AVNET INC
Form 10-Q
November 06, 2007

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**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, 2007**

**Commission File #1-4224**

**AVNET, INC.**

**Incorporated in New York**

**IRS Employer Identification No. 11-1890605**

**2211 South 47th Street, Phoenix, Arizona 85034**
**(480) 643-2000**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The total number of shares outstanding of the registrant s Common Stock (net of treasury shares) as of October 26, 2007 150,040,818 shares.

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**AVNET, INC. AND SUBSIDIARIES**

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**PART I**

**FINANCIAL INFORMATION**

**Item 1.** ***Financial Statements***

**AVNET, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**
**(Unaudited)**

| | September 29, 2007 | June 30, 2007 |
|---|---|---|
| | (Thousands, except share amounts) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 520,886 | $ 557,350 |
| Receivables, less allowances of $94,179 and $102,121, respectively | 3,065,792 | 3,103,015 |
| Inventories | 1,824,060 | 1,736,301 |
| Prepaid and other current assets | 71,767 | 92,179 |
| Total current assets | 5,482,505 | 5,488,845 |
| Property, plant and equipment, net | 184,489 | 179,533 |
| Goodwill (Notes 3 and 4) | 1,409,186 | 1,402,470 |
| Other assets | 291,494 | 284,271 |
| Total assets | $ 7,367,674 | $ 7,355,119 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Borrowings due within one year (Note 5) | $ 66,659 | $ 53,367 |
| Accounts payable | 2,035,709 | 2,228,017 |
| Accrued expenses and other | 426,312 | 495,601 |
| Total current liabilities | 2,528,680 | 2,776,985 |
| Long-term debt, less due within one year (Note 5) | 1,156,008 | 1,155,990 |
| Other long-term liabilities | 107,819 | 21,499 |
| Total liabilities | 3,792,507 | 3,954,474 |
| Commitments and contingencies (Note 6) | | |
| Shareholders equity (Notes 9 and 10): | | |
| Common stock $1.00 par; authorized 300,000,000 shares; issued 150,020,000 shares and 149,826,000 shares, respectively | 150,020 | 149,826 |
| Additional paid-in capital | 1,109,134 | 1,094,210 |

| | | |
|---|---|---|
| Retained earnings | 1,986,179 | 1,880,642 |
| Accumulated other comprehensive income (Note 9) | 330,405 | 276,509 |
| Treasury stock at cost, 21,020 shares and 20,018 shares, respectively | (571) | (542) |
| Total shareholders equity | 3,575,167 | 3,400,645 |
| Total liabilities and shareholders equity | $ 7,367,674 | $ 7,355,119 |

See notes to consolidated financial statements.

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**AVNET, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Unaudited)**

| | First Quarters Ended | |
|---|---|---|
| | September 29, 2007 | September 30, 2006 |
| | (Thousands, except per share data) | |
| Sales | $ 4,098,718 | $ 3,648,400 |
| Cost of sales | 3,572,190 | 3,180,035 |
| Gross profit | 526,528 | 468,365 |
| Selling, general and administrative expenses | 361,332 | 323,394 |
| Operating income | 165,196 | 144,971 |
| Other income, net | 7,430 | 3,746 |
| Interest expense | (18,557) | (22,286) |
| Debt extinguishment costs (Note 5) | | (27,358) |
| Income before income taxes | 154,069 | 99,073 |
| Income tax provision | 48,532 | 34,930 |
| Net income | $ 105,537 | $ 64,143 |
| Net earnings per share (Note 10): | | |
| Basic | $ 0.70 | $ 0.44 |
| Diluted | $ 0.69 | $ 0.44 |
| Shares used to compute earnings per share (Note 10): | | |
| Basic | 149,978 | 146,718 |
| Diluted | 153,458 | 147,201 |

See notes to consolidated financial statements.

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**AVNET, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | First Quarters Ended | |
|---|---|---|
| | September 29, 2007 | September 30, 2006 |
| | (Thousands) | |
| Cash flows from operating activities: | | |
| Net income | $ 105,537 | $ 64,143 |
| Non-cash and other reconciling items: | | |
| Depreciation and amortization | 13,522 | 13,260 |
| Deferred income taxes | 32,343 | 22,121 |
| Stock-based compensation | 11,395 | 7,025 |
| Other, net (Note 11) | 2,870 | 8,444 |
| Changes in (net of effects from businesses acquired): | | |
| Receivables | 101,610 | (80,583) |
| Inventories | (49,219) | (34,328) |
| Accounts payable | (229,186) | (9,522) |
| Accrued expenses and other, net | (32,697) | (17,177) |
| Net cash flows used for operating activities | (43,825) | (26,617) |
| Cash flows from financing activities: | | |
| Issuance of notes in public offering, net of issuance costs (Note 5) | | 296,085 |
| Proceeds from (repayment of) bank debt, net (Note 5) | 9,433 | (54,258) |
| Proceeds from other debt, net (Note 5) | 100 | 3 |
| Other, net (Note 11) | 4,777 | 3,082 |
| Net cash flows provided by financing activities | 14,310 | 244,912 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (13,661) | (14,045) |
| Cash proceeds from sales of property, plant and equipment | 278 | 728 |
| Acquisition of operations, net (Note 3) | (12,190) | |
| Net cash flows used for investing activities | (25,573) | (13,317) |
| Effect of exchange rate changes on cash and cash equivalents | 18,624 | 88 |
| Cash and cash equivalents: | | |
| (decrease) increase | (36,464) | 205,066 |
| at beginning of period | 557,350 | 276,713 |
| at end of period | $ 520,886 | $ 481,779 |

Additional cash flow information (Note 11)

See notes to consolidated financial statements.

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. Basis of presentation

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments necessary, all of which are of a normal recurring nature except for the debt extinguishment costs discussed in Note 5, to present fairly the Company s financial position, results of operations and cash flows. For further information, refer to 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, 2007.

During the third quarter of fiscal 2007, in conjunction with the acquisition of Access and reflecting recent industry trends, the Company reviewed its method of recording revenue related to the sales of supplier service contracts and determined that such sales will now be classified on a net revenue basis rather than on a gross basis beginning the third quarter of fiscal 2007. Although this change reduces sales and cost of sales for the Technology Solutions operating group and on a consolidated basis, it has no impact on operating income, net income, cash flow or the balance sheet. The impact of this change is that sales and cost of sales would have been reduced by $95,810,000, or 2.6%, for the first quarter of fiscal 2007 which was before the change was effective.

## 2. Interim financial results

The results of operations for the first quarter ended September 29, 2007 are not necessarily indicative of the results to be expected for the full year.

## 3. Acquisitions

***Fiscal 2008***

On September 27, 2007, the Company announced that it has reached a definitive agreement to acquire the IT Solutions division of Acal plc. Acal IT Solutions is a leading value-added distributor of storage area networking, secure networking and electronic document management products and services, with operations in six European countries and has annual revenues of approximately $200 million. The acquisition, which is subject to regulatory approval, will be integrated into the TS operations in the EMEA region.

On October 8, 2007, the Company completed its acquisition of the European Enterprise Infrastructure division of value-added distributor Magirus Group. The division acquired is a distributor of servers, storage systems, software and services of IBM and Hewlett-Packard to resellers in seven European countries and Dubai and has annual revenues of approximately $500 million. The acquisition is anticipated to be integrated into the TS operations in the EMEA region by the end of fiscal 2008.

On July 5, 2007, the Company acquired Flint Distribution Ltd., a UK-based interconnect, passive and electromechanical distributor with annual revenues of approximately $40 million which is being integrated into the EM operations in the EMEA region.

***Fiscal 2007***

On December 31, 2006, the first day of Avnet s third quarter of fiscal 2007, the Company completed the acquisition of Access Distribution ( Access ), a leading value-added distributor of complex computing solutions, which recorded sales

of $1.90 billion in calendar year 2006. The preliminary purchase price of $437,554,000, which is subject to adjustment based upon the audited closing net book value, was funded primarily with debt, plus cash on hand. The preliminary purchase price includes an estimate of the amount due to seller based on the preliminary closing net book value. The Access business has been integrated into the TS Americas and EMEA operations as of the end of fiscal 2007.

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Preliminary allocation of Access purchase price***

The Access acquisition is accounted for as a purchase business combination. Assets acquired and liabilities assumed are recorded in the accompanying consolidated balance sheet at their estimated fair values as of December 31, 2006. A preliminary allocation of purchase price to the assets acquired and liabilities assumed at the date of acquisition is presented in the following table. This allocation is based upon preliminary valuations using management s estimates and assumptions. This preliminary allocation is subject to refinement as the Company has not received the final audited closing balance sheet and has not yet completed its evaluation of the fair value of assets and liabilities acquired. In addition, the assets and liabilities in the following table include preliminary liabilities recorded for actions taken as a result of plans to integrate the acquired operations into Avnet s existing operations. Preliminary purchase accounting adjustments include the following exit-related and fair value adjustments: (1) severance costs for Access workforce reductions; (2) lease commitments for leased Access facilities that will no longer be used; (3) commitments related to other contractual obligations that have no on-going benefit to the combined business; (4) write-offs or write-downs in the value of certain Access information technology assets and other fixed assets that will not be utilized in the combined businesses, and (5) other adjustments to record the acquired assets and liabilities at fair value in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*. As mentioned, these adjustments are preliminary; however, the Company expects any further adjustments to be completed within the purchase price allocation period, which is generally within one year of the acquisition date (December 29, 2007 in the case of Access).

