

AVNET INC
Form 10-K405
September 26, 2001

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

FORM 10-K

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

For the fiscal year ended June 29, 2001

or

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

For the transition period from _____ to _____

Commission file number 1-4224

AVNET, INC.

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

11-1890605
(I.R.S. Employer
Identification No.)

2211 South 47th Street, Phoenix, Arizona
(Address of principal executive offices)

85034
(Zip Code)

Registrant's telephone number, including area code (480) 643-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock

New York Stock Exchange and
Pacific Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this

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Form 10-K or any amendment to this Form 10-K. x

The aggregate market value (approximate) of the registrant's common equity held by non-affiliates based on the closing price of a share of the registrant's common stock for New York Stock Exchange composite transactions on September 17, 2001 \$2,352,549,672

The number of shares of the registrant's Common Stock (net of treasury shares) outstanding at August 31, 2001 117,863,210

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement (to be filed pursuant to Reg. 14A) relating to the Annual Meeting of Shareholders anticipated to be held November 29, 2001 are incorporated herein by reference in Part III of this Report.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements with respect to the financial condition, results of operations and business of Avnet, Inc. (Avnet or the Company). You can find many of these statements by looking for words like believes, expects, anticipates, estimates or similar expressions in this Report.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Factors that may cause actual results to differ materially from those contemplated by the forward-looking statements include the following:

Competitive pressures among distributors of electronic components and computer products may increase significantly through industry consolidation, entry of new competitors or otherwise.

General economic or business conditions, domestic and foreign, may be less favorable than we expected, resulting in lower sales than we expected.

Costs or difficulties related to the integration into Avnet of newly-acquired businesses, or businesses we expect to acquire, may be greater than we expected.

Avnet may lose customers or suppliers as a result of the integration into Avnet of newly acquired businesses.

Legislative or regulatory changes may adversely affect the business in which Avnet is engaged.

Adverse changes may occur in the securities markets.

Changes in interest rates and currency fluctuations may reduce Avnet's profit margins.

Avnet may be adversely affected by the allocation of products by suppliers.

Because forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by them. We caution you not to place undue reliance on these statements, which speak only as of the date of this report.

We do not undertake any obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business*

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Avnet, Inc., incorporated in New York in 1955, together with its subsidiaries (the Company or Avnet), is one of the world's largest industrial distributors of electronic components, enterprise network and computer equipment, and embedded subsystems, with sales in 2001 of \$12.81 billion.

Avnet is a vital link in the chain that connects suppliers of semiconductors, interconnect products, passive and electromechanical devices, radio frequency and microwave devices, and specialty products to original equipment manufacturers (OEMs) and contract manufacturers (CMs) that design and build the electronic equipment for end-market use, and to other industrial customers. In addition, Avnet distributes a variety of enterprise network and computer equipment and embedded subsystems and provides services to both the end user and the reseller channels. Through its electronic components distribution activities, Avnet acts as an extension of a supplier's sales force by marketing products to a larger base of customers than individual suppliers could do economically. While many suppliers can only serve a few hundred of the larger OEMs and CMs, Avnet is authorized to sell products of more than 100 of the world's leading component manufacturers to a global customer base of approximately 100,000 OEMs and CMs. Avnet ships electronic components as received from its suppliers or with assembly or other value added. As part of its distribution activities, Avnet adds various processes that customize products to meet individual OEM customer specifications. Avnet also provides supply-chain management, engineering design, material management and logistic services.

To better focus on its core business and to capitalize on growing world markets for electronic components and computer products, Avnet has pursued a strategic acquisition program. During the last three fiscal years, the Company has completed nineteen acquisitions, seven in North America, five in Europe, four in the Asia/Pacific region, two in the Middle East and one in South America. The acquisitions completed in 2001 included the acquisition of Kent Electronics Corporation, Sunrise Technology Ltd., RDT Technologies Ltd., certain European operations of the VEBA Electronics Group consisting of EBV, WBC, Atlas Logistics and RKE Systems, and Savoir Technology Group, Inc. These acquisitions completed during 2001 are discussed in more detail below and in Note 2 to the Consolidated Financial Statements appearing elsewhere in this Report.

On June 8, 2001, Avnet completed its merger with Kent Electronics Corporation, a North American-based distributor of electronic components (through its Kent Components division) and enterprise network integration equipment and services (through its Kent Datacomm division). Avnet issued approximately 25.3 million shares of its common stock to Kent shareholders, and reserved an additional 1.7 million shares for issuance upon the exercise of outstanding warrants and stock options assumed in the transaction. The transaction was accounted for as a pooling-of-interests. Kent Electronics reported sales of approximately \$942 million for its fiscal year ended March 31, 2001.

On May 10, 2001, Avnet acquired Sunrise Technology Ltd., a privately-held, electronic components distribution company serving indigenous and multinational OEMs and CMs in China. Sunrise reported revenues of approximately \$230 million for its fiscal year ending March 31, 2001.

On February 15, 2001, Avnet completed the acquisition of RDT Technologies Ltd. and combined its operations with Avnet Gallium to form Avnet Components Israel Ltd. RDT Technologies reported sales for the year ending December 31, 2000 of approximately \$90 million.

On October 31, 2000, Avnet completed its acquisition of certain European operations of the VEBA Electronics Group from Germany-based E.On AG (formerly VEBA AG) for an initial cash purchase price (subject to closing adjustments) of approximately \$740.0 million, which included the pay-off of substantially all of the debt on the books of the companies acquired. Under the terms of the agreement, Avnet acquired

*Unless otherwise specifically indicated, references in this Report to any particular year or quarter generally are to the Company's fiscal year period, which ends on the Friday closest to June 30th.

(a) the Munich, Germany-headquartered EBV Group, consisting of EBV Elektronik and WBC, both pan-European semiconductor distributors, and Atlas Services Europe, logistics provider for EBV and WBC; and (b) the Nettetal, Germany-based RKE Systems, a computer products and services distributor. The combined companies acquired from E.On AG reported calendar 1999 sales of approximately \$1.8 billion.

