$ 407,310	\$ (187,397)	\$ 219,913

Intangible asset amortization expense from continuing operations was \$20.8 million and \$25.5 million for the first quarters of fiscal 2019 and 2018, respectively. Intangible assets have a weighted average remaining useful life of approximately 3 years. The following table presents the estimated future amortization expense for the remainder of fiscal 2019 and the next five fiscal years (in thousands):

Fiscal Year	
Remainder of fiscal 2019	\$ 62,719
2020	81,311
2021	39,148
2022	12,358
2023	3,606
2024	237
Total	\$ 199,379

5. Debt

Short-term debt consists of the following (in thousands):

	September 29, 2018		September 29, 2018	
	Interest Rate		Carrying Balance	
Bank credit facilities and other	3.11 %	2.91 %	\$ 10,626	\$ 60,380
Accounts receivable securitization program	—	2.63 %	—	105,000
Short-term debt			\$ 10,626	\$ 165,380

Bank credit facilities and other consists primarily of various committed and uncommitted lines of credit and other forms of bank debt with financial institutions utilized primarily to support the working capital requirements of the Company including its foreign operations.

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Long-term debt consists of the following (in thousands):

	September 29, 2018		June 30, 2018	
	Interest Rate		Carrying Balance	
Revolving credit facilities:				
Accounts receivable securitization program	2.99 %	—	\$ 65,000	\$ —
Public notes due:				
June 2020	5.88 %	5.88 %	300,000	300,000
December 2021	3.75 %	3.75 %	300,000	300,000
December 2022	4.88 %	4.88 %	350,000	350,000
April 2026	4.63 %	4.63 %	550,000	550,000
Other long-term debt	1.01 %	1.26 %	293	383
Long-term debt before discount and debt issuance costs			1,565,293	1,500,383
Discount and debt issuance costs – unamortized			(10,571)	(11,164)
Long-term debt			\$ 1,554,722	\$ 1,489,219

In August 2018, the Company amended and extended its accounts receivable securitization program (the “Securitization Program”) in the United States with a group of financial institutions to allow the Company to transfer, on an ongoing revolving basis, an undivided interest in a designated pool of trade accounts receivable, to provide security or collateral for borrowings up to a maximum of \$500 million. The Securitization Program does not qualify for off balance sheet accounting treatment and any borrowings under the Securitization Program are recorded as debt in the consolidated balance sheets. Under the Securitization Program, the Company legally sells and isolates certain U.S. trade accounts receivable, into a wholly owned and consolidated bankruptcy remote special purpose entity. Such receivables, which are recorded within “Receivables” in the consolidated balance sheets, totaled \$767.7 million and \$790.5 million at September 29, 2018, and June 30, 2018, respectively. The Securitization Program contains certain covenants relating to the quality of the receivables sold. The Securitization Program also requires the Company to maintain certain minimum interest coverage and leverage ratios, which the Company was in compliance with as of September 29, 2018, and June 30, 2018. The Securitization Program expires in August 2020 and as a result the Company has classified outstanding balances as long-term debt as of September 29, 2018. Interest on borrowings is calculated using a one-month LIBOR rate plus a spread of 0.75%. The facility fee on the unused balance of the facility is up to 0.35%.

The Company has a five-year \$1.25 billion senior unsecured revolving credit facility (the “Credit Facility”) with a syndicate of banks, consisting of revolving credit facilities and the issuance of up to \$200.0 million of letters of credit and up to \$300.0 million of loans in certain approved currencies, which expires in June 2023. Subject to certain conditions, the Credit Facility may be increased up to \$1.50 billion. Under the Credit Facility, the Company may select from various interest rate options, currencies and maturities. The Credit Facility contains certain covenants including various limitations on debt incurrence, share repurchases, dividends, investments and capital expenditures.

The Credit Facility also includes financial covenants requiring the Company to maintain minimum interest coverage and leverage ratios, which the Company was in compliance with as of September 29, 2018, and June 30, 2018. As of September 29, 2018, and June 30, 2018, there were \$3.0 million and \$2.0 million, respectively, in letters of credit issued under the Credit Facility.

As of September 29, 2018, the carrying value and fair value of the Company's total debt was \$1.57 billion and \$1.59 billion, respectively. At June 30, 2018, the carrying value and fair value of the Company's total debt was \$1.65 billion and \$1.67 billion, respectively. Fair value for the public notes was estimated based upon quoted market prices and for other forms of debt fair value approximates carrying value due to the market based variable nature of the interest rates on those debt facilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

6. Derivative financial instruments

Many of the Company's subsidiaries 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 (e.g., offsetting receivables and payables in the same foreign currency) as well as by creating offsetting positions through the use of derivative financial instruments, primarily forward foreign exchange contracts typically with maturities of less than 60 days ("economic hedges"), but no longer than one year. The Company continues to have exposure to foreign currency risks to the extent they are not economically hedged. The Company adjusts any economic hedges to fair value through the consolidated statements of operations primarily within "other income (expense), net." The fair value of forward foreign exchange contracts, which are based upon Level 2 criteria under the ASC 820 fair value hierarchy, are classified in the captions "Prepaid and other current assets" or "Accrued expenses and other," as applicable, in the accompanying consolidated balance sheets as of September 29, 2018, and June 30, 2018. The Company's master netting and other similar arrangements with various financial institutions related to derivative financial instruments allow for the right of offset. The Company's policy is to present derivative financial instruments with the same counterparty as either a net asset or liability when the right of offset exists.

The Company generally does not hedge its investments 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.

The Company's foreign currency exposure relates primarily to international transactions where the currency collected from customers can be different from the currency used to purchase from suppliers. The Company's foreign operations transactions are denominated primarily in the following currencies: U.S. Dollar, Euro, British Pound, Canadian Dollar, Japanese Yen, Chinese Yuan, Taiwan Dollar and Mexican Peso. The Company also, to a lesser extent, has foreign operations transactions in other European and Asia/Pacific foreign currencies.

The fair values of derivative financial instruments in the Company's consolidated balance sheets are as follows:

September 29,	June 30,
2018	2018
(Thousands)	

Forward foreign currency exchange contracts not receiving hedge accounting treatment recorded in:

Other current assets	\$ 6,069	\$ 2,259
Accrued expenses	7,119	7,083

The amounts recorded to other income (expense), net, related to derivative financial instruments for economic hedges are as follows:

	First Quarters Ended	
	September 29, 2018	September 30, 2017
	(Thousands)	
Net derivative financial instrument gain	\$ 2,792	\$ 1,859

Under the Company's economic hedging policies, gains and losses on the derivative financial instruments are classified within the same line item in the consolidated statements of operations and as the underlying assets or liabilities being economically hedged.

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

7. Commitments and contingencies

From time to time, the Company may become a party to, or be otherwise involved in various lawsuits, claims, investigations and other legal proceedings arising in the ordinary course of conducting its business. While litigation is subject to inherent uncertainties, management does not anticipate that any such matters will have a material adverse effect on the Company's financial condition, liquidity or results of operations.