During the fourth quarter of fiscal 2007, the Company completed its valuation of the identifiable intangible assets that resulted from the Access acquisition. The Company allocated $32,800,000 of purchase price to customer relationship intangible assets which management estimates to have a life of ten years (see Note 4).

Substantially all of the goodwill generated by the Access acquisition is expected to be deductible for tax purposes.

| | | **December 31, 2006 (Thousands)** |
|---|---|---|
| Current assets | $ | 650,478 |
| Property, plant and equipment | | 5,209 |
| Goodwill | | 90,065 |
| Amortizable intangible asset | | 32,800 |
| Other assets | | 438 |
| Total assets acquired | | 778,990 |
| Current liabilities | | 341,436 |
| Net assets acquired (gross purchase price) | $ | 437,554 |
| Less: cash acquired | | (9,861) |
| Purchase price, net of cash acquired | $ | 427,693 |

The integration of Access into the Americas and EMEA regions of the Technology Solutions operations was complete as of the end of fiscal 2007. The Access acquisition provides a portfolio of technology products that management believes is complementary to Avnet s existing offerings. Management estimates it has achieved its targeted annualized operating expense synergies as of the completion of the integration and believes the acquisition will contribute to the attainment of the Company s financial goals. The combination of these factors is the rationale for the excess of purchase price paid over the value of assets and liabilities acquired.

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Preliminary Access acquisition-related exit activity accounted for in purchase accounting***

As a result of the acquisition of Access, the Company established and approved plans to integrate the acquired operations into the Americas and EMEA regions of the Company s TS operations, for which the Company recorded $5.0 million in preliminary exit-related purchase accounting adjustments during fiscal 2007. These exit-related liabilities consisted of severance for workforce reductions, non-cancelable lease commitments and lease termination charges for leased facilities, and other contract termination costs associated with the exit activities.

The following table summarizes the Access exit-related acquisition reserves that have been preliminarily established through purchase accounting and related activity that occurred during the first quarter of fiscal 2008:

| | Severance Reserves | Facility Exit Reserves | Other | Total |
|---|---|---|---|---|
| | | (Thousands) | | |
| Balance at June 30, 2007 | $ 2,423 | $ 1,809 | $ 112 | $ 4,344 |
| Amounts utilized | (1,500) | (44) | (77) | (1,621) |
| Other, principally foreign currency translation | 13 | 70 | 2 | 85 |
| Balance at September 29, 2007 | $ 936 | $ 1,835 | $ 37 | $ 2,808 |

Total amounts utilized for exit-related activities during the first quarter of fiscal 2008 consisted of $1,621,000 in cash payments. As of September 29, 2007, management expects the majority of the severance reserves and other contractual obligations to be utilized by the end of fiscal 2008 and expects the majority of the facility exit costs to be utilized by fiscal 2013.

The exit-related purchase accounting reserves established for severance related to the reduction of 80 Access personnel in the Americas and EMEA regions, and consisted primarily of administrative, finance and certain operational functions. These reductions are based on management s assessment of redundant Access positions compared with existing Avnet positions. Severance reserves, particularly those estimated to date for the EMEA region, may be adjusted during the purchase price allocation period because these costs are subject to local regulations and approvals. The costs presented in the Facility Exit Reserves column of the preceding table consist of estimated future payments for non-cancelable leases and early lease termination costs for two facilities, one in the Americas and one in EMEA. The costs presented in the Other column of the preceding table include early termination costs for contracts that have no future benefit to the on-going combined business.

***Unaudited pro forma results***

Unaudited pro forma financial information is presented below as if the acquisition of Access occurred at the beginning of fiscal 2007. The pro forma information presented below does not purport to present what the actual results would have been had the acquisition in fact occurred at the beginning of fiscal 2007, nor does the information project results for any future period. Further, the pro forma results exclude any benefits that may result from the acquisition due to

synergies that were derived from the elimination of any duplicative costs.

The accompanying consolidated statement of operations for the first quarter of fiscal 2007 includes Access results of operations for comparative purposes.

| | Pro Forma Results First Quarter Ended Fiscal 2007 (Thousands, except per share data) |
|---|---|
| Pro forma sales | $ 4,079,484 |
| Pro forma operating income | 167,729 |
| Pro forma net income | 73,804 |
| Pro forma diluted earnings per share | $ 0.50 |

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Combined results for Avnet and Access were adjusted for the following in order to create the unaudited pro forma results in the table above:

$1,297,000 pre-tax, $839,000 after tax, or $0.01 per diluted share, for the first quarter ended September 29, 2007 for amortization relating to intangible assets written off upon acquisition.

$5,215,000 pre-tax, $3,376,000 after tax, or $0.02 per diluted share, for the first quarter ended September 29, 2007 for interest expense relating to borrowings used to fund the acquisition. For the pro forma results presented in the preceding table, the borrowings were assumed to be outstanding for the entire first quarter of fiscal 2007.

***Fiscal 2006***

During fiscal 2006, the Company acquired Memec Group Holdings Limited ( Memec ), a global distributor that marketed and sold a portfolio of semiconductor devices from industry-leading suppliers in addition to providing customers with engineering expertise and design services. Memec was fully integrated into the Electronics Marketing group of Avnet as of the end of fiscal 2006. As a result of the acquisition and subsequent integration of Memec, the Company recorded certain exit-related liabilities during the purchase price allocation period which closed at the end of fiscal 2006. These exit-related liabilities consisted of severance for workforce reductions, non-cancelable lease commitments and lease termination charges for leased facilities, and other contract termination costs associated with the exit activities.

The following table summarizes the utilization of reserves during the first quarter of fiscal 2008 related to exit activities established through purchase accounting in connection with the acquisition of Memec:

| | Severance Reserves | Facility Exit Reserves | Other | Total |
|---|---|---|---|---|
| | | (Thousands) | | |
| Balance at June 30, 2007 | $ 423 | $ 12,009 | $ 2,009 | $ 14,441 |
| Amounts utilized | | (996) | | (996) |
| Other, principally foreign currency translation | 20 | 21 | | 41 |
| Balance at September 29, 2007 | $ 443 | $ 11,034 | $ 2,009 | $ 13,486 |

Total amounts utilized for exit-related activities during the first quarter of fiscal 2008 consisted of $996,000 in cash payments. The remaining severance reserves are expected to be substantially paid out by the end of fiscal 2008, whereas reserves for other contractual commitments, particularly for certain lease commitments, will extend into fiscal 2013.

**4. Goodwill and intangible assets**

The following table presents the carrying amount of goodwill, by reportable segment, for the three months ended September 29, 2007:

| | Electronics Marketing | Technology Solutions | Total |
|---|---|---|---|
| | | (Thousands) | |
| Carrying value at June 30, 2007 | $ 1,039,209 | $ 363,261 | $ 1,402,470 |
| Additions | 8,007 | | 8,007 |
| Adjustments | | (2,759) | (2,759) |
| Foreign currency translation | 499 | 969 | 1,468 |
| Carrying value at September 29, 2007 | $ 1,047,715 | $ 361,471 | $ 1,409,186 |

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The addition to goodwill in EM related to the acquisition of Flint Distribution (see Note 3). The adjustment to goodwill in the TS region related to purchase price allocation adjustments to certain Access acquired assets.

As of September 29, 2007, the Company had a carrying value of $47,855,000 in customer relationship intangible assets, consisting of $55,400,000 in original cost value and accumulated amortization of $7,545,000, which are being amortized over ten years. Intangible asset amortization expense was $1,385,000 and $1,040,000 for the first quarter of fiscal 2008 and 2007, respectively. Amortization expense for the next five years is expected to be $5,540,000 each year.

**5. External financing**

Short-term debt consists of the following:

| | September 29, 2007 | June 30, 2007 |
|---|---|---|
| | (Thousands) | |
| Bank credit facilities | $ 64,734 | $ 51,534 |
| Other debt due within one year | 1,925 | 1,833 |
| Short-term debt | $ 66,659 | $ 53,367 |

Bank credit facilities consist of various committed and uncommitted lines of credit with financial institutions utilized primarily to support the working capital requirements of foreign operations. The weighted average interest rate on the outstanding bank credit facilities, which are primarily in Japan that has a low interest rate environment, was 1.7% at September 29, 2007 and 1.5% at June 30, 2007.

The Company has an accounts receivable securitization program (the Program ) with a group of financial institutions that allows the Company to sell, on a revolving basis, an undivided interest of up to $450,000,000 in eligible receivables while retaining a subordinated interest in a portion of the receivables. The Program does not qualify for sale treatment, as a result, any borrowings under the Program are recorded as debt on the consolidated balance sheet. During August 2007, the Company renewed the Program for another one year term that will expire in August 2008. There were no amounts outstanding under the Program at September 29, 2007 or June 30, 2007.