On July 3, 2000, Avnet acquired Savoir Technology Group, Inc., a leading distributor of IBM mid-range server products in the Americas. The total cost of the acquisition of Savoir, including estimated expenses, was approximately \$145.8 million, consisting of the cost of the Savoir shares of \$111.1 million in Avnet stock and \$0.7 million in Avnet stock options (net of related tax benefits of \$0.5 million) as well as \$1.8 million for transaction expenses and \$32.2 million for the refinancing of Savoir net debt. Savoir had sales of approximately \$767 million in its fiscal year ended December 31, 1999.

The Company also completed a number of acquisitions in 2000, the most important being the October 20, 1999 acquisition of Marshall Industries and its wholly-owned subsidiary, Sterling Electronics. Prior to the acquisition by Avnet, Marshall Industries was one of the world's

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largest distributors of electronic components and computer products with sales of \$1.72 billion in its last full fiscal year ended May 31, 1999. This acquisition was, at the time it was completed, the largest in the history of the electronics distribution industry, and made Avnet's Electronics Marketing Group the largest electronic components distribution business in the Americas. The acquisition of Marshall Industries strengthened Avnet's line card and significantly enhanced its operational efficiency.

Organizational Structure

The Company currently consists of three major operating groups, Electronics Marketing (EM), Computer Marketing (CM) and Avnet Applied Computing (AAC). A brief summary of each group followed by a more detailed description is provided below.

1. EM is engaged in the global marketing, assembly, and/or processing of electronic and electromechanical components and certain computer products, principally for industrial and some commercial and military use. EM also offers an array of value-added services to its customers, such as supply-chain management, engineering design, inventory replenishment systems, kitting, connector and cable assembly and semiconductor programming.

2. CM is an international distributor of enterprise networking and computer equipment to value-added resellers and end users focusing primarily on middle- to high-end, value-added computer products and services. CM also provides a variety of networking solutions to its customer base.

3. AAC, created in October 1999 by carving out certain business segments of EM and CM, serves the needs of personal computer OEMs and system integrators worldwide by providing the latest technologies and also serves the needs of embedded systems OEMs that require technical services such as product prototyping, configurations and other value-added services.

The sales, operating income and assets of EM, CM and AAC, prepared in accordance with Statement of Financial Accounting Standards No. 131, as well as Avnet's sales and assets by geographic area, are shown in Note 16 to the Company's consolidated financial statements appearing in Item 14 of this Report.

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The following tables set forth for each of Avnet's three fiscal years ended June 29, 2001, June 30, 2000 and July 2, 1999 the approximate amount of sales and operating income of Avnet which is attributable to each operating group described above. The operations of Kent are included primarily in the EM and CM data below for all periods presented.

SALES

	Years Ended		
	June 29, 2001	June 30, 2000	July 2, 1999
		(Millions)	
Electronics Marketing	\$ 8,286.6	\$7,105.2	\$5,113.3
Computer Marketing	2,855.6	2,139.4	1,692.4
Avnet Applied Computing	1,671.8	670.4	
	\$12,814.0	\$9,915.0	\$6,805.7

OPERATING INCOME

	Years Ended		
	June 29, 2001	June 30, 2000	July 2, 1999

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		(Millions)	
Electronics Marketing	\$ 532.3	\$421.7	\$275.1
Computer Marketing	86.4	57.9	51.0
Avnet Applied Computing	63.9	20.5	
Corporate	(101.4)	(83.1)	(74.4)
	<hr/>	<hr/>	<hr/>
Operating income before special charges	581.2	417.0	251.7
Special charges	(327.5)	(49.0)	(69.2)
	<hr/>	<hr/>	<hr/>
Operating income	\$ 253.7	\$368.0	\$182.5
	<hr/>	<hr/>	<hr/>

Electronics Marketing (EM)

EM is Avnet's largest operating group, with sales in 2001 of \$8.29 billion, representing approximately 64.7% of Avnet's consolidated sales. EM is comprised of three regional operations: EM Americas, which had sales of \$5.53 billion in 2001, or approximately 43.1% of Avnet's consolidated sales; EM EMEA (Europe, Middle East and Africa), which had sales of \$2.29 billion in 2001, or approximately 17.9% of Avnet's consolidated sales; and EM Asia, which had sales of \$0.47 billion in 2001, or approximately 3.7% of Avnet's consolidated sales.

EM continues to be the overall segment for the Company's electronic and electromechanical components business on which management evaluates the overall operations and on which it bases its operational decisions. However, effective July 1, 2001, EM began to implement plans to further manage the EM business through the creation of new, focused business units, each serving separate sectors, based on product, services or geography of the electronic components industry. The reorganization is designed to redefine and streamline operations to create more focused business units, so that EM can act locally, regionally and globally to meet customer and supplier needs while turning over entrepreneurial-type control and profit and loss responsibility to these separate businesses. EM has grown dramatically over the last couple of years necessitating a change in structure to operate with the agility required to serve all of its constituents. The new structure will facilitate local sales offices' efforts to provide a value proposition tailored to the unique opportunities in their respective locations.

The new business units provide core value services within EM, which focus on the transactional needs of the traditional electronic components distribution market, offering one of the industry's broadest line cards and convenient one-stop shopping with an emphasis on responsiveness, on-time delivery and quality. Certain

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specialty services will be provided by new support services business units. The business units located in Europe, Asia and the Americas market semiconductors; interconnect, passive and electromechanical devices (IP&E); radio frequency (RF)/microwave (wireless) components; and supply chain services.

EM's new business unit structure is as follows:

Avnet's new semiconductor division in the Americas will focus on the semiconductor requirements of both customers and suppliers. To achieve this focus, the new semiconductor division will have channels focused on different customers' needs, including dedicated channels to service small to medium customers, large customer engagements, defense and aerospace customers, emerging customers and CMs.