The Company is also currently subject to various pending and potential legal matters and investigations relating to compliance with governmental laws and regulations, including import/export and environmental matters. For certain of these matters it is not possible to determine the ultimate outcome, and the Company cannot reasonably estimate the maximum potential exposure or the range of possible loss for such matters due primarily to being in the early stages of the related proceedings and investigations. The Company currently believes that the resolution of such matters will not have a material adverse effect on the Company's financial position or liquidity, but could possibly be material to its results of operations in any one reporting period.

As of September 29, 2018 and June 30, 2018, the Company had aggregate estimated liabilities of \$14.7 million and \$14.2 million, respectively, classified within accrued expenses and other for such compliance-related matters that were reasonably estimable as of such dates.

8. Income taxes

The Company's effective tax rate on its income before income taxes from continuing operations was 27.3% in the first quarter of fiscal 2019 as compared with 5.4% in the first quarter of fiscal 2018. During the first quarter of fiscal 2019, the Company's effective tax rate was unfavorably impacted primarily by (i) an adjustment to the provisional estimate for the one-time mandatory deemed repatriation tax liability recorded under the requirements of the Act and (ii) increases in unrecognized tax benefits, partially offset by (iii) an adjustment to the provisional deferred tax impacts of the Act and (iv) the mix of income in lower tax jurisdictions. During the first quarter of fiscal 2018, the Company's effective tax rate was favorably impacted primarily by (i) the mix of income in lower tax jurisdictions and (ii) the release of unrecognized tax benefit reserves primarily due to the negotiation of a favorable outcome in a foreign jurisdiction.

In fiscal 2018, the Company recorded a provisional amount for the one-time mandatory deemed repatriation tax liability (the "transition tax") of \$230.0 million. The Company increased this provisional estimate by \$16.7 million

during the first quarter of fiscal 2019, as a result of additional analysis performed on foreign based-earnings and profits and further refinement of the state tax impacts of the Act. The Company will finalize the transition tax during the second quarter of fiscal 2019, which corresponds to the end of the measurement period allowed for under Staff Accounting Bulletin 118 (“SAB 118”) primarily as a result of further substantiation of foreign-based earnings and profits and foreign tax credits and for evaluation related to the utilization of those foreign tax credits. Additionally, provisional estimates of the transition tax may change due to new guidance from federal and state regulators, interpretation of the law, and refinement of the Company’s estimates from ongoing analysis of tax positions. Any final changes in the provisional amount will be reflected in income tax expense in the second quarter of fiscal 2019, and may be material.

In fiscal year 2018, the Company recorded a provisional expense to account for the deferred tax impacts of the Act, which was reduced by \$8.4 million in the first quarter of fiscal 2019 as a result of the Company making certain elections related to the fiscal year 2018 federal net operating loss. The estimates related to deferred taxes are provisional and may change as the Company continues to analyze the impacts of the Act, including state income tax conformity considerations.

The Company continues to evaluate the impact of the Act including the Company’s historical assertion related to ASC 740 Income Taxes unremitted earnings. The Company has not changed its historical assertion as of September 29, 2018 that its ASC 740 unremitted earnings are permanently reinvested. The Company believes any unrecorded liabilities related to this assertion are not material.

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

9. Pension plan

The Company has a noncontributory defined benefit pension plan that covers substantially all U.S. employees and an acquired closed noncontributory defined benefit pension plan covering certain current or former Premier Farnell U.S. employees (the "Plans"). Components of net periodic pension cost for the Plans were as follows, which reflect the adoption of ASU 2017-07 as discussed further in Note 1:

	First Quarters Ended	
	September 29, 2018	September 30, 2017
	(Thousands)	
Service cost	\$ 3,734	\$ 3,868
Total net periodic pension cost within selling, general and administrative expenses	3,734	3,868
Interest cost	6,614	5,783
Expected return on plan assets	(13,301)	(13,757)
Amortization of prior service credits	(393)	(393)
Recognized net actuarial loss	2,535	3,746
Total net periodic pension benefit within other income (expense), net	(4,545)	(4,621)
Net periodic pension benefit	\$ (811)	\$ (753)

In connection with the adoption of ASU No. 2017-07, the Company now classifies service cost as a component of selling, general and administrative expenses and other components of net periodic pension costs within other income (expense), net. The Company contributed \$8.0 million to the Plans during the first quarter of fiscal 2019 and expects to make an additional contribution to the Plans of \$8.0 million in the remainder of fiscal 2019.

Amounts reclassified out of accumulated other comprehensive income, net of tax, to other income (expense), net during the first quarters of fiscal 2019 and fiscal 2018 were not material and substantially all related to net periodic pension costs including recognition of actuarial losses and amortization of prior service credits.

In connection with the sale of the TS business, a significant number of former employees became terminated vested employees under the Plan. During fiscal 2018, the aggregate amount of former employee withdrawals from the Plan exceeded the pension accounting settlement threshold for fiscal 2018, which required a settlement expense under ASC 715 pension accounting.

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

10. Shareholders' equity

Share repurchase program

In August 2018, the Company's Board of Directors authorized a \$500 million increase in the Company's existing share repurchase program. With this increase, the Company's may repurchase up to \$2.45 billion of common stock in the open market or through privately negotiated transactions. The timing and actual number of shares repurchased will depend on a variety of factors such as share price, corporate and regulatory requirements, and prevailing market conditions. During the three months ended September 29, 2018, the Company repurchased 3.3 million under this program for a total cost of \$156.9 million. As of September 29, 2018, the Company had \$615.2 million remaining under its share repurchase authorization.

Common stock dividend

In August 2018, the Company's Board of Directors approved a dividend of \$0.20 per common share and dividend payments of \$22.9 million were made in September 2018.

11. Earnings per share

	First Quarters Ended	
	September 29, 2018	September 30, 2017
	(Thousands, except per share data)	
Numerator:		
Income from continuing operations	\$ 83,529	\$ 58,182
Income from discontinued operations	195	121
Net income	\$ 83,724	\$ 58,303
Denominator:		
Weighted average common shares for basic earnings per share	115,260	122,685

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Net effect of dilutive stock based compensation awards	1,211	1,299
Weighted average common shares for diluted earnings per share	116,471	123,984
Basic earnings per share - continuing operations	\$ 0.73	\$ 0.48
Basic earnings per share - discontinued operations	0.00	0.00
Basic earnings per share	\$ 0.73	\$ 0.48
Diluted earnings per share - continuing operations	\$ 0.72	\$ 0.47
Diluted earnings per share - discontinued operations	0.00	0.00
Diluted earnings per share	\$ 0.72	\$ 0.47
Stock options excluded from earnings per share calculation due to anti-dilutive effect	1,113	2,033

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

12. Additional cash flow information

Non-cash investing and financing activities and supplemental cash flow information were as follows:

	Three Months Ended	
	September 29, 2018	September 30, 2017
	(Thousands)	
Non-cash Investing Activities:		
Capital expenditures incurred but not paid	\$ 9,690	\$ 23,176
Unsettled sale of marketable securities	—	4,121
Non-cash Financing Activities:		
Unsettled share repurchases	\$ 11,228	\$ 3,955
Supplemental Cash Flow Information:		
Interest	\$ 13,826	\$ 5,107
Income taxes	54,519	18,362

Included in cash and cash equivalents as of September 29, 2018 and June 30, 2018 was \$5.4 million and \$6.1 million, respectively, of cash equivalents, which was primarily comprised of investment grade money market funds and overnight time deposits.