Long-term debt consists of the following:

| | September 29, 2007 | June 30, 2007 |
|---|---|---|
| | (Thousands) | |
| 5.875% Notes due March 15, 2014 | $ 300,000 | $ 300,000 |

| | | |
|---|---|---|
| 6.00% Notes due September 1, 2015 | 250,000 | 250,000 |
| 6.625% Notes due September 15, 2016 | 300,000 | 300,000 |
| 2% Convertible Senior Debentures due March 15, 2034 | 300,000 | 300,000 |
| Other long-term debt | 8,998 | 9,073 |
| Subtotal | 1,158,998 | 1,159,073 |
| Discount on notes | (2,990) | (3,083) |
| Long-term debt | $ 1,156,008 | $ 1,155,990 |

During the first quarter of fiscal 2008, the Company entered into a five-year $500,000,000 unsecured revolving credit facility (the Credit Agreement ) with a syndicate of banks which expires September 26, 2012. In connection with the Credit Agreement, the Company terminated its existing unsecured $500,000,000 credit facility (the 2005 Credit Facility ) which was to expire in October 2010. The 2005 Credit Facility had substantially similar terms and conditions as those in the Credit Agreement except that the Credit Agreement effectively extended the 2005 Credit

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Facility s terms by two years. Under the Credit Agreement, the Company may select from various interest rate options, currencies and maturities. The Credit Agreement contains certain covenants, all of which the Company was in compliance with as of September 29, 2007. As of the end of the first quarter of fiscal 2008, there were no borrowings under the Credit Agreement; however, there were $21,072,000 in letters of credit issued under the Credit Agreement which represents a utilization of the Credit Agreement capacity but they are not recorded in the consolidated balance sheet as the letters of credit are not debt. At June 30, 2007, there were no borrowings outstanding under the 2005 Credit Facility and $21,152,000 in letters of credit were issued under the 2005 Credit Facility.

During October 2006, the Company redeemed all of its 93/4% Notes due February 15, 2008 (the 93/4% Notes ), of which $361,360,000 was outstanding. The Company used the net proceeds amounting to $296,085,000 from the issuance in September 2006 of $300,000,000 principal amount of 6.625% Notes due September 15, 2016, plus available liquidity, to repurchase the 93/4% Notes. In connection with the repurchase, the Company terminated two interest rate swaps with a total notional amount of $200,000,000 that hedged a portion of the 93/4% Notes. Debt extinguishment costs incurred in the first quarter of fiscal 2007 as a result of the redemption totaled $27,358,000 pre-tax, $16,538,000 after tax, or $0.11 per share on a diluted basis, and consisted of $20,322,000 for a make-whole redemption premium, $4,939,000 associated with interest rate swap terminations, and $2,097,000 to write-off certain deferred financing costs.

The $300,000,000 2% Convertible Senior Debentures due March 15, 2034 (the Debentures ) are convertible into Avnet common stock at a rate of 29.5516 shares of common stock per $1,000 principal amount of Debentures. The Debentures are only convertible under certain circumstances, including if: (i) the closing price of the Company s common stock reaches $45.68 per share (subject to adjustment in certain circumstances) for a specified period of time; (ii) the average trading price of the Debentures falls below a certain percentage of the conversion value per Debenture for a specified period of time; (iii) the Company calls the Debentures for redemption; or (iv) certain corporate transactions, as defined, occur. Upon conversion, the Company will deliver cash in lieu of common stock as the Company made an irrevocable election in December 2004 to satisfy the principal portion of the Debentures, if converted, in cash. The Company may redeem some or all of the Debentures for cash any time on or after March 20, 2009 at the Debentures full principal amount plus accrued and unpaid interest, if any. Holders of the Debentures may require the Company to purchase, in cash, all or a portion of the Debentures on March 15, 2009, 2014, 2019, 2024 and 2029, or upon a fundamental change, as defined, at the Debentures full principal amount plus accrued and unpaid interest, if any.

**6. Commitments and contingencies**

From time to time, the Company may become liable with respect to pending and threatened litigation, tax, environmental and other matters. The Company has been designated a potentially responsible party or has become aware of other potential claims against it in connection with environmental clean-ups at several sites. Based upon the information known to date, the Company believes that it has appropriately reserved for its share of the costs of the clean-ups and management does not anticipate that any contingent matters will have a material adverse impact on the Company s financial condition, liquidity or results of operations.

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## 7. Pension plan

The Company s noncontributory defined benefit pension plan (the Plan ) covers substantially all domestic employees. Components of net periodic pension costs during the quarters ended September 29, 2007 and September 30, 2006 were as follows:

| | First Quarters Ended | |
|---|---|---|
| | September 29, 2007 | September 30, 2006 |
| | (Thousands) | |
| Service cost | $ 3,684 | $ 3,715 |
| Interest cost | 4,192 | 3,933 |
| Expected return on plan assets | (5,834) | (5,123) |
| Recognized net actuarial loss | 774 | 681 |
| Amortization of prior service credit | | (11) |
| Net periodic pension costs | $ 2,816 | $ 3,195 |

During the first quarter of fiscal 2008, the Company made contributions to the Plan of $10,708,000.

## 8. Accrued income taxes

The Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, ( FIN 48 ) on July 1, 2007, the first day of fiscal 2008. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements and prescribes that a company use a more-likely-than-not recognition threshold based upon the technical merits of the tax position taken or expected to be taken in a tax return.

The adoption of FIN 48 resulted in no cumulative adjustment to retained earnings. In addition, consistent with the provisions of FIN 48, the Company reclassified $94,460,000 of income tax liabilities from current classification in accrued expenses and other on the Consolidated Balance Sheet to long-term classification in other long-term liabilities.

The total amount of gross unrecognized tax benefits upon adoption was $114,285,000, of which approximately $49,563,000 would favorably impact the effective tax rate if recognized. In accordance with the Company s accounting policy, accrued interest and penalties, if any, related to unrecognized tax benefits are recorded as a component of tax expense. This policy did not change as a result of the adoption of FIN 48. The Company had accrued interest expense and penalties of $12,601,000, net of applicable state tax benefit, as of the date of adoption of FIN 48.

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company conducts business globally and consequently files income tax returns in numerous jurisdictions including the United States, Germany, United Kingdom, Belgium, Singapore, Taiwan and Hong Kong. It is also routinely subject to audit in these and other countries. The Company is no longer subject to audit in its major jurisdictions for periods prior to fiscal year 2000. The open years, by major jurisdiction, are as follows:

| Jurisdiction | Fiscal Year |
|---|---|
| United States (federal and state) | 2001 - 2007 |
| Germany | 2000 - 2007 |
| United Kingdom | 2006 - 2007 |
| Belgium | 1999 - 2007 |
| Singapore | 2000 - 2007 |
| Taiwan | 2002 - 2007 |
| Hong Kong | 2001 - 2007 |

**9. Comprehensive income**

| | First Quarters Ended | |
|---|---|---|
| | September 29, 2007 | September 30, 2006 |
| | (Thousands) | |
| Net income | $ 105,537 | $ 64,143 |
| Foreign currency translation adjustments | 53,896 | 3,613 |
| Total comprehensive income | $ 159,433 | $ 67,756 |

**10. Earnings per share**

| | First Quarters Ended | |
|---|---|---|
| | September 29, 2007 | September 30, 2006 |
| | (Thousands, except per share data) | |
| Numerator: | | |
| Net income | $ 105,537 | $ 64,143 |
| Denominator: | | |
| Weighted average common shares for basic earnings per share | 149,978 | 146,718 |

| | | | | |
|---|---|---|---|---|
| Net effect of dilutive stock options and restricted stock awards | | 2,177 | | 483 |
| Net effect of 2% Convertible Debentures due March 15, 2034 | | 1,303 | | |
| Weighted average common shares for diluted earnings per share | | 153,458 | | 147,201 |
| Basic earnings per share | $ | 0.70 | $ | 0.44 |
| Diluted earnings per share | $ | 0.69 | $ | 0.44 |

Shares issuable upon conversion of the 2% Convertible Debentures are excluded from the computation of earnings per diluted share for the first quarter of fiscal 2007 as a result of the Company s election to satisfy the principal portion of the Debentures, if converted, in cash (see Note 5) in combination with the fact that the average stock price for the first quarter of fiscal 2007 was below the conversion price per share of $33.84. Shares issuable for the conversion premium of the 2% Convertible Debentures are included in the computation of earnings per diluted shares for the first quarter of fiscal 2008 because the average stock price for the quarter was above the conversion

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

price per share of $33.84. The number of dilutive shares for the conversion premium was calculated in accordance with EITF 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings per Share.*

Options to purchase 33,000 and 3,079,000 shares of the Company s stock were excluded from the calculations of diluted earnings per share for the quarters ended September 29, 2007 and September 30, 2006, respectively, because the exercise price for those options was above the average market price of the Company s stock. Therefore, inclusion of these options in the diluted earnings per share calculation would have had an anti-dilutive effect.

**11. Additional cash flow information**

Other non-cash and other reconciling items consist of the following:

| | First Quarters Ended | |
|---|---|---|
| | September 29, 2007 | September 30, 2006 |
| | (Thousands) | |
| Provision for doubtful accounts | $ 35 | $ 5,131 |
| Periodic pension costs (Note 7) | 2,816 | 3,195 |
| Other, net | 19 | 118 |
| | $ 2,870 | $ 8,444 |

The year over year reduction in the provision for doubtful accounts was due primarily to an allowance provided on a customer receivable, a portion of which is no longer needed as a result of an agreement entered into during the first quarter of fiscal 2008.