Avnet Kent is the new Americas IP&E division, a focused business unit created from the merger on June 8, 2001 of Avnet EM's and Kent's IP&E businesses. Avnet Kent distributes electronic connectors, electronic wire and cable, and other passive and electromechanical products and interconnect assemblies used in assembling and manufacturing electronic products. Avnet Kent also provides value-added services such as cable assembly, fan assembly, taping and reeling, and component modification.

Avnet RF & Microwave in the Americas will serve the distinct needs of both customers and suppliers by providing RF and microwave semiconductors and components from the industry's leading suppliers. Avnet RF & Microwave provides a wide array of value-added services including hi-rel processing, parametric assembly and RF cable assembly.

In EMEA, Avnet EM plans to go to market with seven new business units: EBV and WBC, based in Germany, which specialize in demand creation for select semiconductor suppliers; Silica, based in the United Kingdom, a semiconductor marketer; Avnet Time, based in the United Kingdom, marketing IP&E components; BFI-Optilas, based in France, marketing specialty components and devices across Europe; Avnet Israel, based in Tel Aviv, the largest value-added electronic components distributor in Israel; and Avnet Kopp, one of South Africa's largest distributors of electronic and electrical components. Avnet EM EMEA does business in 23 western and eastern European countries,

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South Africa, Turkey and Israel.

EM Asia is a value-added distributor of electronic components and services in 10 Asian countries and Australia and New Zealand. All the EM Asia operations have complete access to the products and services provided by EM globally.

Sunrise, with 22 locations in Hong Kong and China, specializes in demand creation for select semiconductor suppliers. Its focus is on demand creation with a limited line card, and goes to market with three new, focused business units – Sunrise, ChinaTronic and Avnet Technology.

Supporting the new, focused EM business units described above will be a number of new support services business units:

Avnet Design Services – Provides an array of engineering and technical services for customers, including turnkey logic designs, reference designs and product designs, and demand creation services for suppliers. Avnet Design Services has four design centers in the United States and locations in Canada, England, Germany, India, Israel, New Zealand and Singapore.

Avnet Integrated Material Services – Performs industry-leading material forecasting, supply chain synchronization and warehouse services. IMS develops and implements innovative materials management solutions for EM's major customers and their contract manufacturers. Regional IMS business units will service the requirements of regional customers, while a separate business unit known as Pivvot will serve the needs of global EM customers.

Pivvot, a new global services division providing supply-chain and logistics services on a minimal working capital, fee-for-services basis. This business serves both suppliers and large, multinational EM customers.

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Computer Marketing (CM)

CM is an international distributor of computer products to value-added resellers and end users focusing primarily on middle- to high-end, value-added computer products and services. CM's 2001 sales were \$2.85 billion, representing approximately 22.3% of Avnet's consolidated sales. CM consists of three primary operating divisions – Avnet Hall-Mark, Avnet Enterprise Solutions and Avnet Convergent Technologies.

Avnet Hall-Mark concentrates on sales of computer systems, peripherals and components to the reseller channel. Avnet Hall-Mark is the industry's leading value-added distributor in the mid-range computing space in support of a limited line card of the foremost computer and peripherals manufacturers, which include Compaq, Hewlett-Packard, IBM, Intel and Oracle. Avnet Hall-Mark provides those manufacturers products to value-added resellers, along with complementary value-added solutions and in-house engineering support, complex systems integration and configuration services.

Avnet Enterprise Solutions sells industry leading high-end systems, mid-range servers, workstations, PCs, software, storage, networking, peripherals and services to end user customers. Avnet Enterprise Solutions is a technology solutions integrator, providing hardware, software and services for corporate-wide infrastructure needs. Leveraging its array of financial, acquisition and technical services, Avnet Enterprise Solutions brings value to businesses intent on managing their total cost of technology infrastructure – from the data center, through the network, to the desktop. With the integration of Kent's networking solutions division, Kent Datacomm, Avnet Enterprise Solutions added a new relationship with Cisco Systems, substantially strengthening the division's networking solutions and adding value to its overall IT solution.

Avnet Convergent Technologies is a value-added distributor of networking, wireless, data collection, point of sale peripherals and auto ID equipment. Avnet Convergent Technologies provides a variety of services including technical support, systems integration, lead generation and custom financing. Avnet Convergent Technologies delivers fully integrated solutions from leading manufacturers such as Compaq, Hewlett-Packard, IBM, Intel, Enterasys and Symbol Technologies. It markets its products and services to North American value-added resellers.

Avnet Applied Computing (AAC)

In October 1999, AAC began operations in the Americas as Avnet's third operating group. AAC was created from portions of EM (OEM Systems Product Business Group and Personal Computing Components) and CM (Hall-Mark Computer Components). AAC focuses on the unique requirements of the OEM market for computing technology. AAC's 2001 sales were approximately \$1.67 billion, representing 13.0% of Avnet's consolidated sales.

AAC consists of three major business units focusing on key market segments. The first unit is Applied Computing Components, which serves the needs of manufacturers of general-purpose computers by providing them with the latest technologies such as microprocessors, DRAM

modules and motherboards. The second business unit, Applied Computing Solutions, provides technical design, integration, marketing and financing to developers of application specific computer solutions in the non-PC market place. Examples of these types of customers are OEMs in the medical, telecommunications, industrial control and digital creation market segments. The third business unit, Applied Computer Enabling Technologies, serves systems integrators focusing on the mass storage marketplace that produce applications such as NAS, SAN and Fiber storage products.

During 2001, AAC expanded its operations in Europe with the addition of RKE Systems and the EBV Microsystems group. These businesses have been integrated into AAC and the operating group now has all three business units represented in Europe. AAC's coverage of Europe includes: the United Kingdom, Germany, Spain, Italy, Austria (also services eastern Europe), the Nordic region, the Benelux region, France and Switzerland. AAC's European operations account for approximately half of the operating group's revenue.