13. Segment information

Electronic Components (“EC”) and Premier Farnell (“PF”) are the Company’s reportable segments (“operating groups”). EC markets and sells semiconductors and interconnect, passive and electromechanical devices and integrated components to a diverse customer base serving many end-markets. PF distributes electronic components and related products to the electronic system design community utilizing multi-channel sales and marketing resources.

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

First Quarters Ended
September 30,
2018 2017
(Thousands)

Sales: &nbssation cost recognized for the award for financial reporting purposes) that has not been realized. In determining when an excess tax benefit is realized, we have elected to follow the ordering provision of the tax law.

For income taxes paid on intercompany profits on assets remaining within the group, Accounting Research Bulletin No. 51, Consolidated Financial Statements, (ARB 51) prohibits recognition of a deferred tax asset for the difference between the tax basis of the assets in the buyer's tax jurisdiction and their cost as reported in the consolidated financial statements. Pursuant to ARB 51, current foreign tax expense and income tax payable on intercompany profits generated as a result of an internal restructuring during the fourth quarter of fiscal year 2009 was effectively offset in consolidation by a \$5.8 million reduction to deferred tax expense. This resulted in an increase to prepaid income tax instead of deferred tax assets.

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The components of the net deferred income tax assets at January 25, 2009 and January 27, 2008 are as follows:

Net Deferred Income Tax Asset

(in thousands)	January 25, 2009	January 27, 2008
Current deferred tax asset:		
Deferred revenue	\$ 1,941	\$ 1,543
Inventory reserve	2,841	2,561
Other deferred assets	1,192	1,726
Valuation reserve	(1,591)	(1,375)
Total current deferred tax asset	4,383	4,455
Non-current deferred tax asset		
Research and development charges	7,501	5,967
Research credit carryforward	15,171	15,788
Acquired NOL carryforward - foreign	428	7,999
Payroll and related	2,097	2,253
Stock-based compensation	9,694	11,721
Other deferred assets	1,373	610
Valuation reserve	(10,463)	(17,264)
Total non-current deferred tax asset	25,801	27,074
Current deferred tax liability:		
Inventory reserve - Foreign	(1,054)	(1,164)
Other current deferred tax liability	(645)	(441)
Non-current deferred tax liability:		
Other non-current deferred tax liability	(359)	(879)
Total deferred tax liability	(2,058)	(2,484)
Net deferred tax asset	\$ 28,126	\$ 29,045

SFAS 109 requires that for a particular tax-paying component of an enterprise, and within a particular tax jurisdiction, (a) all current deferred tax liabilities and assets shall be offset and presented as a single amount and (b) all noncurrent deferred tax liabilities and assets shall be offset and presented as a single amount. Deferred tax liabilities and assets attributable to different tax-paying components of the enterprise or to different tax jurisdictions should not be offset. As of January 25, 2009 and January 27, 2008, net deferred income tax assets of \$28.1 million and \$29.0 million, respectively, have been presented on the balance sheet, based on tax jurisdiction, as deferred income tax assets of \$29.8 million and \$30.1 million and deferred income tax liabilities of \$1.7 million and \$1.6 million, respectively. Therefore, the deferred tax asset and liability totals on the balance sheet differ from the deferred tax asset and liability totals presented in the table above.

On June 23, 2005, Semtech Corporation, through its wholly owned Swiss subsidiary, Semtech International AG, acquired all of the outstanding shares of XEMICS SA (XEMICS) in a cash-for-stock transaction pursuant to a share purchase and sales agreement. As a result of pre-acquisition losses, XEMICS maintained substantial net operating loss carryforwards. Given the relatively short lives of these loss carryforwards, a valuation allowance against this deferred tax asset was established at the time of the acquisition. As a result of the tax consequences associated with an internal restructuring during the fourth quarter of fiscal year 2009, \$6.9 million of this deferred tax asset was utilized and the related \$6.9 million of valuation allowance was released. In accordance with SFAS 109, the release of this valuation allowance was recorded as a reduction to goodwill.

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As of January 25, 2009, the Company had gross federal and state research credits available of approximately \$9.7 million and \$8.5 million, respectively, which are available to offset taxable income. These credits will expire between fiscal years 2020 through 2029. As of January 25, 2009, the Company had federal Alternative Minimum Tax (AMT) credits available of approximately \$442,000. The Company has established an \$11.0 million valuation allowance against these deferred tax assets due to utilization concerns. An additional \$1.0 million valuation allowance has been established against various foreign net operating loss carryforwards.

In addition, approximately \$1.2 million of federal tax credit carryforwards have been generated from stock option exercises in prior years. As discussed above, SFAS 123R prohibits financial statement recognition until utilized.

Realization of the net deferred tax assets (after the valuation allowances discussed above) is dependent on generating sufficient taxable income during the periods in which temporary differences will reverse. Although realization is not assured, management believes it is more likely than not that the net deferred tax assets will be realized. The amount of the net deferred tax assets considered realizable, however, could be adjusted in the near term if estimates of future taxable income during the reversal periods are revised.

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The provision for taxes reconciles to the amount computed by applying the statutory federal rate to income before taxes as follows:

(fiscal years, in thousands)	January 25, 2009	January 27, 2008	January 28, 2007
Federal income tax at statutory rate	\$ 16,162	\$ 20,407	\$ 13,094
State income taxes, net of federal benefit	571	3,164	1,388
Foreign taxes at rates less than federal rates	(6,097)	(5,752)	(4,889)
Tax credits generated	(2,805)	(986)	(1,365)
Changes in valuation reserve	653	(1,672)	1,102
Deemed dividend	1,105	1,818	1,069
Equity compensation	2,601	114	
Permanent differences	572	358	(167)
Sales exclusion - foreign jurisdiction	(3,745)	(5,080)	(4,284)
Foreign exchange loss - foreign jurisdiction		(2,461)	
Other	(360)	614	335
Provision for taxes	\$ 8,657	\$ 10,524	\$ 6,283

Income taxes paid in fiscal years 2009, 2008 and 2007 were \$3.0 million, \$2.7 million and \$3.1 million, respectively.

Pretax income in fiscal years 2009, 2008 and 2007 from foreign operations was approximately \$38.2 million, \$40.2 million, and \$26.7 million, respectively.

As of January 25, 2009, the Company had approximately \$212.2 million of unremitted income related to the Company's wholly owned foreign subsidiaries for which no U.S. federal or state taxes have been provided. The Company's policy is to leave the income permanently reinvested offshore. The amount of earnings designated as indefinitely reinvested to offshore is based upon the actual deployment of such earnings in the Company's offshore assets and expectations of the future cash needs of the Company's U.S. and foreign entities.