Other, net, cash flows from financing activities are comprised primarily of proceeds from the exercise of stock options and associated tax benefits with the corresponding offset in cash from operating activities.

Interest and income taxes paid in the three months ended September 29, 2007 and September 30, 2006, respectively, were as follows:

| | First Quarters Ended | |
|---|---|---|
| | September 29, 2007 | September 30, 2006 |
| | (Thousands) | |
| Interest | $ 37,192 | $ 35,082 |
| Income taxes | 17,846 | 8,631 |

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. Segment information**

| | First Quarters Ended | |
|---|---|---|
| | September 29, 2007 | September 30, 2006 |
| | (Thousands) | |
| Sales: | | |
| Electronics Marketing | $ 2,491,194 | $ 2,435,418 |
| Technology Solutions | 1,607,524 | 1,212,982 |
| | $ 4,098,718 | $ 3,648,400 |
| Operating income (loss): | | |
| Electronics Marketing | $ 130,171 | $ 125,638 |
| Technology Solutions | 58,529 | 38,999 |
| Corporate | (23,504) | (19,666) |
| | $ 165,196 | $ 144,971 |
| Sales, by geographic area: | | |
| Americas(1) | $ 1,984,348 | $ 1,776,938 |
| EMEA(2) | 1,254,807 | 1,122,641 |
| Asia/Pacific(3) | 859,563 | 748,821 |
| | $ 4,098,718 | $ 3,648,400 |

(1) Included in sales for the quarters ended September 29, 2007 and September 30, 2006 for the Americas region are $1.8 billion and $1.6 billion, respectively, of sales related to the United States.

(2) Included in sales for the quarters ended September 29, 2007 and September 30, 2006 for the EMEA region are $467.3 million and $443.0 million, respectively, of sales related to Germany.

(3) Included in sales for the quarters ended September 29, 2007 and September 30, 2006 for the Asia/Pacific region is $277.3 million and $224.7 million, respectively, of sales related to Taiwan; $226.3 million and $191.9 million, respectively, of sales related to Hong Kong; and $216.6 million and $189.4 million, respectively, of sales related to Singapore.

| | September 29, 2007 | June 30, 2007 |
|---|---|---|

| | (Thousands) | |
|---|---|---|
| Assets: | | |
| Electronics Marketing | $ 4,780,193 | $ 4,604,511 |
| Technology Solutions | 2,250,454 | 2,361,408 |
| Corporate | 337,027 | 389,200 |
| | $ 7,367,674 | $ 7,355,119 |
| Property, plant, and equipment, net, by geographic area | | |
| Americas(4) | $ 115,678 | $ 112,531 |
| EMEA(5) | 56,163 | 55,304 |
| Asia/Pacific | 12,648 | 11,698 |
| | $ 184,489 | $ 179,533 |

(4) Property, plant and equipment, net, for the Americas region as of September 29, 2007 and June 30, 2007 includes $113.3 million and $110.0 million, respectively, related to the United States.

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(5) Property, plant and equipment, net, for the EMEA region as of September 29, 2007 and June 30, 2007 includes $27.1 million and $26.8 million, respectively, related to Germany and $13.9 million and $13.4 million, respectively, related to Belgium.

## 13. Restructuring, integration and other items

***Fiscal 2007***

During the second half of fiscal 2007, the Company incurred certain restructuring, integration and other items as a result of cost-reduction initiatives in all three regions and the acquisition of Access on December 31, 2006 (see Note 3). The Company established and approved plans for cost reduction initiatives across the Company and approved plans to integrate the acquired Access business into Avnet s existing TS operations, which was complete as of the end of fiscal 2007. The following table summarizes the activity in these reserve accounts during the first quarter of fiscal 2008:

| | Severance Reserves | Facility Exit Costs | Other | Total |
|---|---|---|---|---|
| | | (Thousands) | | |
| Balance at June 30, 2007 | $ 6,653 | $ 827 | $ 393 | $ 7,873 |
| Amounts utilized | (4,555) | (265) | (185) | (5,005) |
| Other, principally foreign currency translation | 174 | | 12 | 186 |
| Balance at September 29, 2007 | $ 2,272 | $ 562 | $ 220 | $ 3,054 |

As of September 29, 2007, management expects the majority of the remaining reserves to be utilized by the end of fiscal 2008.

***Fiscal 2006 and prior restructuring reserves***

In fiscal year 2006 and prior, the Company incurred restructuring charges under three separate restructuring plans. Two of the restructuring plans occurred during fiscal 2006, the first consisted of charges incurred as a result of the acquisition of Memec on July 5, 2005 and its subsequent integration into Avnet s existing operations ( Memec FY 2006 in the following table), and the second plan was primarily related to actions taken following the divestitures of certain TS business lines in the Americas region in the second half of fiscal 2006 and certain cost reduction actions taken by TS in the EMEA region ( Other FY 2006 in the following table). The third restructuring plan occurred during fiscal 2004 and 2003 and related to the reorganization of operations in each of the Company s three regions in response to business conditions at the time of the charge ( FY 2004 and 2003 in the following table). The table below presents the activity during the first quarter of fiscal 2008 that occurred in the reserves established as part of the three restructuring plans:

| Restructuring Charges | Memec FY 2006 | Other FY 2006 | FY 2004 and 2003 | Total |
|---|---|---|---|---|
| | | (Thousands) | | |
| Balance at June 30, 2007 | $ 637 | $ 2,115 | $ 3,571 | $ 6,323 |
| Amounts utilized | (178) | (208) | (276) | (662) |
| Adjustments | | (354) | | (354) |
| Other, principally foreign currency translation | 14 | 29 | 144 | 187 |
| Balance at September 29, 2007 | $ 473 | $ 1,582 | $ 3,439 | $ 5,494 |

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**AVNET, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of September 29, 2007, the remaining Memec FY 2006 reserves related to severance, the majority of which management expects to utilize by the end of fiscal 2008 and facility exit costs, the majority of which management expects to utilize by fiscal 2009.

During the first quarter of fiscal 2008, adjustments of $354,000 for the Other FY 2006 reserves related to severance and other reserves deemed excessive and therefore reversed through selling, general and administrative expenses. As of September 29, 2007, remaining reserves related to severance, the majority of which management expects to utilize before the end of fiscal 2008 and facility exit costs, the majority of which management expects to utilize by fiscal 2013.

As of September 29, 2007, the remaining reserves for FY 2004 and 2003 restructuring activities related to severance and other reserves, the majority of which the Company expects to utilize by the end of fiscal 2008 and contractual lease commitments, substantially all of which the Company expects to utilize by the end of fiscal 2010, although a small portion of the remaining reserves relate to lease payouts that extend as late as fiscal 2012.

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**Item 2.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

For a description of the Company s critical accounting policies and an understanding of the significant factors that influenced the Company s performance during the quarters ended September 29, 2007 and September 30, 2006, this *Management s Discussion and Analysis of Financial Condition and Results of Operations* ( MD&A ) should be read in conjunction with the consolidated financial statements, including the related notes, appearing in Item 1 of this Report, as well as the Company s Annual Report on Form 10-K for the year ended June 30, 2007.

There are numerous references to the impact of foreign currency translation in the discussion of the Company s results of operations that follow. Over the past several years, the exchange rates between the US Dollar and many foreign currencies, especially the Euro, have fluctuated significantly. For example, the US Dollar has weakened against the Euro by approximately 2% when sequentially comparing the first quarter of fiscal 2008 with the fourth quarter of fiscal 2007. On a year-over-year basis (first quarter fiscal 2008 as compared with first quarter fiscal 2007), the US Dollar weakened against the Euro by approximately 8%. When the weaker US Dollar exchange rates of the current year are used to translate the results of operations of Avnet s subsidiaries denominated in foreign currencies, the resulting impact is an increase in US Dollars of reported results. In the discussion that follows, this is referred to as the translation impact of changes in foreign currency exchange rates.

In addition to disclosing financial results that are determined in accordance with US generally accepted accounting principles ( GAAP ), the Company also discloses certain non-GAAP financial information such as income or expense items as adjusted for the translation impact of changes in foreign currency exchange rates, as discussed above, or sales adjusted for the impact of acquisitions or sales adjusted for the impact of the change to net revenue accounting as further discussed below under ***Sales***. Management believes that providing this additional information is useful to the reader to better assess and understand operating performance, especially when comparing results with previous periods or forecasting performance for future periods, primarily because management typically monitors the business both including and excluding these adjustments to GAAP results. Management also uses these non-GAAP measures to establish operational goals and, in some cases, for measuring performance for compensation purposes. However, analysis of results and outlook on a non-GAAP basis should be used as a complement to, and in conjunction with, data presented in accordance with GAAP.

## OVERVIEW

### Organization

Avnet, Inc. together with its consolidated subsidiaries (the Company or Avnet ), is one of the world s largest industrial distributors, based on sales, of electronic components, enterprise computer and storage products and embedded subsystems. Avnet creates a vital link in the technology supply chain that connects over 300 of the world s leading electronic component and computer product manufacturers and software developers as a value-added source for multiple products for a global customer base of over 100,000 original equipment manufacturers ( OEMs ), electronic manufacturing services ( EMS ) providers, original design manufacturers ( ODMs ), and value-added resellers ( VARs ). Avnet distributes electronic components, computer products and software as received from its suppliers or with assembly or other value added by Avnet. Additionally, Avnet provides engineering design, materials management and logistics services, system integration and configuration, and supply chain advisory services.