Locations and Major Products

One of Avnet's competitive strengths is the breadth and quality of the suppliers whose products it distributes. Listed below are the major product categories and the approximate sales in 2001, the percentage of the Company's consolidated sales and the major suppliers in each category:

Semiconductors: Sales of semiconductors in 2001 were approximately \$7.10 billion, or 55% of consolidated sales. The Company's major suppliers of semiconductors are Advanced Micro Devices, Agilent Technologies, Analog Devices, Hitachi, Integrated Device Technology, Intel, Intersil, LSI Logic, Micron Semiconductors, Motorola, National Semiconductor, ON Semiconductor, Philips, Texas Instruments and Xilinx.

Computer Products: Sales of computer products in 2001 from all of the Company's business units were approximately \$3.95 billion, or 31% of consolidated sales. The Company's major suppliers of computer products are Cabletron, Compaq, Computer Associates, Hewlett-Packard, IBM, Intel, Oracle and Wyse Technology.

Connectors: Sales of connector products in 2001 were approximately \$0.74 billion, or 6% of consolidated sales. The Company's major suppliers of connectors are AMP, Amphenol, AVX, ITT Cannon, Molex, T&B and 3M.

Passives, Electromechanical and Other: Sales of passives, electromechanical and other products in 2001 were approximately \$1.02 billion, or 8% of consolidated sales. The Company's major suppliers of these products are Aromat, Artesyn Technologies, AVX, Bourns, ITT/C&K, Kemet, Murata, Pulse and Vishay.

Most of the Company's product lines are covered by non-exclusive distributor agreements with suppliers, cancelable upon 30 to 180 days notice. Most of these agreements provide for the periodic return to the supplier of obsolete inventory and the return of all standard inventory upon termination of the contract.

The combined sales for the Company by major product class for the last three years are as follows:

	Years Ended		
	June 29, 2001	June 30, 2000	July 2, 1999
		(Millions)	
Semiconductors	\$ 7,105.6	\$5,834.4	\$3,577.5
Computer products	3,950.8	2,336.3	1,828.4
Connectors	735.6	880.7	649.9
Other (primarily passives and electromechanical devices)	1,022.0	863.6	749.9
	<u>\$12,814.0</u>	<u>\$9,915.0</u>	<u>\$6,805.7</u>

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As of June 29, 2001, the Company had approximately 387 locations in the United States, Canada, Mexico, Europe, the Middle East, South Africa, South America and the Asia/ Pacific region, many of which contain sales, warehousing and administrative functions for multiple business units. In addition, the Company has a small number of stores in customers' facilities. Avnet sells to customers in over 60 countries.

Competition

All of the Company's operations are in highly competitive markets. With regard to many of its product lines, the Company is in competition not only with other distributors but also with its suppliers. A key competitive factor in the distribution industry as a whole is the carrying of a significant amount of inventory to meet rapid delivery requirements of customers. In addition, the Company enhances its competitive position by offering a variety of value-added services which entail the performance of services and/or processes tailored to individual customer specifications and business needs such as point of use replenishment, testing, assembly, supply chain management and materials management. The Company is the world's second largest industrial distributor (based on sales) of electronic components and computer products according to *Electronic News*, a

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prominent industry publication, which ranks the top distributors. The Company's major competitors are Arrow Electronics, Inc., Future Electronics, Memec PLC, Pioneer-Standard Electronics, Inc. and Premier Farnell.

Number of Employees

At August 24, 2001, Avnet had approximately 13,600 employees.

Item 2. Properties

Currently, the Company owns and leases approximately 1,502,476 and 4,644,148 square feet of space, respectively, of which approximately 75% is located in the United States. EM's principal facilities for warehousing and value-added operations are located in Chandler, AZ; Poing, Germany; Tongeren, Belgium; Oxford, NC; and Grapevine, TX, where EM has approximately 395,000, 230,000, 217,000, 201,000 and 181,000 square feet of space, respectively. CM's principal facilities for warehousing and value-added operations are located in Chandler, AZ and Wauthier-Braine, Belgium where CM has approximately 196,000 and 47,000 square feet of space, respectively. CM leases a 132,000 square foot building in Tempe, AZ for use as the CM headquarters. AAC's principal facilities for integration and warehousing are located in Phoenix, AZ and Nettetel, Germany, where AAC has approximately 87,000 and 146,000 square feet of space, respectively. AAC leases approximately 35,000 square feet of space in Phoenix, AZ for use as the AAC headquarters. The Company leases a 176,000 square foot building in Phoenix, AZ, for use as the EM headquarters, as well as the Company's corporate headquarters.

Item 3. Legal Proceedings

In the opinion of management, there are no material pending or threatened legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is subject. However, as previously reported, the Company is a potentially responsible party (PRP) or has received claims for indemnity in several environmental cleanups under the Comprehensive Environmental Response, Compensation and Liability Act. In particular, real estate owned by a subsidiary of the Company in Oxford, NC is listed on the EPA's National Priorities List, and the Company and the prior owner of the site have entered into a Consent Decree with the EPA pursuant to which the parties have agreed to clean up the site. Additional information about this site and other sites is set forth on page 20 of this Report. Management of the Company does not anticipate that the reported matters or its compliance with federal, state and local environmental laws will have a material adverse impact on its financial condition, liquidity, capital expenditures, results of operations or competitive position.

Item 4. Submission of Matters to a Vote of Security Holders:

A Special Meeting of Shareholders of the Company was held on June 6, 2001. The shareholders of the Company were asked to vote upon a proposal to approve and adopt the Amended and Restated Agreement and Plan of Merger, dated as of March 21, 2001, between Avnet, Inc. and Kent Electronics Corporation.