Effective January 29, 2007, the Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

Upon adoption and the conclusion of the initial evaluation of our uncertain tax positions (UTP) under FIN 48, the Company recorded a cumulative net increase (after federal impact of state items) in the liability for UTP of \$2.1 million which was accounted for as an adoption charge to retained earnings.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (before federal impact of state items) is as follows:

(fiscal year, in thousands)	January 25, 2009	January 27, 2008
Beginning balance	\$ 11,097	\$ 5,825
Additions based on tax positions related to the current year	1,366	1,270
Additions for tax positions of prior years		4,002
Reductions for tax positions of prior years		(3)
Settlements		

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Ending Balance	\$ 12,460	\$ 11,097
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Included in the balance of unrecognized tax benefits at January 25, 2009 and January 27, 2008, are \$11.0 million and \$9.7 million, respectively, of net tax benefits (after federal impact of state items) that, if recognized, would impact the effective tax rate. The UTP liability as of January 25, 2009 and January 27, 2008 was \$4.3 million and \$3.4 million, respectively. This liability is reflected on the balance sheet as Accrued Taxes. The Company's policy is to include net interest and penalties related to unrecognized tax benefits within the provision for taxes on the Consolidated Statements of Income. During fiscal year 2009 and 2008, a net increase of \$8,000 and a net interest decrease of \$70,000 was recognized in the Consolidated Statement of Income, respectively. The Company had approximately \$34,000 and \$26,000 of net interest and penalties accrued at January 25, 2009 and January 27, 2008, respectively.

Tax years prior to 2006 (fiscal year 2007) are generally not subject to examination by the Internal Revenue Service (IRS) except for items with tax attributes that could impact open tax years. The IRS completed an examination of tax years 2004 (fiscal year 2005) through 2005 (fiscal year 2006) in fiscal year 2009, resulting in a \$24.2 million reduction of our net operating loss carryforward. No tax was payable as a result of this adjustment and there was no tax provision impact since the affected tax attributes were fully reserved.

For state returns, the Company is generally not subject to income tax examinations for years prior to 2004 (fiscal year 2005). Our significant foreign tax presence is in Switzerland. Our material Swiss tax filings have been examined through fiscal year 2008. The Company is also subject to routine examinations by various foreign tax jurisdictions in which it operates.

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As of January 25, 2009, the Company is not aware of any tax positions for which it was reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within twelve months, other than an uncertain tax position related to determination of available loss carryforwards in a foreign jurisdiction. This loss carryforward determination is expected to be reviewed by local tax authorities within the next year. The audit resolution of this issue or eventual closure of the statute of limitations will result in a decrease in the liability for uncertain tax positions and a \$727,000 tax payment if the position is not sustained or a decrease in the liability for uncertain tax positions and a \$727,000 reduction to the tax provision if the tax position is sustained.

Note 10. Commitments and Contingencies**Leases**

The Company leases facilities and certain equipment under operating lease arrangements expiring in various years through fiscal year 2015. The aggregate minimum annual lease payments under leases in effect on January 25, 2009 are as follows:

Minimum Annual Lease Payments (in thousands)

Fiscal Year Ending:	
2010	\$ 3,295
2011	2,263
2012	1,845
2013	1,754
2014	1,342
Thereafter	282
 Total minimum lease commitments	 \$ 10,781

Not included in operating lease commitments is expected sub-lease income to the Company. Sub-lease agreements are scheduled to provide \$375,000, \$158,000 and \$0 of annual income for fiscal year 2010, 2011 and 2012, respectively.

Rent expense was \$3.5 million, \$3.3 million, and \$2.9 million for fiscal year 2009, 2008 and 2007, respectively. The Company received \$366,000, \$352,000, and \$359,000 of sub-lease income in fiscal year 2009, 2008 and 2007, respectively.

Retirement Plans

The Company contributed \$745,000, \$737,000 and \$714,000, respectively, in fiscal years 2009, 2008 and 2007 to the 401(k) retirement plan maintained for its employees. In addition, the Company contributed \$697,000, \$630,000 and \$593,000, respectively, in fiscal years 2009, 2008 and 2007 to a Swiss defined contribution plan.

Legal Matters

From time to time in the ordinary course of its business, the Company is involved in various claims, litigation, and other legal actions that are normal to the nature of its business, including with respect to intellectual property, contract, product liability, employment, and environmental matters.

The Company records any amounts recovered in these matters when collection is certain. Liabilities for claims against the Company are accrued when it is probable that a liability has been incurred and the amount can reasonably be estimated. Any amounts recorded are based on periodic reviews by outside counsel, in-house counsel and management and are adjusted as additional information becomes available or assessments change.

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While some insurance coverage is maintained for such matters, there can be no assurance that the Company has a sufficient amount of insurance coverage, that asserted claims will be within the scope of coverage of the insurance, or that the Company will have sufficient resources to satisfy any amount due not covered by insurance.

Management is of the opinion that the ultimate resolution of such matters now pending will not, individually or in the aggregate have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows. However, the outcome of legal proceedings cannot be predicted with any degree of certainty.

Some of the Company's more significant pending legal matters are discussed below:

Government Inquiries. In May 2006, the Company received a letter from the SEC requesting that it voluntarily provide information regarding stock options granted since January 1, 1997 as part of an informal inquiry. Additionally, in June 2006, the Company received a Grand Jury subpoena from the United States District Court, Southern District of New York, requesting documents relating to the Company's stock option practices since 1996. The Company responded to these requests in a timely manner and intends to continue to fully cooperate in these inquiries.

In the event that either or both of these investigations leads to action against any of our current or former directors, officers, or employees, or the Company itself, the trading price of the Company's common stock may be adversely impacted. If the Company is subject to adverse findings in either of these matters, it could be required to pay damages or penalties or have other remedies imposed upon it which could have a material adverse effect on its business, financial condition, results of operations and cash flows. In addition, if either or both of these investigations continue for a prolonged period of time, they may have the same impact regardless of the ultimate outcome.

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Shareholder Derivative Lawsuit. In fiscal year 2007, the Company was served with five purported shareholder derivative lawsuits making various allegations with respect to stock option improprieties and financial reporting. The Company is named solely as a nominal defendant against whom the plaintiffs sought no monetary recovery. These lawsuits named various current and former directors, officers, and executives as individual defendants from whom various forms of monetary damages are sought.

In the fourth quarter of fiscal year 2008, the Company reached a tentative settlement in the lawsuits and recorded a charge of \$1.6 million, which is net of committed insurance proceeds, for the monetary component of the settlement. Final court approval of the settlement occurred on January 12, 2009. All lawsuits have subsequently been dismissed with prejudice following payments by the Company and its insurance carrier of their respective amount per the terms of the settlement.

Class Action Lawsuit. In Re: Semtech Corporation Securities Litigation, United States District Court, Central District of California, Case No. 2:07-CV-07114-CAS. In August 2007, a purported class action lawsuit was filed against the Company and certain current and former officers on behalf of persons who purchased or acquired Semtech securities from September 11, 2002 until July 19, 2006. The case alleges violations of Federal securities laws in connection with the Company's past stock option practices. A very similar lawsuit, filed in October 2007 by another plaintiff, was not served. In February 2008, the Mississippi Public Employees Retirement System (MPERS) filed a motion in the US District Court for the Central District of California for consolidation of the cases described above, appointment of MPERS as lead plaintiff, and approval of selection of counsel. The MPERS motion was granted in late March 2008, and a Consolidated Amended Class Action Complaint was filed in May 2008, initiating the consolidated action with MPERS as the lead plaintiff. Most recently, motions to dismiss and for other remedial actions filed by the defendants were heard by the Court on December 15, 2008. The Court granted motions to dismiss in favor of defendants Jason Carlson (former Chief Executive Officer of the Company) and Mohan Maheswaran (current Chief Executive Officer of the Company) regarding claims under Section 10(b) of the Securities Exchange Act of 1934. The Court denied all other motions of all defendants, including other motions to dismiss brought in relation to alternate allegations raised against Messrs. Carlson and Maheswaran, who remain pending as defendants in the matter. The Company is unable to predict the outcome of this litigation.