The Company consists of two operating groups Electronics Marketing ( EM ) and Technology Solutions ( TS ) each with operations in the three major economic regions of the world: the Americas, EMEA (Europe, Middle East and Africa) and Asia/Pacific. A brief summary of each operating group is provided below:

EM markets and sells semiconductors and interconnect, passive and electromechanical devices ( IP&E ) on behalf of over 300 of the world s leading electronic component manufacturers. EM markets and sells its products and services to a diverse customer base spread across end-markets including automotive, communications, computer hardware and peripheral, industrial and manufacturing, medical equipment, military and aerospace. EM also offers an array of value-added services that help customers evaluate, design-in and procure electronic components throughout the lifecycle of their technology products and systems. By

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working with EM from the design phase through new product introduction and through the product lifecycle, customers and suppliers can accelerate their time to market and realize cost efficiencies in both the design and manufacturing process.

TS markets and sells mid- to high-end servers, data storage, software, and the services required to implement these products and solutions to the VAR channel. TS also focuses on the worldwide OEM market for computing technology, system integrators and non-PC OEMs that require embedded systems and solutions including engineering, product prototyping, integration and other value-added services.

**Results of Operations**

***Executive Summary***

Several items impacted the financial results for Avnet when comparing first quarter of fiscal 2008 results with first quarter of fiscal 2007. The acquisitions of Access Distribution ( Access ), Azure Technology ( Azure ) and Flint Distribution (see Note 3 in the *Notes to the Consolidated Financial Statements* in Item 1 of this Form 10-Q), all of which were acquired after first quarter of fiscal 2007 and, as a result, positively impact the comparison of results with the prior period results as prior period does not include results of the acquired businesses. Also, in conjunction with the acquisition of Access and reflecting recent industry trends, the Company reviewed its method of recording revenue related to the sales of supplier service contracts and determined that such sales were to be classified on a net revenue basis rather than on a gross basis effective with the third quarter of fiscal 2007 (referred to as the change to net revenue reporting in this MD&A). Although this change reduces sales and cost of sales for the Technology Solutions operating group and on a consolidated basis, it has no impact on operating income, net income, cash flow or the balance sheet. These items in the aggregate, the acquisitions in particular, have a net positive impact on the first quarter of fiscal 2008 sales in comparison with the first quarter of fiscal 2007. The comparison of sales for the first quarter of fiscal 2008 with the first quarter of fiscal 2007 adjusted for the impact of acquisitions and the change to net revenue reporting is presented in tables under ***Sales*** and is referred to as pro forma basis in this MD&A.

Avnet s consolidated sales of $4.10 billion in the first quarter of fiscal 2008 were up 12.3% over the first quarter of fiscal 2007 sales of $3.65 billion. Excluding the translation impact of changes in foreign currency exchange rates, sales would have increased approximately 9.8%. Consolidated year-over-year sales growth on a pro forma basis was 2.3%. TS and EM posted year-over-year sales growth of 32.5% and 2.3%, respectively, and 2.6% and 2.1%, respectively, on a pro forma basis. The sales growth for TS was primarily driven by acquisitions, in particular by the Access acquisition from which TS significantly expanded its Sun Microsystems business. At EM, the Asia region generated better than expected sales growth which offset a decline in the Americas region. Gross profit margin of 12.8% was essentially flat year over year and operating profit margin increased 6 basis points to 4.03% in the first quarter of fiscal 2008 as compared with the same period last year. A regional shift to more EM sales coming from Asia and an operating group mix shift to a higher proportion of consolidated sales coming from TS negatively impacted gross profit margins and operating profit margins. Even though EM Asia and the TS operating group generate lower gross margins than the EM operations in the Americas and EMEA, they have higher working capital velocity the combination of which allows both to contribute to the Company s performance in driving higher levels of returns on capital.

***Sales***

The table below provides sales for the Company and its operating groups, including an analysis of the Company s sales for the first quarter of fiscal 2008 as compared with the Company s sales for the first quarter of fiscal 2007. In addition, as discussed in *Executive Summary*, sales for first quarter of fiscal 2008 as compared with first quarter fiscal 2007 were impacted by (i) the classification of sales of supplier service contracts on a net revenue basis, which was

effective beginning in the third quarter of fiscal 2007 and (ii) the sales of certain acquisitions, including Access Distribution acquired on December 31, 2006, Azure Technologies acquired in April 2007 and Flint Distribution acquired in July 2007. Included in the table below is the comparison of first quarter of fiscal 2008

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sales for the Company and its operating groups and a comparison to pro forma sales adjusted for these items to allow readers to better assess and understand the Company s revenue performance by operating group and by region.

| | Q1-Fiscal 08 | Q1-Fiscal 07 | Year-Year % Change | Pro Forma Q1-Fiscal 07 | Pro Forma Year-Year % Change |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| **Avnet, Inc.** | $ 4,098,718 | $ 3,648,400 | 12.3% | $ 4,008,221 | 2.3% |
| EM | 2,491,194 | 2,435,418 | 2.3 | 2,440,801 | 2.1 |
| TS | 1,607,524 | 1,212,982 | 32.5 | 1,567,420 | 2.6 |
| **EM** | | | | | |
| Americas | $ 911,373 | $ 957,424 | (4.8)% | $ 957,424 | (4.8)% |
| EMEA | 830,772 | 794,006 | 4.6 | 799,389 | 3.9 |
| Asia | 749,049 | 683,988 | 9.5 | 683,988 | 9.5 |
| **TS** | | | | | |
| Americas | $ 1,072,975 | $ 819,514 | 30.9% | $ 1,130,211 | (5.1)% |
| EMEA | 424,035 | 328,635 | 29.0 | 353,212 | 20.1 |
| Asia | 110,514 | 64,833 | 70.5 | 83,997 | 31.6 |
| **Totals by Region** | | | | | |
| Americas | $ 1,984,348 | $ 1,776,938 | 11.7% | $ 2,087,635 | (4.9)% |
| EMEA | 1,254,807 | 1,122,641 | 11.8 | 1,152,601 | 8.9 |
| Asia | 859,563 | 748,821 | 14.8 | 767,985 | 11.9 |

The following table presents the reconciliation of sales as reported for first quarter of fiscal 2007 to the pro forma sales for the same period to adjust for sales recorded by certain businesses acquired by Avnet prior to the acquisition date and the impact of net revenue reporting for the period prior to the effective date:

| | Reported Q1 Fiscal 07 | Acquisition Sales | Gross to Net Revenue Impact | Pro Forma Sales |
|---|---|---|---|---|
| | (Thousands) | | | |
| **Avnet, Inc.** | $ 3,648,400 | $ 455,631 | $ (95,810) | $ 4,008,221 |
| EM | 2,435,418 | 5,383 | | 2,440,801 |
| TS | 1,212,982 | 450,248 | (95,810) | 1,567,420 |

Consolidated sales for the first quarter of fiscal 2008 were $4.10 billion, up 12.3%, or $450.3 million, from the prior year first quarter consolidated sales of $3.65 billion. Approximately $93 million of this year-over-year increase is due to the translation impact of changes in foreign currency exchange rates. TS experienced sales growth of 32.5%, or $394.5 million, over prior year first quarter (approximately $35 million was a result of the translation impact of changes in foreign currency exchange rates) primarily due to the addition of Access and Azure businesses. On a pro forma basis, TS sales growth was 2.6%. EM year-over-year sales growth was 2.3% but was flat excluding the translation impact of foreign currency exchange rates and was 2.1% on a pro forma basis.

EM reported sales of $2.49 billion in the first quarter of fiscal 2008, up $55.8 million, or 2.3% (and flat excluding the translation impact of changes in foreign currency exchange rates), over the prior year first quarter sales of $2.44 billion. EM Asia generated better than expected year-over-year sales growth of 9.5%, driven primarily by the strength in the digital consumer end markets, and more than offset the Americas decline of 4.8% which was slightly weaker than expected. The EM EMEA region year-over-year sales grew 4.6% (3.9% on a pro forma basis) but was down 2.7% excluding the translation impact of changes in foreign currency exchange rates as the US dollar weakened against the Euro during the first quarter of fiscal 2008.

TS reported sales of $1.61 billion, up $394.5 million, or 32.5%, from sales in the first quarter of fiscal 2007 of $1.21 billion. Excluding the translation impact of changes in foreign currency exchange rates, sales increased 29.7%. The year-over-year growth was driven primarily by the addition of sales through acquisitions of the Access and Azure businesses. Comparative sales growth was also impacted by the change to net revenue reporting. On a pro forma basis, TS sales increased 2.6% year over year. TS Americas sales of $1.07 billion increased 30.9% compared

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with the prior year first quarter. On a pro forma basis, sales in the Americas declined 5.1% year over year as demand for some proprietary servers and microprocessors was weaker than expected despite strong double digit growth in industry standard servers, storage, services and software. The EMEA region generated year-over-year sales of $424.0 million, up 29.0% compared with prior year first quarter (up 19.3% excluding the translation impact of changes in foreign currency exchange rates). On a pro forma basis, year-over-year sales in EMEA increased 20.1% (11.0% excluding the translation impact of changes in foreign currency exchange rates) driven by the enterprise IT products business. The Asia region posted year-over-year sales of $110.5 million, up 70.5% over prior year s first quarter. On a pro forma basis, year-over-year sales in Asia increased 31.6% led by the enterprise IT products business.