Matter	Votes Cast			
	For	Against	Abstain	Broker Non-Votes

Approve and adopt the Amended and Restated Agreement and Plan of Merger, dated as of March 21, 2001, between Avnet, Inc. and Kent Electronics Corporation.

74,496,908

157,995

341,312

0

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Item 4A. Executive Officers of the Company

The current executive officers of the Company are:

Name	Age	Office
Roy Vallee	49	Chairman of the Board and Chief Executive Officer
David R. Birk	54	Senior Vice President, General Counsel and Secretary
Andrew S. Bryant	46	Senior Vice President
Steven C. Church	52	Senior Vice President
Brian Hilton	58	Senior Vice President
Patrick Jewett	56	Senior Vice President
Edward Kamins	52	Senior Vice President
Raymond Sadowski	47	Senior Vice President, Chief Financial Officer and Assistant Secretary
Philip Gallagher	40	Vice President
Axel Hartstang	49	Vice President
George Smith	55	Vice President
John F. Cole	59	Controller

Mr. Vallee joined the Company in February 1977 and has been Chairman of the Board and Chief Executive Officer since June 1998. Prior thereto, he was Vice Chairman of the Board since November 1992, and also President and Chief Operating Officer from March 1992.

Mr. Birk became Avnet's Secretary in July 1997 and has been Senior Vice President since November 1992. Mr. Birk was elected Vice President and General Counsel in September 1989.

Mr. Bryant has been Senior Vice President of Avnet since November 1999 and prior thereto a Vice President of Avnet since November 1996. He has also been President of the Computer Marketing Group since June 1999 and prior thereto was President of Hall-Mark Computer Division since July 1998. Mr. Bryant was President of the Avnet Computer Division from September 1996 to June 1998 and Executive Vice President of Avnet Computer from March 1995 to September 1996.

Mr. Church has been Senior Vice President since November 1995 and currently serves as Senior Vice President, Services Business Development. He previously served as co-President of EM from August 1998 to April 2001. Prior to August 1998, Mr. Church held various positions with Avnet including President of Hamilton Hallmark, Vice President of Corporate Marketing for Hamilton Hallmark and President of Avnet's OEM Marketing Group.

Mr. Hilton has been Senior Vice President since November 1998 and Vice President since November 1997. He has been the President of EM since April 2001. Prior thereto, Mr. Hilton served as co-President of EM from August 1998 and President of EM Asia from October 1997. Prior to joining the Company in October 1997, Mr. Hilton was a senior executive with Motorola.

Mr. Jewett has been Senior Vice President since November 1999 and a Vice President of Avnet since 1996. He has served as Executive Vice President of EM since 1999. Prior thereto, he was Senior Vice President of Operations and Finance of EM from 1998 to 1999 and was also Senior Vice President, EM Warehouse/ Value Added Operations of EM from 1993 to 1998.

Mr. Kamins has been Senior Vice President of Avnet since November 2000. Prior thereto, he served as Vice President of Avnet from November 1999. Mr. Kamins has also served as President of AAC since October 1999. Prior thereto, Mr. Kamins served as Senior Vice President for Avnet's Computer Marketing Group since July 1996. Mr. Kamins was formerly a senior executive with Digital Equipment Corporation prior to joining the Company in 1996.

Mr. Sadowski has been Senior Vice President since November 1992 and Chief Financial Officer since February 1993.

Mr. Gallagher joined Avnet in 1983. He has been a Vice President of Avnet since November 1997 and has served as President EM Americas Semiconductor and RF Microwave Division since April 2001. Mr. Gallagher has held prior positions of Executive Vice President of sales and operations for North America (including Canada and Latin America) for EM from July 1998 to April 2001 and for Hamilton Hallmark from July 1995 to July 1998.

Mr. Hartstang joined Avnet in October 2000 when Avnet acquired the Munich-based EBV Group. He was named president of Avnet EM EMEA in January 2001. Mr. Hartstang was elected Vice President of Avnet in November 2000. Mr. Hartstang was previously the president and chief executive officer of EBV Elektronik from April 1998 to October 2000. Prior to joining EBV, he held various management positions at Motorola from 1982 to 1998.

Mr. Smith has been Vice President of Avnet since October 1996. In January 2001, Mr. Smith returned to the position of President of CM Europe, which he held previously from September 1997 to August 1998. He served as President of EM EMEA from August 1998 until January 2001. Prior thereto, he was President of Hall-Mark Computer Products from March 1994 to September 1996.

Mr. Cole has been Avnet's Controller since February 1993.

Officers of the Company are generally elected each year at the meeting of the Board of Directors following the annual meeting of shareholders and hold office until the next such annual meeting or until their earlier death, resignation or removal.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market price per share.*

The Company's common stock is listed on the New York Stock Exchange and the Pacific Exchange. Quarterly market prices (as reported for the New York Stock Exchange composite transactions) for the last two fiscal years were:

Fiscal Quarters	2001		2000	
	High	Low	High	Low
1st	\$35.41	\$25.53	\$26.22	\$20.53
2nd	30.28	17.19	30.25	18.66
3rd	28.45	19.35	36.75	25.00
4th	28.09	18.96	40.56	28.00

Record Holders

As of September 17, 2001 there were approximately 6,530 record holders of Avnet's common stock.

Dividends*

The cash dividend paid on the common stock was 7.5 cents per share during each quarter in 2001 and 2000. Avnet announced on August 15, 2001 that it would look to more effectively deploy its cash to fuel future earnings growth and deliver increased shareholder value by discontinuing the payment of its cash dividend effective after its anticipated dividend payment on January 2, 2002.

*The market price and dividends per share indicated above have been adjusted to reflect a two-for-one stock split distributed on September 28, 2000 to shareholders of record on September 18, 2000. (See Note 1 to Consolidated Financial Statements appearing elsewhere in this Report).