Environmental Matters. In 2001, the Company was notified by the California Department of Toxic Substances Control (State) that it may have liability associated with the clean-up of the one-third acre Davis Chemical Company site in Los Angeles, California. The Company has been included in the clean-up program because it was one of the companies that used the Davis Chemical Company site for waste recycling and/or disposal between 1949 and 1990. The Company joined with other potentially responsible parties and entered into a Consent Order with the State that required the group to perform a soils investigation at the site and submit a remediation plan. The State has approved the remediation plan, which completes the group's obligations under the Consent Order. Although the Consent Order does not require the group to remediate the site and the State has indicated it intends to look to other parties for remediation, the State has not yet issued no further action letters to the group members. To date, the Company's share of the group's expenses has not been material and has been expensed as incurred.

We have used an environmental firm, specializing in hydrogeology, to perform monitoring of the groundwater at our former facility in Newbury Park, California that we leased for approximately forty years. We vacated the building in May 2002. Certain contaminants have been found in the local groundwater. Monitoring results to date over a number of years indicate that contaminants are from adjacent facilities. There are no claims pending with respect to environmental matters at the Newbury Park site. However, the applicable regulatory agency having authority over the site issued joint instructions in November 2008, ordering the Company and the current owner of the site to perform additional assessments and surveys, and to create ongoing groundwater monitoring plans before any final regulatory action for no further action may be approved. The anticipated costs to perform the actions most recently ordered by the regulatory body are not anticipated to be material, and may be jointly shared between the Company and the current owner. It is currently not possible to determine the ultimate amount of future clean-up costs, if any, that may be required of us for this site. Accordingly, no reserve for clean-up has been provided at this time.

Product Warranties

The Company's general warranty policy provides for repair or replacement of defective parts. In some cases a refund of the purchase price is offered. In certain instances the Company has agreed to other warranty terms, including some indemnification provisions.

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As of January 25, 2009, the Company's warranty reserve was \$50,000, unchanged from fiscal year 2008. No warranty accrual activity was recorded in fiscal year 2009. The product warranty accrual reflects the Company's best estimate of probable liability under its product warranties. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified issues based on historical experience.

If there is a substantial increase in the rate of customer claims, if the Company's estimates of probable losses relating to identified warranty exposures prove inaccurate, or its efforts to contractually limit liability prove inadequate, the Company may record a charge against future cost of sales.

Indemnification

The Company has entered into agreements with its current executive officers and directors indemnifying them against certain liabilities incurred in connection with the performance of their duties. The Company's Certificate of Incorporation and Bylaws contain comparable indemnification obligations with respect to the Company's current directors and employees. Additionally, comparable indemnification agreements and obligations under our Certificate of Incorporation and Bylaws remain in effect for certain former executive officers and directors of the Company, rights under which are being claimed by certain former executives and former directors in relation to the Class Action Lawsuit discussed above.

Table of Contents**Note 11. Interest and Other Income, net**

Interest and other income, net, consist of the following:

(fiscal years, in thousands)	January 25, 2009	January 27, 2008	January 28, 2007
Interest income	\$ 5,677	\$ 13,255	\$ 13,116
Interest expense	(3)	(11)	(34)
Gain (loss) on sale of assets	(428)	1,392	(39)
Foreign currency transaction gain (loss)	(549)	316	519
Miscellaneous (expense) income	(410)	168	(16)
Interest and other income, net	\$ 4,287	\$ 15,120	\$ 13,546

Note 12. Business Segments and Concentrations of Risk

The Company operates in two reportable segments: Standard Semiconductor Products and Rectifier, Assembly and Other Products.

The Standard Semiconductor Products segment makes up the vast majority of overall sales and includes the power management, protection, advanced communication and sensing product lines. The Rectifier, Assembly and Other Products segment includes the Company's line of assembly and rectifier devices, which are the remaining products from its original founding as a supplier into the military, aerospace and industrial equipment markets.

The Company evaluates segment performance based on net sales and operating income of each segment. Management does not track segment data or evaluate segment performance on additional financial information. As such, there are no separately identifiable segment assets nor are there any separately identifiable statements of income data (below operating income).

The Company does not track or assign assets to individual reportable segments. Likewise, depreciation expense and capital additions are also not tracked by reportable segments.

Net sales and operating income, by segment, were as follows:

Net Sales

(fiscal years, in thousands)

	January 25, 2009	January 27, 2008	January 28, 2007
Standard Semiconductor Products	\$ 263,119	\$ 260,035	\$ 236,220
Rectifier, Assembly and Other Products	31,701	24,755	16,318
Net Sales	\$ 294,820	\$ 284,790	\$ 252,538

Operating Income

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(fiscal years, in thousands)

	January 25, 2009	January 27, 2008	January 28, 2007
Standard Semiconductor Products	\$ 30,221	\$ 32,793	\$ 18,948
Rectifier, Assembly and Other Products	11,670	10,394	4,917
Total Operating Income	\$ 41,891	\$ 43,187	\$ 23,865

Certain corporate level expenses not directly attributable to a reportable segment are allocated to the segments based on percentage of sales. These include expenses associated with matters related to the Company's historical stock option practices, including the now completed restatement of past financial statements and the on-going government inquiries, class action litigation, and recently settled derivative litigation. Included in operating income in fiscal years 2009, 2008 and 2007 for the Standard Semiconductor Products segment is approximately \$63,000 (net of a \$223,000 insurance recovery received in fiscal year 2009 for certain investigative costs), \$2.8 million and 8.7 million, respectively, of expense associated with the SEC's investigation into the Company's historical stock option practices.

Included in operating income for the Standard Semiconductor Products segment for fiscal years 2009, 2008 and 2007 are legal fees incurred by the Company in suing insurance companies to recover amounts associated with the resolution of a past customer dispute. For fiscal year 2009 and 2008 operating income for the Standard Semiconductor Products segment also included settlement recoveries from the above mentioned insurance companies.

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A summary of sales activity by region follows. The Company does not track customer sales by region for each individual reporting segment.

Sales by Region

(fiscal years, in thousands)

	January 25, 2009		January 27, 2008		January 28, 2007	
North America	\$ 72,072	24%	\$ 53,367	19%	\$ 56,710	23%
Asia-Pacific	172,054	59%	186,395	65%	157,687	62%
Europe	50,694	17%	45,028	16%	38,141	15%
Total Net Sales	\$ 294,820	100%	\$ 284,790	100%	\$ 252,538	100%

Sales to the Company's customers are generally made on open account, subject to credit limits the Company may impose, and the receivables are subject to the risk of being uncollectible.