**Gross Profit and Gross Profit Margins**

Consolidated gross profit for the first quarter of fiscal 2008 was $526.5 million, up $58.2 million, or 12.4%, over prior year first quarter. Gross profit margin of 12.8% was essentially flat year over year due primarily to a regional sales shift in EM, a sales mix shift between the operating groups, and the impact of the change in method of recording sales of supplier service contracts. EM gross profit margins were up year over year, even though they were impacted by a regional shift where Asia, which has lower gross margins than in the Americas and EMEA, grew from 28.1% of EM revenue in the prior year first quarter to 30.1% in the first quarter of fiscal 2008. There was also a business mix shift where TS grew to 39.2% of consolidated sales as compared with 33.2% in the prior year first quarter. Both the TS operating group as well as the EM Asia region typically have lower gross profit margins on its product sales; however, both TS and EM Asia also have higher working capital velocity the combination of which allows both to contribute to the Company s performance in driving higher levels of returns on capital. Offsetting these negative impacts of the mix and region shifts on gross profit margin was the positive impact by the change to net revenue reporting in TS for its supplier service contracts.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses ( SG&A expenses ) were $361.3 million in the first quarter of fiscal 2008, up $37.9 million, or 11.7%, over the prior year first quarter primarily due to the acquisition of Access Distribution, which was acquired during the second half of fiscal 2007, and the weakening of the US dollar versus the Euro. Metrics that management monitors with respect to its operating expenses are SG&A expenses as a percentage of sales and as a percentage of gross profit. In the first quarter of fiscal 2008, SG&A expenses were 8.8% of sales and 68.6% of gross profit as compared with 8.9% and 69.0%, respectively, in the first quarter of fiscal 2007.

**Operating Income**

Operating income for the first quarter of fiscal 2008 increased 14.0% to $165.2 million, or 4.03% of consolidated sales, as compared with operating income of $145.0 million, or 3.97% of consolidated sales in the first quarter of fiscal 2007. EM reported operating income of $130.2 million (5.23% of EM sales) in the first quarter of fiscal 2008 as compared with $125.6 million (5.16% of EM sales) in the prior year first quarter. This represents the seventh consecutive quarter where EM operating income margin was greater than 5%. TS operating income in the first quarter of fiscal 2008 was $58.5 million (3.64% of TS sales) as compared with $39.0 million (3.22% of TS sales) in the prior year first quarter. Corporate operating expenses increased $3.8 million to $23.5 million in the first quarter of fiscal 2008 as compared to $19.7 million in the first quarter of fiscal 2007 primarily due to an increase in stock based compensation expense.

**Interest Expense and Other Income, net**

Interest expense in the first quarter of fiscal 2008 was $18.6 million, down $3.7 million, or 16.7%, from interest expense of $22.3 million in the first quarter of fiscal 2007. The year-over-year decrease in interest expense is

primarily the result of a lower effective interest rate on debt outstanding and refinancing activities which occurred during fiscal 2007, whereby higher interest rate debt was repaid or replaced with lower interest rate debt. In September 2006, the Company issued $300.0 million principal amount of 6.625% Notes due 2016 and used the proceeds along with available liquidity to fund the repurchase of $361.4 million of the 93/4% Notes, which was completed on October 12, 2006. See *Financing Transactions* for further discussion of the Company s outstanding debt.

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Other income, net, was $7.4 million in the first quarter of fiscal 2008 as compared with $3.7 million in the first quarter of fiscal 2007. The year-over-year increase was primarily the result of higher short-term interest rates, foreign currency exchange gains compared to losses in prior year first quarter and higher income from an equity method investment.

**Debt Extinguishment Costs**

As further described in *Financing Transactions*, the Company incurred debt extinguishment costs in the first quarter of fiscal 2007 associated with the redemption of its 93/4% Notes due February 15, 2008, of which $361.4 million was outstanding. The costs incurred as a result of the redemption totaled $27.4 million pre-tax, $16.5 million after tax, or $0.11 per share on a diluted basis, and consisted of $20.3 million for the make-whole redemption premium, $5.0 million associated with two interest rate swap terminations, and $2.1 million to write-off certain deferred financing costs.

**Income Tax Provision**

The Company s effective tax rate on its income before income taxes was 31.5% in the first quarter of fiscal 2008 as compared with 35.3% in the first quarter of fiscal 2007. The decrease in the effective tax rate was primarily driven by the mix of pre-tax income towards lower statutory tax rate jurisdictions and the negative impact on prior year s first quarter effective tax rate related to (1) the loss on the sale of an EM business for which no tax benefit was available and (2) an additional tax provision for transfer pricing exposures in Europe in the amount of $3.4 million, or $0.02 per share on a diluted basis.

**Net Income**

As a result of the operational performance and other factors described in the preceding sections of this MD&A, the Company s consolidated net income for the first quarter of fiscal 2008 was $105.5 million, or $0.69 per share on a diluted basis, as compared with $64.1 million, or $0.44 per share on a diluted basis, in the prior year first quarter. Net income for the first quarter of fiscal 2007 was negatively impacted by debt extinguishment costs ($16.5 million after tax or $0.11 per share on a diluted basis).

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## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow

The following table summarizes the Company s cash flow activity for the quarters ended September 29, 2007 and September 30, 2006, including the Company s computation of free cash flow and a reconciliation of this metric to the nearest GAAP measures of net income and net cash flow from operations. Management s computation of free cash flow consists of net cash flow from operations plus cash flows generated from or used for purchases and sales of property, plant and equipment, acquisitions of operations, effects of exchange rates on cash and cash equivalents and other financing activities. Management believes that the non-GAAP metric of free cash flow is a useful measure to help management and investors better assess and understand the Company s operating performance and sources and uses of cash. Management also believes the analysis of free cash flow assists in identifying underlying trends in the business. Computations of free cash flow may differ from company to company. Therefore, the analysis of free cash flow should be used as a complement to, and in conjunction with, the Company s consolidated statements of cash flows presented in the accompanying consolidated financial statements.

Management also analyzes cash flow from operations based upon its three primary components noted in the table below: net income, non-cash and other reconciling items and cash flow used for working capital. Similar to free cash flow, management believes that this breakout is an important measure to help management and investors understand the trends in the Company s cash flows, including the impact of management s focus on asset utilization and efficiency through its management of the net balance of receivables, inventories and accounts payable.

| | First Quarters Ended | |
|---|---|---|
| | September 29, 2007 | September 30, 2006 |
| | (Thousands) | |
| Net income | $ 105,537 | $ 64,143 |
| Non-cash and other reconciling items(1) | 60,130 | 50,850 |
| Cash flow used for working capital (excluding cash and cash equivalents)(2) | (209,492) | (141,610) |
| Net cash flow used for operations | (43,825) | (26,617) |
| Cash flow generated from (used for): | | |
| Purchase of property, plant and equipment | (13,661) | (14,045) |
| Cash proceeds from sales of property, plant and equipment | 278 | 728 |
| Acquisitions of operations, net | (12,190) | |
| Effect of exchange rates on cash and cash equivalents | 18,624 | 88 |
| Other, net financing activities | 4,777 | 3,082 |
| Net free cash flow | (45,997) | (36,764) |
| Proceeds from debt, net | 9,533 | 241,830 |
| Net (decrease) increase in cash and cash equivalents | $ (36,464) | $ 205,066 |

(1) Non-cash and other reconciling items are the combination of depreciation and amortization, deferred income taxes, stock-based compensation, and other, net (primarily the provision for doubtful accounts and periodic

pension costs), in cash flows from operations.

(2) Cash flow used for working capital is the combination of the changes in the Company s working capital and other balance sheet accounts in cash flows from operations (receivables, inventories, accounts payable and accrued expenses and other, net).

During the first quarter of fiscal 2008, the Company used $43.8 million of cash and cash equivalents for its operating activities as compared with a use of $26.6 million in the first quarter of fiscal 2007. These results are comprised of: (1) the cash flow generated from net income excluding non-cash and other reconciling items, which includes the add-back of depreciation and amortization, deferred income taxes, stock-based compensation and other

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non-cash items (primarily the provision for doubtful accounts and periodic pension costs) and (2) the cash flows used for working capital, excluding cash and cash equivalents. The working capital outflow in the first quarter of fiscal 2008 consists of a decline in receivables ($101.6 million) offset by growth in inventories ($49.2 million), net cash outflows for accounts payable ($229.2 million) and cash outflow for other items ($32.7 million). The decrease in receivables and payment of accounts payable during the quarter was driven by primarily TS activities. The large cash outflow for accounts payable was primarily due to timing as the cash flow for the fourth quarter of fiscal 2007 benefited from a large build in accounts payable. Although EM inventory turns improved year over year, the growth in inventories was driven by EM which was slightly more than expected. Comparatively, the working capital outflow in the first quarter of fiscal 2007 consisted of growth in receivables ($80.6 million), growth in inventories ($34.3 million), net cash outflows for accounts payable ($9.5 million) and cash outflow for other items ($17.2 million).