Item 6. Selected Financial Data*

	Years Ended				
	June 29, 2001	June 30, 2000	July 2, 1999	June 26, 1998	June 27, 1997
(In millions, except for per share and ratio data)					
Income:					
Sales	\$ 12,814.0	\$ 9,915.0	\$ 6,805.7	\$ 6,334.6	\$ 5,729.7
Gross profit	1,865.5(d)	1,444.8(c)	1,048.0(b)	1,081.1(a)	1,042.1
Operating income	253.7(d)	368.0(c)	182.5(b)	293.5(a)	338.6
Income taxes	87.2(d)	121.1(c)	204.8(b)	125.6(a)	136.6
Earnings	0.1(d)	162.6(c)	180.3(b)	165.9(a)	191.3
Financial Position:					
Working capital	1,177.4	2,368.7	1,977.0	1,899.1	1,521.4
Total assets	5,864.1	5,934.4	3,563.4	3,308.6	2,898.3
Total debt	2,221.6	2,153.9	998.5	1,017.9	514.6
Shareholders' equity	2,374.6	2,246.7	1,718.8	1,628.5	1,764.6
Per Share(e):					
Basic earnings	(d)	1.52(c)	1.89(b)	1.63(a)	1.78
Diluted earnings	(d)	1.50(c)	1.86(b)	1.59(a)	1.74
Dividends	.30	.30	.30	.30	.30
Book value	20.15	19.88	18.15	16.86	16.80
Ratios:					
Operating income margin on sales	2.0%(d)	3.7%(c)	2.7%(b)	4.6%(a)	5.9%
Profit margin on sales	(d)	1.6%(c)	2.6%(b)	2.6%(a)	3.3%
Return on equity	(d)	8.1%(c)	11.0%(b)	9.5%(a)	10.8%
Return on capital	2.2%(d)	6.1%(c)	8.1%(b)	7.7%(a)	9.4%
Quick	.7:1	1.1:1	1.8:1	1.9:1	1.5:1
Working capital	1.5:1	2.2:1	3.3:1	3.9:1	3.5:1
Total debt to capital	48.3%	48.9%	36.8%	38.5%	22.6%

* Income amounts are from continuing operations and net assets from discontinued operations have been classified as current assets. All amounts have been restated for the acquisition of Kent which has been accounted for using the pooling-of-interests method.

- (a) Includes the net negative impact of \$14.9 pre-tax and \$12.5 after-tax (\$0.12 per share on a diluted basis) for (i) the gain on the sale of Channel Master of \$33.8 pre-tax and \$17.2 after-tax, (ii) costs relating to the divestiture of Avnet Industrial, the closure of the Company's corporate headquarters in Great Neck, New York, and the anticipated loss on the sale of Company-owned real estate, amounting to \$13.3 pre-tax and \$8.5 after-tax, and (iii) incremental special charges associated with the reorganization of EM, amounting to \$35.4 pre-tax and \$21.2 after-tax.
- (b) Includes the net gain on exiting the printed catalog business recorded in the fourth quarter of 1999 offset by special charges recorded in the first quarter associated with the reorganization of EM. The net positive effect on 1999 pre-tax income, net income and diluted earnings per share were \$183.0, \$64.0, and \$0.64, respectively.
- (c) Includes special charges associated with: (i) the integration of Marshall Industries, Eurotronics B.V. (SEI) and the SEI Macro Group into EM, (ii) the integration of JBA Computer Solutions into CM North America, (iii) the reorganization of EM Asia, (iv) the reorganization of EM's European operations including costs related to the consolidation of EM's European warehousing operations and (v) costs incurred in connection with certain litigation brought by the Company. The total special charges for 2000 amounted to \$49.0 pre-tax, \$30.4 after-tax

and \$0.28 per share on a diluted basis.

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- (d) Includes the impact of incremental special charges related to the acquisition and integration of Kent Electronics, which was accounted for as a pooling-of-interests, and other integration, restructuring and cost cutting initiatives taken in response to current business conditions. The special charges amounted to \$327.5 pre-tax (\$80.6 included in cost of sales and \$246.9 included in operating expenses) and \$236.7 after-tax, or \$1.99 per share on a diluted basis for the year (\$2.01 per share for the fourth quarter).
- (e) All per share data have been restated to reflect a two-for-one split of the Company's common stock approved by the Board of Directors on August 31, 2000. These shares were distributed on September 28, 2000 to shareholders of record on September 18, 2000.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

For an understanding of the significant factors that influenced the Company's performance during the past three fiscal years, the following discussion should be read in conjunction with the consolidated financial statements, including the related notes, and other information appearing elsewhere in this Report. Reference herein to any particular year or quarter generally refers to the Company's fiscal year periods.

On June 8, 2001, Avnet completed its acquisition of Kent Electronics Corporation (Kent) following approval of the Amended and Restated Merger Agreement and Plan of Merger dated as of March 21, 2001 (the Merger Agreement) by Avnet and Kent shareholders on June 6, 2001. Pursuant to the Merger Agreement, Kent was merged into Avnet and its separate existence ceased. Kent shareholders received 0.87 of a share of Avnet common stock for each share of Kent common stock held, with cash paid in lieu of any fractional shares based on \$25.84 per Avnet share. Avnet issued approximately 25.3 million shares of its common stock to Kent shareholders and an additional 1.7 million shares have been reserved for issuance upon the exercise of outstanding warrants and stock options assumed in the transaction.

The accompanying consolidated financial statements and notes related to years prior to fiscal year 2001 have been restated to reflect the acquisition of Kent, which has been accounted for as a pooling-of-interests. The periods combined are more fully discussed in Note 2 to the Consolidated Financial Statements. The combination does not give effect to the potentially significant synergies that the Company expects to realize from the combined operations beginning in 2002. As discussed later in this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and in the notes to the Consolidated Financial Statements, the Company recorded a one-time charge in the fourth quarter of 2001, a significant portion of which resulted from the Kent acquisition being accounted for as a pooling-of-interests.