Concentration of Net Sales - Key Customers

(percentage of net sales)

	January 25, 2009	Fiscal Year Ended January 27, 2008	January 28, 2007
Samsung Electronics (and affiliates)	15%	13%	10%
Frontek Technology Corp	13%	16%	12%

Concentration of Accounts Receivable - Key Customers

(percentage of net accounts receivable)

	January 25, 2009	Fiscal Year Ended January 27, 2008
Samsung Electronics (and affiliates)	18%	8%
Frontek Technology Corp	12%	14%

Long-lived assets, net of accumulated depreciation, located within the United States as of January 25, 2009 and January 27, 2008 were approximately \$20.8 million and \$21.6 million, respectively. Long-lived assets located outside the United States as of January 25, 2009 and January 27, 2008 was approximately \$11.0 million and \$8.9 million, respectively. Some of these assets are at locations owned or operated by the Company's suppliers. The Company has consigned certain equipment to a foundry based in China to support its specialized processes run at the foundry. The provision of these assets to the wafer foundry is factored into the Company's pricing arrangement with the foundry. The Company has also installed its own equipment at some of its packaging and testing subcontractors in order to ensure a certain level of capacity, assuming the subcontractor has ample employees to operate the equipment.

The Company relies on a limited number of outside subcontractors and suppliers for the production of silicon wafers, packaging and certain other tasks. Disruption or termination of supply sources or subcontractors, due to natural disasters or other causes, could delay shipments and could have a material adverse effect on the Company. Although there are generally alternate sources for these materials and services, qualification of the alternate sources could cause

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delays sufficient to have a material adverse effect on the Company. Several of the Company's outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Taiwan, Singapore, Thailand, Malaysia, the Philippines, Germany, Israel and Canada. The Company's largest source of silicon wafers is an outside foundry located in China and a significant amount of the Company's assembly and test operations are conducted by third-party contractors in Malaysia, the Philippines and China.

Note 13. Matters Related to Historical Stock Option Practices

Since May 2006, the Company has incurred substantial expenses for legal, accounting, tax and other professional services in connection with matters associated with or stemming from its historical stock option practices. In fiscal years 2009, 2008, and 2007, respectively, approximately \$1.6 million (net of insurance recovery of \$250,000), \$6.2 million and \$9.7 million of legal expenses were incurred in relation to these matters. The Company expects to continue to incur significant expense in connection with the on-going government inquiries and class action litigation. These expenses include claims for advancement of legal expenses to current and former directors, officers and executives under pre-existing indemnification agreements and to other current and former employees under the California Labor Code and a resolution of the Board authorizing such advances. See Note 10 for additional information regarding indemnification.

Table of Contents**Note 14: Fire at Manufacturing Facility in Reynosa, Mexico**

On July 31, 2008, a fire occurred at the Company's Reynosa, Mexico manufacturing facility. As of January 25, 2009, the Company has recorded the following expenses (insurance recoveries) related to the retooling and retrofit of the factory and the write-off of damaged equipment.

(in thousands)	Expense Incurred	Insurance Recovery	Net Expense
SG&A	\$ 1,229	\$ (370)	\$ 859
Other expense, net	208		208
	\$ 1,437	\$ (370)	\$ 1,067

As of January 25, 2009, repair, retooling and retrofit activities were substantially complete. The Company does not expect to incur additional significant costs related to this recovery.

The Company is actively seeking recovery under the relevant insurance policies that it maintains for both property damage and business interruption. While the Company expects insurance recoveries to cover most of the costs, only \$370,000 of recovery was received in fiscal year 2009.

Note 15: Restructuring Costs

During fiscal year 2009, the Company initiated a restructuring plan within the Standard Semiconductor Products segment to reorganize certain Company operations, consolidate research and development activities and reduce its workforce. The reorganization and consolidation was completed in the second quarter of fiscal year 2009. In fiscal year 2009, the Company recorded costs of \$2.3 million for employee severance and other facility consolidation costs.

The following table summarizes the restructuring charge and liability balance included in accrued liabilities and other long-term liabilities on the Consolidated Balance Sheet as of January 25, 2009.

(in thousands)	Restructuring Charge	Asset Writedown	Cash Payments	Balance at January 25, 2009
Severance and benefits	\$ 876.3	\$	\$ (876.3)	\$
Lease termination costs	641.5		(206.9)	434.6
Open commitments	294.1	(294.1)		
Asset impairment	486.6	(486.6)		
Other costs	11.7		(11.7)	
	\$ 2,310.2	\$ (780.7)	\$ (1,094.9)	\$ 434.6

The outstanding liability for restructuring costs is classified on the Company's Consolidated Balance Sheet as of January 25, 2009 as follows:

(in thousands)	
Accrued liabilities	\$ 296.6
Other long-term liabilities	138.0
	\$ 434.6

The portion of lease termination costs reflected in other long-term liabilities includes lease payments due within the next one to five years.

Note 16: Deferred Compensation

The Company maintains a deferred compensation plan for certain officers and key executives that allows participants to defer a portion of their compensation for future distribution at various times permitted by the Plan. The Plan provides for a discretionary Company match up to a defined portion of the employee's deferral, with any match subject to a vesting period. Compensation expense under this plan for fiscal years 2009, 2008 and 2007 totaled approximately \$466,000 (net of \$201,000 of forfeitures), \$345,000 (net of \$206,000 of forfeitures) and \$62,000 (net of \$640,000 of forfeitures), respectively.

The Company's liability for deferred compensation under this plan was \$5.1 million as of January 25, 2009 and \$6.2 million as of January 27, 2008, and is included in other long-term liabilities on the balance sheet and in the table above. The Company has purchased whole life insurance on the lives of certain current and former deferred compensation plan participants. This company-owned life insurance is held in a grantor trust and is intended to cover a majority of our costs of the deferred compensation plan. The cash surrender value of the Company-owned life insurance was \$4.4 million as of January 25, 2009 and \$6.2 million as of January 27, 2008, and is included in other assets.

Table of Contents**Note 17. Selected Quarterly Financial Data (Unaudited)**

The following tables set forth our unaudited consolidated statements of income data for each of the eight quarterly periods ended January 25, 2009, as well as that data expressed as a percentage of our net sales for the quarters presented. All quarters presented consisted of thirteen weeks. The sum of quarterly per share amounts may differ from year to date amounts due to rounding.