The Company s cash flows associated with investing activities included capital expenditures during the first quarter of fiscal 2008 related to system development costs and computer hardware and software expenditures as well as cash paid primarily for a small acquisition in EMEA (see Note 3 in the *Notes to the Consolidated Financial Statements* in Item 1 of this Form 10-Q). Cash flows used for investing activities during the first quarter of fiscal 2007 similarly included capital expenditures for system development costs and computer hardware and software expenditures. The cash inflows associated with other net financing activities in the first quarter of fiscal 2008 and 2007 related primarily to cash received for the exercise of stock options and the associated excess tax benefit.

As a result of the factors discussed above, the Company utilized free cash flow of $46.0 million in the first quarter of fiscal 2008 as compared with $36.8 million in the first quarter of fiscal 2007. The Company also generated a net cash inflow of $9.5 million and $241.8 million from financing activities in the first quarter of fiscal 2008 and first quarter of fiscal 2007, respectively. During the first quarter of fiscal 2007, the Company issued $300.0 million of 6.625% Notes due 2016 (see *Financing Transactions* for further discussion).

**Capital Structure and Contractual Obligations**

The following table summarizes the Company s capital structure as of the end of the first quarter of fiscal 2008 with a comparison to fiscal 2007 year-end:

| | September 29, 2007 | % of Total Capitalization | June 30, 2007 | % of Total Capitalization |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Short-term debt | $ 66,659 | 1.4% | $ 53,367 | 1.1% |
| Long-term debt | 1,156,008 | 24.1 | 1,155,990 | 25.1 |
| Total debt | 1,222,667 | 25.5 | 1,209,357 | 26.2 |
| Shareholders equity | 3,575,167 | 74.5 | 3,400,645 | 73.8 |
| Total capitalization | $ 4,797,834 | 100.0 | $ 4,610,002 | 100.0 |

For a description of the Company s long-term debt and lease commitments for the next five years and thereafter, see *Long-Term Contractual Obligations* appearing in Item 7 of the Company s Annual Report on Form 10-K for the year ended June 30, 2007. With the exception of the Company s debt transactions discussed herein, there are no material

changes to this information outside of normal lease payments.

The Company does not currently have any material commitments for capital expenditures.

**Financing Transactions**

During the first quarter of fiscal 2008, the Company entered into a five-year $500.0 million unsecured revolving credit facility (the Credit Agreement ) with a syndicate of banks which expires September 26, 2012. In connection with the Credit Agreement, the Company terminated its existing unsecured $500.0 million credit facility (the 2005 Credit Facility ) which was to expire in October 2010. The 2005 Credit Facility had substantially similar terms and conditions as those in the Credit Agreement except that the Credit Agreement effectively extended the 2005 Credit Facility s terms by two years. Under the Credit Agreement, the Company may select from various

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interest rate options, currencies and maturities. The Credit Agreement contains certain covenants, all of which the Company was in compliance with as of September 29, 2007. As of the end of the first quarter of fiscal 2008, there were no borrowings under the Credit Agreement; however, there were $21.1 million in letters of credit issued under the Credit Agreement which represents a utilization of the Credit Agreement capacity but they are not recorded in the consolidated balance sheet as the letters of credit are not debt. At June 30, 2007, there were no borrowings outstanding under the 2005 Credit Facility and $21.2 million in letters of credit were issued under the 2005 Credit Facility.

The Company has an accounts receivable securitization program (the Program ) with a group of financial institutions that allows the Company to sell, on a revolving basis, an undivided interest of up to $450.0 million in eligible receivables while retaining a subordinated interest in a portion of the receivables. The Program does not qualify for sale accounting. During August 2007, the Company renewed the Program for another one year term which will expire in August 2008. There were no drawings outstanding under the Program at September 29, 2007 or June 30, 2007.

During October 2006, the Company redeemed all of its 93/4% Notes due February 15, 2008 (the 93/4% Notes ), of which $361.4 million was outstanding. The Company used the net proceeds of $296.1 million from the issuance in the first quarter of $300.0 million principal amount of 6.625% Notes due September 15, 2016 plus available liquidity, to repurchase the 93/4% Notes on October 12, 2006. In connection with the repurchase, the Company terminated two interest rate swaps with a total notional amount of $200.0 million that hedged a portion of the 93/4% Notes. Debt extinguishment costs incurred as a result of the redemption totaled $27.4 million pre-tax, $16.5 million after tax, or $0.11 per share on a diluted basis, and consisted of $20.3 million for a make-whole redemption premium, $5.0 million associated with the two interest rate swap terminations, and $2.1 million to write-off certain deferred financing costs.

The $300.0 million of 2% Convertible Senior Debentures due March 15, 2034 (the Debentures ) are convertible into Avnet common stock at a rate of 29.5516 shares of common stock per $1,000 principal amount of Debentures. The Debentures are only convertible under certain circumstances, including if: (i) the closing price of the Company s common stock reaches $45.68 per share (subject to adjustment in certain circumstances) for a specified period of time; (ii) the average trading price of the Debentures falls below a certain percentage of the conversion value per Debenture for a specified period of time; (iii) the Company calls the Debentures for redemption; or (iv) certain corporate transactions, as defined, occur. Upon conversion, the Company will deliver cash in lieu of common stock as the Company made an irrevocable election in December 2004 to satisfy the principal portion of the Debentures, if converted, in cash. The Company may redeem some or all of the Debentures for cash any time on or after March 20, 2009 at the Debentures full principal amount plus accrued and unpaid interest, if any. Holders of the Debentures may require the Company to purchase, in cash, all or a portion of the Debentures on March 15, 2009, 2014, 2019, 2024 and 2029, or upon a fundamental change, as defined, at the Debentures full principal amount plus accrued and unpaid interest, if any.

In addition to its primary financing arrangements, the Company has several small lines of credit in various locations to fund the short-term working capital, foreign exchange, overdraft and letter of credit needs of its wholly owned subsidiaries in Europe, Asia and Canada. Avnet generally guarantees its subsidiaries debt under these facilities.

**Covenants and Conditions**

The securitization program discussed above requires the Company to maintain certain minimum interest coverage and leverage ratios as defined in the Credit Agreement (see discussion below) in order to continue utilizing the Program. The Program agreement also contains certain covenants relating to the quality of the receivables sold. If these conditions are not met, the Company may not be able to borrow any additional funds and the financial institutions may consider this an amortization event, as defined in the agreement, which would permit the financial institutions to liquidate the accounts receivable sold to cover any outstanding borrowings. Circumstances that could affect the Company s ability to meet the required covenants and conditions of the agreement include the Company s ongoing

profitability and various other economic, market and industry factors. Management does not believe that the

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covenants under the Program limit the Company s ability to pursue its intended business strategy or future financing needs. The Company was in compliance with all covenants of the Program agreement at September 29, 2007.

The Credit Agreement discussed in *Financing Transactions* contain certain covenants with various limitations on debt incurrence, dividends, investments and capital expenditures and also includes financial covenants requiring the Company to maintain minimum interest coverage and leverage ratios, as defined. Management does not believe that the covenants in the Credit Agreement limit the Company s ability to pursue its intended business strategy or future financing needs. The Company was in compliance with all covenants of the Credit Agreement as of September 29, 2007.

See *Liquidity* for further discussion of the Company s availability under these various facilities.

**Liquidity**

The Company had total borrowing capacity of $950.0 million at September 29, 2007 under the Credit Agreement and the Program, against which $21.1 million in letters of credit were issued under the Credit Agreement resulting in $928.9 million of net availability at the end of the first quarter. The Company also had an additional $520.9 million of cash and cash equivalents at September 29, 2007. There are no significant financial commitments of the Company outside of normal debt and lease maturities discussed in *Capital Structure and Contractual Obligations.* Management believes that Avnet s borrowing capacity, its current cash availability and the Company s expected ability to generate operating cash flows are sufficient to meet its projected financing needs. The Company is less likely to generate significant operating cash flows in a growing electronic component and computer products industry due to increased working capital requirements. However, additional cash requirements for working capital are generally expected to be offset by the operating cash flows generated by the Company s enhanced profitability resulting from the Company s cost efficiencies achieved in recent years. The next significant public debt maturity is the $300 million of 5.875% Notes due to mature in March 2014. In addition, the holders of the 2% Convertible Senior Debentures due 2034 may require the Company to redeem the Debentures for cash in March 2009 if the share price of the Company s stock reaches $45.68 (see *Financing Transactions* for further discussion).