The Company currently consists of three major operating groups, Electronics Marketing (EM), Computer Marketing (CM) and Avnet Applied Computing (AAC). EM focuses on the global distribution of and value-added services associated with electronic components. CM focuses on the distribution of middle- to high-end value-added computer products and related services. AAC, which was created by combining certain segments from EM's and CM's operations, provides the latest technologies such as microprocessors to system integrators and manufacturers of general purpose computers, and provides design, integration, marketing and financing to developers of application-specific computer solutions. AAC began operating in the Americas effective as of the beginning of the second quarter of 2000, in Europe effective as of the beginning of the third quarter of 2000 and in Asia effective as of the beginning of 2001. The results for AAC before it began operating separately are included in EM and CM as the results of the operating groups have not been restated. In addition, the results for the current and prior years include acquisitions completed by the Company during the last few years, which significantly affect the comparative financial results discussed below. These acquisitions, which affected each of the Company's operating groups, are discussed below in the Acquisitions section of this MD&A.

On August 31, 2000, the Company's Board of Directors declared a two-for-one stock split to be effected in the form of a stock dividend (the Stock Split). The additional common stock was distributed on September 28, 2000 to shareholders of record on September 18, 2000. All references in this MD&A, and elsewhere in this Report, to the number of shares, per share amounts and market prices of the Company's common stock prior to September 28, 2000 have been restated to reflect the Stock Split and the resulting increased number of shares outstanding.

Results of Operations

The results of operations for 2001 discussed below reflect dramatically different results during the first half of the year as compared with the second half. The results for the first half of 2001 reflected the strong rebound in the electronic component distribution industry, which began to positively impact the Company's results during the later part of the second quarter of 2000 following the longest cyclical downturn in the industry's history. The results for the second half of 2001 were negatively affected by the quickest and sharpest downturn ever experienced in the

electronic components industry as well as by the general slowdown in the global economic environment. Consequently, although many of the metrics for the year compare somewhat

favorably to prior years, the results are disappointing as the Company's consolidated fourth quarter 2001 sales and net income from continuing operations before special charges were down 14% and 92%, respectively, as compared with the fourth quarter of 2000 and down 27% and 92%, respectively, as compared with the third quarter of 2001.

In addition, management believes the current economic downturn will continue to negatively affect the Company's sales and earnings.

Sales

Consolidated sales in 2001 were a record \$12.814 billion, up 29% as compared with \$9.915 billion in 2000. A significant portion of the increase in consolidated sales, as well as the increase in sales for each of the operating groups, was due to the acquisitions described in this MD&A. EM's sales, which represented 64.7% of consolidated sales, were a record \$8.287 billion, up 17% as compared with sales of \$7.105 billion in 2000. EM's sales by region were as follows: EM Americas' sales in 2001 were \$5.529 billion, up 7% as compared with \$5.161 billion in 2000; EM EMEA's sales in 2001 were \$2.289 billion, up 48% as compared with \$1.545 billion in 2000; and EM Asia's sales in 2001 were \$469 million, up 18% as compared with \$399 million in 2000. CM's sales, which represented 22.3% of consolidated sales, were \$2.856 billion in 2001, up 33% as compared with sales of \$2.139 billion in 2000. AAC's sales, which represented 13.0% of consolidated sales, were \$1.672 billion in 2001, up 149% as compared with \$670 million in 2000.

Consolidated sales were \$9.915 billion in 2000, up 46% as compared with sales of \$6.806 billion in 1999. A significant portion of the increase in sales was due to growth within the Kent business and the acquisitions completed in 2000. EM's sales, which represent 71.6% of consolidated sales, were a then record \$7.105 billion in 2000, up 39% as compared with sales of \$5.113 billion in 1999. This increase in sales was due primarily to the impact of acquisitions and the strengthening of business conditions in the electronics component distribution market. By region, EM Americas' sales in 2000 of \$5.161 billion were up 37% as compared with the prior year, while EM EMEA's 2000 sales were up over 37% and EM Asia's sales were up approximately 82% as compared with 1999. CM's sales, which represented 21.6% of consolidated sales, were \$2.139 billion in 2000, up more than 26% as compared with 1999 sales of \$1.692 billion. Avnet's newly formed group, AAC, recorded sales of \$670 million in 2000, or 6.8% of consolidated sales. In addition, EM's and CM's sales for 2000 as indicated above include \$368 million of AAC sales recorded prior to the period when AAC was separated into a separate group, making AAC's global sales approximately \$1.038 billion on a pro forma basis for 2000. Consolidated sales benefited from the extra week of operations in 1999 as compared with 2000 and 2001 due to the Company's 52/53 week fiscal calendar. See Note 1 to the Consolidated Financial Statements appearing elsewhere in this Report.

Unusual Items

As described below, the Company has recorded a number of special charges during the last three fiscal years. These charges relate primarily to the reorganization of EM's operations in each of the three major regions of the world in which it operates, the integration of newly acquired businesses and other non-recurring items. Management expects that the Company's future results of operations will benefit from the expected cost savings resulting from these reorganizations and integrations of new businesses, and that the impact on liquidity and sources and uses of capital will not be material.

In the fourth quarter of 2001, the Company recorded a special charge in connection with the acquisition and integration of Kent and for costs related to actions taken in response to current business conditions and other restructuring activity. The charge amounted to \$327.5 million pre-tax (\$80.6 million included in cost of sales and \$246.9 million included in operating expenses) and \$236.7 million after-tax, or \$2.01 per share on a diluted basis for the fourth quarter (\$1.99 per share for the year). Of the total charge of \$327.5 million, approximately \$145.2 million requires an outflow of cash, of which approximately \$85.2 million had been expended at June 29, 2001, and the balance represents non-cash adjustments. The unusually large impact on income taxes related to the special charge is due primarily to the non-deductibility of certain acquisition-related costs and the impact of tax rates in foreign jurisdictions.