(in thousands, except per share amounts)	Fiscal Year 2009 Quarters Ended				Fiscal Year 2008 Quarters Ended			
	April 27 2008	July 27 2008	October 26 2008	January 25 2009	April 29 2007	July 29 2007	October 28 2007	January 27 2008
Net Sales	\$ 74,444	\$ 77,960	\$ 79,721	\$ 62,695	\$ 60,566	\$ 67,048	\$ 78,556	\$ 78,620
Cost of Sales	33,653	35,165	37,070	29,345	27,313	30,058	35,695	35,447
Gross Profit	40,791	42,795	42,651	33,350	33,253	36,990	42,861	43,173
Operating costs and expenses:								
Selling, general & administrative	18,621	18,787	19,358	16,124	18,181	17,943	17,764	20,375
Product development & engineering	11,073	10,434	10,127	9,771	10,005	10,581	11,206	11,272
Acquisition related items	273	273	273	273	276	275	276	275
Restructuring charges	2,169	140						
(Insurance recovery) legal expenses, net					175	324	416	(6,254)
Total operating costs and expenses	32,136	29,634	29,758	26,168	28,637	29,123	29,662	25,668
Operating income	8,655	13,161	12,893	7,182	4,616	7,867	13,199	17,505
Interest and other income, net	1,740	1,241	904	403	5,715	3,542	3,055	2,808
Income before taxes	10,395	14,402	13,797	7,585	10,331	11,409	16,254	20,313
Provision for taxes	2,318	2,738	2,287	1,314	2,400	2,387	284	5,453
Net income	\$ 8,077	\$ 11,664	\$ 11,510	\$ 6,271	\$ 7,931	\$ 9,022	\$ 15,970	\$ 14,860
Earnings per share:								
Basic	\$ 0.13	\$ 0.19	\$ 0.19	\$ 0.10	\$ 0.11	\$ 0.13	\$ 0.25	\$ 0.24
Diluted	\$ 0.13	\$ 0.19	\$ 0.19	\$ 0.10	\$ 0.11	\$ 0.13	\$ 0.24	\$ 0.23
Weighted average number of shares:								
Basic	61,352	61,839	61,233	60,291	72,379	66,984	63,726	62,622
Diluted	62,104	62,584	61,727	60,611	73,593	68,844	66,347	63,536

	Fiscal Year 2009 Quarters Ended				Fiscal Year 2008 Quarters Ended			
	April 27 2008	July 27 2008	October 26 2008	January 25 2009	April 29 2007	July 29 2007	October 28 2007	January 27 2008
Net Sales	100%	100%	100%	100%	100%	100%	100%	100%
Cost of Sales	45%	45%	46%	47%	45%	45%	45%	45%
Gross Profit	55%	55%	54%	53%	55%	55%	55%	55%
Operating costs and expenses:								
Selling, general & administrative	25%	24%	24%	26%	30%	27%	23%	26%
Product development & engineering	15%	13%	13%	16%	17%	16%	14%	14%
Acquisition related items	0%	0%	0%	0%	0%	0%	0%	0%
Restructuring charges	3%	0%	0%	0%	0%	0%	0%	0%

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(Insurance recovery) legal expenses, net	0%	0%	0%	0%	0%	0%	1%	-8%
Total operating costs and expenses	43%	38%	37%	42%	47%	43%	38%	32%
Operating income	12%	17%	16%	11%	8%	12%	17%	23%
Interest and other income, net	2%	2%	1%	1%	9%	5%	4%	4%
Income before taxes	14%	19%	17%	12%	17%	17%	21%	27%
Provision for taxes	3%	4%	3%	2%	4%	4%	0%	7%
Net income	11%	15%	14%	10%	13%	13%	21%	20%

ITEM 9. CHANGES IN OR DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

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ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of January 25, 2009. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective in alerting them in a timely manner to material information relating to the Company required to be included in its periodic reports filed with the Securities and Exchange Commission.

Report of Management on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management has concluded that as of January 25, 2009 the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this report, has issued an attestation report on our internal control over financial reporting as of January 25, 2009. Ernst & Young LLP's report is included in Item 8 of this report.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the quarter ended January 25, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

We believe that all information that was required to be disclosed in a report on Form 8-K during the fourth quarter of fiscal year 2009 was reported on a Form 8-K during that period.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have adopted a written Code of Conduct that applies to everyone in the Company, including our Chief Executive Officer, Chief Financial Officer and Controller. Our Code of Conduct serves as our written code of ethics for those officers, and for persons performing similar functions. See Exhibit 14, which incorporates by reference the copy of our Code of Conduct filed as Exhibit 14 to our Form 10-K for fiscal year 2004. The Code of Conduct is also available at the Corporate Governance section of our website at www.semtech.com. If we make any substantive amendments to the Code of Conduct or grant any waiver, including an implicit waiver, from the Code of Conduct to our Chief Executive Officer, Chief Financial Officer or Controller, we will within four business days of the event disclose the nature of the amendment or waiver on our website or in a report on Form 8-K.

The information relating to our directors, our nominees for directors, and our executive officers pursuant to Items 401; and Item 407(c)(3), (d)(4) and (d)(5) of Regulation S-K required by this item will be contained under the caption

Proposal 1: Election of Directors in our Definitive Proxy Statement relating to our annual meeting of stockholders to be held on June 25, 2009, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act and is hereby specifically incorporated by reference thereto.

The information required pursuant to Item 405 of Regulation S-K will be contained under the caption Section 16(a) Beneficial Ownership Reporting Compliance in our Definitive Proxy Statement relating to our annual meeting of stockholders, to be held on June 25, 2009, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act and is hereby specifically incorporated by reference thereto.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this item will appear under the captions Director Compensation, Compensation Discussion and Analysis, Executive Compensation and related discussion and disclosure thereto, in the Definitive Proxy Statement relating to our annual meeting of stockholders to be held on June 25, 2009, to be filed by us with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act, and is hereby specifically incorporated herein by reference thereto.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this item will appear under the captions Beneficial Ownership of Securities, and Securities Authorized for Issuance under Equity Compensation Plans and related discussion and disclosure thereto, in the Definitive Proxy Statement relating to our annual meeting of stockholders to be held on June 25, 2009, to be filed by us with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act, and is hereby specifically incorporated herein by reference thereto.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required under this item will appear under the captions Election of Directors (Proposal Number 1) Corporate Governance, Transactions with Related Parties and related discussion and disclosure thereto, in the Definitive Proxy Statement relating to our annual meeting of stockholders to be held on June 25, 2009, to be filed by us with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act, and is hereby specifically incorporated herein by reference thereto.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required under this item will appear under the captions Independent Accountant Fees, and [Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services and related discussion and disclosure thereto, in the Definitive Proxy Statement relating to our annual meeting of stockholders to be held on June 25, 2009, to be filed by us with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act, and is hereby specifically incorporated herein by reference thereto.

Table of Contents**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a)(1) The financial statements, schedules, and reports included in this Form 10-K. are listed in the index under Item 8 in this report.
- (a)(2) Schedules other than those listed in Item 8 are omitted since they are not applicable, not required, or the information required to be set forth herein is included in the consolidated financial statements or notes thereto.

SCHEDULE II**SEMTECH CORPORATION AND SUBSIDIARIES****SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS****THREE YEARS ENDED JANUARY 25, 2009**

	Balance at Beginning of Year	Charged (Reversal) to Costs and Expenses	Deductions	Balance at End of Year
<u>Year ended January 28, 2007</u>				
Allowance for doubtful accounts	\$ 462,000	\$ (121,000)	\$ (5,000)	\$ 336,000
<u>Year ended January 27, 2008</u>				
Allowance for doubtful accounts	\$ 336,000	\$ 39,000	\$ (6,000)	\$ 369,000
<u>Year ended January 25, 2009</u>				
Allowance for doubtful accounts	\$ 369,000	\$ 477,000	\$ (3,000)	\$ 843,000

- (a)(3) Exhibits. These exhibits are available without charge upon request directed to the Company's Secretary at 200 Flynn Road, Camarillo, CA 93012. Documents that are not physically filed with this report are incorporated herein by reference to the location indicated. Exhibits 10.1 through 10.40 constitute management contracts or compensatory plans or arrangements.