The following table highlights the Company s liquidity and related ratios as of the end of the first quarter of fiscal 2008 with a comparison to the fiscal 2007 year-end:

**COMPARATIVE ANALYSIS LIQUIDITY**

| | September 29, 2007 | June 30, 2007 | Percentage Change |
|---|---|---|---|
| | (Dollars in millions) | | |
| Current Assets | $ 5,482.5 | $ 5,488.8 | (0.1)% |
| Quick Assets | 3,586.7 | 3,660.4 | (2.0) |
| Current Liabilities | 2,528.7 | 2,777.0 | (8.9) |
| Working Capital | 2,953.8 | 2,711.8 | 8.9 |
| Total Debt | 1,222.7 | 1,209.4 | 1.1 |
| Total Capital (total debt plus total shareholders equity) | 4,797.8 | 4,610.0 | 4.1 |
| Quick Ratio | 1.4:1 | 1.3:1 | |
| Working Capital Ratio | 2.2:1 | 2.0:1 | |
| Debt to Total Capital | 25.5% | 26.2% | |

The Company s quick assets (consisting of cash and cash equivalents and receivables) decreased 2.0% from June 30, 2007 to September 29, 2007 primarily due to collection of receivables during the first quarter and a small decline in cash and cash equivalents to fund payments of accounts payable. Current assets remain essentially unchanged due to an increase in inventories which offset the decrease in quick assets. Current liabilities declined 8.9% primarily due to the reduction in accounts payable as noted in *Cash Flow*. As a result of the factors noted above, total working capital increased by 8.9% during the first quarter of fiscal 2008. Total debt slightly increased by 1.1% primarily due to increased borrowings on bank credit facilities in Asia/Pacific. Total capital grew primarily

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due to net income for the quarter of $105.5 million and foreign currency translation adjustments. Finally, the debt to capital ratio decreased slightly to 25.5% at September 29, 2007 from 26.2% at June 30, 2007 as a result of the growth in capital as debt remained essentially flat sequentially.

***Recently Issued Accounting Pronouncements***

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS 157 is effective for fiscal year 2009. The Company is evaluating the potential impact on its consolidated financial statements upon adoption of SFAS 157.

In July 2006, the FASB issued Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* ( SFAS 109 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS 109 and prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken or expected to be taken. Tax positions that meet the more-likely-than-not recognition threshold should be measured in order to determine the tax benefit to be recognized in the financial statements. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition and is effective beginning the first quarter of fiscal 2008. The adoption of FIN 48 did not result in a cumulative adjustment to retained earnings. See Note 8 in the *Notes to Consolidated Financial Statements* in Item 1 of this Form 10-Q.

In March 2006, FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets an Amendment of FASB Statement No. 140* ( SFAS 156 ). SFAS 156 provides guidance on the accounting for servicing assets and liabilities when an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement is effective for all transactions at the beginning of fiscal 2008. The adoption of SFAS 156 did not have a material impact on the Company s consolidated financial condition or results of operations.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140* ( SFAS 155 ). SFAS 155 allows financial instruments that contain an embedded derivative and that otherwise would require bifurcation to be accounted for as a whole on a fair value basis, at the holders election. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective beginning fiscal 2008. The adoption of SFAS 155 did not have a material effect on the Company s consolidated financial statements.

**Item 3.** ***Quantitative and Qualitative Disclosures About Market Risk***

The Company seeks to reduce earnings and cash flow volatility associated with changes in interest rates and foreign currency exchange rates by entering into financial arrangements intended to provide a hedge against all or a portion of the risks associated with such volatility. The Company continues to have exposure to such risks to the extent they are not hedged.

See Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, in the Company s Annual Report on Form 10-K for the year ended June 30, 2007 for further discussion of market risks associated with interest rates and foreign currency exchange. Avnet s exposure to foreign exchange risks have not changed materially since June 30, 2007 as the Company continues to hedge the majority of its foreign exchange exposures. Thus, any increase or decrease in fair value of the Company s foreign exchange contracts is generally offset by an opposite effect on the related hedged position. As discussed in *Financing Transactions*, the Company terminated its remaining interest rate

swaps during the first quarter of fiscal 2007 in connection with the redemption of its 93/4% Notes.

See *Liquidity and Capital Resources Financing Transactions* appearing in Item 2 of this Form 10-Q for further discussion of the Company s financing facilities and capital structure. As of September 29, 2007, 95% of the Company s debt bears interest at a fixed rate and 5% of the Company s debt bears interest at variable rates. Therefore, a hypothetical 1.0% (100 basis point) increase in interest rates would result in a $0.2 million impact on

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income before income taxes in the Company s consolidated statement of operations for the quarter ended September 29, 2007.

**Item 4.** ***Controls and Procedures***

The Company s management, including its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act )) as of the end of the reporting period covered by this quarterly report on Form 10-Q. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report on Form 10-Q, the Company s disclosure controls and procedures are effective such that material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission s rules and forms relating to the Company.

During the first quarter of fiscal 2008, the Company implemented a new financial information system and certain modules in North America which has resulted in changes to certain internal controls over financial reporting. The Company performed pre-and post-implementation testing to ensure the effectiveness of internal controls over financial reporting. There were no other changes to the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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## PART II

## OTHER INFORMATION

**Item 1.** ***Legal Proceedings***

As a result primarily of certain former manufacturing operations, Avnet may have liability under various federal, state and local environmental laws and regulations, including those governing pollution and exposure to, and the handling, storage and disposal of, hazardous substances. For example, under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ( CERCLA ) and similar state laws, Avnet may be liable for the costs of cleaning up environmental contamination on or from its current or former properties, and at off-site locations where the Company disposed of wastes in the past. Such laws may impose joint and several liability. Typically, however, the costs for cleanup at such sites are allocated among potentially responsible parties ( PRPs ) based upon each party s relative contribution to the contamination, and other factors.

In May 1993, the Company and the former owners of a Company-owned site in Oxford, North Carolina entered into a Settlement Agreement in which the former owners agreed to bear 100% of all costs associated with investigation and cleanup of soils and sludges remaining on the site and 70% of all costs associated with investigation and cleanup of groundwater. The Company agreed to be responsible for 30% of the groundwater investigation and cleanup costs. In October 1993, the Company and the former owners entered into a Consent Decree and Court Order with the Environmental Protection Agency (the EPA ) for the environmental clean up of the site, the cost of which, according to the EPA s remedial investigation and feasibility study, was estimated to be approximately $6.3 million, exclusive of the approximately $1.5 million in EPA past costs paid by the PRPs. Based on current information, the Company does not anticipate its liability in the matter will be material to its financial position, cash flow or results of operations.

The Company is a PRP at a manufacturing site in Huguenot, New York, currently under investigation by the New York State Department of Environmental Conservation ( NYSDEC ), which site the Company owned from the mid-1960s until the early 1970s. The Company has reached a settlement in litigation to apportion the estimated clean-up costs among it and the current and former owners and operators of the site. Pursuant to the settlement, the Company has paid a portion of past costs incurred by NYSDEC and the current owner of the site, and will also pay a percentage of the cost of the environmental clean up of the site (the first phase of which has been estimated to cost a total of $2.4 million for all parties to remediate contaminated soils). The remediation plan is still subject to final approval by NYSDEC. Based on the settlement arrangement and the expected costs of the remediation efforts, the Company does not anticipate its liability in the matter will be material to its financial position, cash flow or results of operations.

Based on the information known to date, management believes that the Company has appropriately accrued in its consolidated financial statements for its share of the costs associated with these and other environmental clean up sites.

The Company and/or its subsidiaries are also parties to various other legal proceedings arising from time to time in the normal course of business. While litigation is subject to inherent uncertainties, management currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on the Company s financial position, cash flow or results of operations.

**Item 1A.** ***Risk Factors***

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to the financial condition, results of operations and business of Avnet, Inc. and subsidiaries ( Avnet or the Company ). You can find many of these statements by looking for words like believes, expects, anticipates, should, will, may, estimates or si expressions in this Report or in documents incorporated by reference in this Report. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Any forward-looking statement speaks only as of the date on which that statement is made. The Company assumes no obligation

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to update any forward-looking statement to reflect events or circumstances that occur after the date on which the statement is made.

The discussion of Avnet s business and operations should be read together with the risk factors contained in Item 1A of its 2007 Annual Report on Form 10-K, filed with the Securities and Exchange Commission, which describe various risks and uncertainties to which the Company is or may become subject. These risks and uncertainties have the potential to affect Avnet s business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. As of September 29, 2007, there have been no material changes to the risk factors set forth in the Company s 2007 Annual Report on Form 10-K.

**Item 2.** ***Unregistered Sales of Equity Securities and Use of Proceeds***

The following table includes the Company s monthly purchases of common stock during the first quarter ended September 29, 2007:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July | 5,500 | $40.46 | | |
| August | 6,000 | $39.00 | | |
| September | 6,000 | $39.59 | | |

The purchases of Avnet common stock noted above were made on the open market to obtain shares for purchase under the Company s Employee Stock Purchase Plan. None of these purchases were made pursuant to a publicly announced repurchase plan and the Company does not currently have a stock repurchase plan in place.

**Item 6.** ***Exhibits***

| Exhibit Number | Exhibit |
|---|---|
| 31.1* | Certification by Roy Vallee, Chief Executive Officer, under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification by Raymond Sadowski, Chief Financial Officer, under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification by Roy Vallee, Chief Executive Officer, under Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification by Raymond Sadowski, Chief Financial Officer, under Section 906 of the Sarbanes-Oxley Act of 2002. |

* Filed herewith.

** Furnished herewith.

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**SIGNATURE**

Pursuant to the requirements 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.

AVNET, INC.
(Registrant)

By: /s/ RAYMOND SADOWSKI
Raymond Sadowski
*Senior Vice President and*
*Chief Financial Officer*

Date: November 6, 2007