Exhibit No.	Description	Location
3.1	Restated Certificate of Incorporation of Semtech Corporation	Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 26, 2003
3.2	Bylaws of Semtech Corporation	Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended January 27, 2008
10.1	Policy Regarding Director Compensation	Exhibit 10.10 to the Company's Quarterly Report on Form 10 for the quarterly period ended July 29, 2007
10.2	The Company's 1994 Long-term Stock Incentive Plan, as amended	Exhibit 4.1 to the Company's Registration Statement on Form S-8 (333-44033) filed January 9, 1998

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10.3	The Company's 1994 Non-Employee Directors Stock Option Plan, as amended	Exhibit 4.1 to the Company's Registration Statement on Form S-8 (333-00599) filed January 31, 1996
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10.4	The Company's Long-Term Stock Incentive Plan, as amended and restated	Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2007
10.5	The Company's Non-Director and Non-Executive Officer Long-Term Stock Incentive Plan, as amended	Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended October 29, 2006
10.6	Form of Option Agreement for Options Awarded to Non-Employee Directors on December 5, 2002	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 27, 2002
10.7	Form of Long-Term Stock Incentive Plan Award Agreement (Non-Employee Directors)	Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 7, 2006
10.8	Form of Long-Term Stock Incentive Plan Award Agreement (Executive Officers)	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 25, 2004
10.9	Form of Non-Director and Non-Executive Officer Long-Term Stock Incentive Plan Award Agreement	Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 25, 2004
10.10	Form of Long-Term Stock Incentive Plan Award Certificate	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended October 29, 2006
10.11	Form of Non-Director and Non-Executive Officer Long-Term Stock Incentive Plan Award Certificate	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended October 29, 2006
10.12	Adoption Agreement adopting The Executive Nonqualified Excess Plan (known as the Semtech Executive Compensation Plan) as amended and restated effective January 1, 2005	Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 29, 2007
10.13	Amended and Restated Plan Document for The Executive Nonqualified Excess Plan (known as the Semtech Executive Compensation Plan), effective January 1, 2005	Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 29, 2007
10.14	Trust Agreement dated as of January 1, 2004 between Semtech Corporation and Bankers Trust Company, as Trustee, related to the Semtech Executive Compensation Plan	Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended January 25, 2004
10.15	Form of Indemnification Agreement for Directors and Executive Officers	Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2005
10.16	Cash Bonus Incentive Plan amended and restated as of January 30, 2006	Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 1, 2006
10.17	Semtech Corporation Bonus Plan	Exhibit 10.2 to the Company's Current Report on Form 8-K filed November 28, 2006
10.18	Semtech Corporation Bonus Plan, amended and restated effective January 29, 2007	Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 12, 2007
10.19	Employment Offer Letter to Mohan Maheswaran, accepted as of March 12, 2006	Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 14, 2006
10.20	Agreement dated April 3, 2006 with respect to inducement award of restricted stock to Mohan Maheswaran	Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 5, 2006
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| | Option Award Agreement dated April 3, 2006 with respect to time-vested inducement options awarded to Mohan Maheswaran | Exhibit 10.2 to the Company's Current Report on Form 8-K filed April 5, 2006 |
| 10.22 | Option Award Agreement dated April 3, 2006 with respect to performance-vested inducement options awarded to Mohan Maheswaran | Exhibit 10.3 to the Company's Current Report on Form 8-K filed April 5, 2006 |
| 10.23 | Employment Offer Letter to Emeka Chukwu, accepted as of November 11, 2006 | Exhibit 10.26 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2007 |

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10.24	Memo to Emeka Chukwu dated, April 5, 2007	Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2007
10.25	Form of Long-Term Stock Incentive Plan Option Award Certificate	Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 12, 2007
10.26	Form of Long-Term Stock Incentive Plan Restricted Stock Award Certificate	Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 12, 2007
10.27	Form of Long-Term Stock Incentive Plan Performance Unit Award Certificate	Exhibit 10.4 to the Company's Current Report on Form 8-K filed June 12, 2007
10.28	Form of Long-Term Stock Incentive Plan Option Award Certificate (Non-Employee Directors)	Exhibit 10.5 to the Company's Current Report on Form 8-K filed June 12, 2007
10.29	Form of Long-Term Stock Incentive Plan Non-Employee Director Stock Unit Award Certificate	Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 19, 2007
10.30	Form of Long-Term Stock Incentive Plan Restricted Stock Unit Award Certificate	Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 20, 2008
10.31	Semtech Corporation Executive Stock Ownership Guidelines	Exhibit 10.39 to the Company's Annual Report on Form 10-K for the fiscal year ended January 27, 2008
10.32	Semtech Corporation 2008 Long-Term Equity Incentive Plan	Exhibit 10.40 to the Company's Annual Report on Form 10-K for the fiscal year ended January 27, 2008
10.33	Master Confirmation dated May 30, 2007 between Semtech Corporation and Goldman, Sachs & Co.	Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 1, 2007
10.34	Supplemental Confirmation dated May 30, 2007 between Semtech Corporation and Goldman, Sachs & Co.	Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 1, 2007
10.35	Semtech Corporation Chief Executive Officer Bonus Plan	
14	Semtech Corporation Code of Conduct	Exhibit 14 to the Company's Annual Report on Form 10-K for the fiscal year ended January 25, 2004
21.1	Subsidiaries of the Company	
23.1	Consent of Independent Registered Public Accounting Firm	
31.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934 as amended.	
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934 as amended.	
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002 (As set forth in Exhibit 32.1 hereof, Exhibit 32.1 is being furnished and shall not be deemed filed.)	
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002 (As set forth in Exhibit 32.2 hereof, Exhibit 32.2 is being furnished and shall not be deemed filed.)	

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 24, 2009

Semtech Corporation

By: /s/ Mohan R. Maheswaran
Mohan R. Maheswaran
President and Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 24, 2009	/s/ Mohan R. Maheswaran Mohan R. Maheswaran President and Chief Executive Officer Director
Date: March 24, 2009	/s/ Emeka Chukwu Emeka Chukwu Vice President, Finance and Chief Financial Officer (Principal Accounting and Financial Officer)
Date: March 24, 2009	/s/ Rockell N. Hankin Rockell N. Hankin Chairman of the Board
Date: March 24, 2009	/s/ Glen M. Antle Glen M. Antle Director
Date: March 24, 2009	/s/ W. Dean Baker W. Dean Baker Director
Date: March 24, 2009	/s/ James P. Burra James P. Burra Director
Date: March 24, 2009	/s/ Bruce C. Edwards Bruce C. Edwards Director
Date: March 24, 2009	/s/ James T. Lindstrom James T. Lindstrom Director
Date: March 24, 2009	/s/ John L. Piotrowski John L. Piotrowski Director
Date: March 24, 2009	/s/ James T. Schraith James T. Schraith Director