Approximately \$157.3 million of the pre-tax charge resulted from the acquisition of Kent having been accounted for using the pooling-of-interests method. Under this method, items that normally would have been reflected as goodwill if the purchase method of accounting had been used were reported in Avnet's income statement as part of the special charge. These items consist of costs incurred in completing the acquisition, including significant change-in-control and other executive benefit-related payments made as a result of the acquisition (\$68.3 million), professional fees for investment banking, legal and accounting services rendered to both Avnet and Kent (\$10.7

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million), as well as adjustments to the assets acquired and liabilities assumed (\$78.3 million). The adjustments to the assets acquired and liabilities assumed include accruals for severance, inventory reserves related to termination of non-strategic product lines, write-downs associated with the disposal of fixed assets, lease terminations and other items.

The balance of the charge recorded in the fourth quarter of 2001, amounting to approximately \$170.2 million, relates to a number of actions taken to cope with current market conditions and to strengthen Avnet's operations. These actions include cost reductions associated with the restructuring of the Company's businesses, the integration of the recent acquisitions, as well as important cost-cutting actions taken in response to current business conditions. These special charges fall into a number of categories including severance, inventory reserves related to terminations of non-strategic product lines, inventory valuation adjustments for special inventory purchases to meet customer requirements which are in excess of what is anticipated to be sold or returned, write-downs associated with the disposal of fixed assets, lease terminations, adjustments to the book value of investments in unconsolidated entities and other items.

During 2000, the Company recorded \$49.0 million pre-tax (\$37.2 million included in operating expenses and \$11.8 million included in cost of sales), \$30.4 million after-tax and \$0.28 per share on a diluted basis of incremental special charges associated with (1) the integration of acquired businesses into the Company as described below (\$31.7 million), (2) the reorganization of EM's European operations (\$9.2 million), consisting primarily of costs related to the centralization of warehousing operations, (3) the reorganization of EM Asian operations (\$5.4 million) and (4) costs incurred in the second quarter in connection with its lawsuit against Wyle Laboratories, Inc. and certain individuals (\$2.7 million). Of the \$49.0 million pre-tax charge, \$29.9 million required the use of cash, substantially all of which had been utilized at June 29, 2001.

The charges in 2000 associated with the integration of acquired businesses included the integration of Marshall Industries into the Company's North American EM and AAC operations (\$18.4 million), the integration of JBA Computer Solutions into CM North America (\$3.2 million) and the integration of Eurotronics B.V. (SEI) and the SEI Macro Group into EM EMEA (\$10.1 million). The charges related to the reorganization of EM Asia are comprised of severance, inventory reserves required related to supplier terminations, real property lease terminations, employee and facility relocation costs, write-downs associated with the disposal of fixed assets, special incentive payments and other items.

The charges related to the reorganization of EM's European operations consisted primarily of costs related to the centralization of warehousing operations into the Company's new facility in Tongeren, Belgium. These charges were for severance, adjustment of the carrying value of fixed assets, real property lease terminations, duplicate employee and property related costs and other items.

The costs incurred pertaining to the Wyle lawsuit, in which the Company was the plaintiff, related to legal and professional fees associated with the trial of the case, which commenced in September 1999. On February 4, 2000, a jury in Tampa, Florida returned a verdict in the case absolving the defendants of any liability. Subsequently, the parties agreed to settle the case by dismissing all claims and appeals with prejudice and with each side bearing its own costs and expenses.

During 1999, the Company recorded special items which positively impacted income from continuing operations before income taxes, net income from continuing operations and diluted earnings per share by \$183.0 million, \$64.0 million and \$0.64, respectively. These special items consisted of the gain on the sale of the Company's former Allied Electronics subsidiary (\$252.3 million) on July 2, 1999, the last day of fiscal 1999, offset somewhat by charges recorded in connection with the disposition of the Avnet Setron catalog operation in Germany (\$42.8 million) and the reorganization of EM EMEA (\$26.5 million). Most of the charges related to the disposition of Avnet Setron involved the non-cash write-off of goodwill and the write-

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down of inventory on product lines not typically sold by EM's core businesses. The Company sold Avnet Setron in February 2000 for an amount approximately equal to its written down value.

The 1999 charges related to the reorganization of EM are associated principally with EM's European operations and included severance, inventory reserves required related to supplier terminations and other items. The charge related to the reorganization of EM also included some incremental costs associated with the completion of the reorganization of EM Americas, most of the costs for which were recorded in the fourth quarter of 1998. These costs included primarily employee relocation and special incentive payments as well as some additional severance costs.

Of the \$183.0 million pre-tax gain related to the special items recorded in 1999, charges of \$56.1 million are included in operating expenses (\$21.8 million required the use of cash) and \$13.1 million are included in cost of sales (all of which represented a non-cash charge), and the \$252.3 million pre-tax gain on the sale of Allied Electronics is shown separately in the Company's Consolidated Statement of Income. The unusually large impact on taxes was a result of the elimination of goodwill attributable to the Allied and Setron businesses for which no tax benefit was available.

Operating Income

Consolidated gross profit margins, before special charges, were 15.2% in 2001 as compared with 14.7% and 15.6% in 2000 and 1999, respectively. The gross profit margin in 2001 reversed a downward trend in the prior few years which was due primarily to the competitive environment in the electronic distribution marketplace as a result of the global industry cyclical downtrend as well as the effect of increased sales of computer products (including microprocessors, DRAMS, disk drives, etc.) which have lower gross profit margins than other products in the Company's product lines. After reaching a low point of approximately 14.4% in the second quarter of 2000, consolidated gross profit margins, before special charges, began increasing and reached 15.5% in the fourth quarter of 2001. This increase through roughly the second quarter of 2001 was primarily a result of the rebound in the electronics distribution industry from the longest cyclical downtrend in its history. However, the increase in gross profit margins during the second half of 2001 was due primarily to a decline in sales to large customers who had previously been afforded better pricing due to their significant sales volume.

Although operating expenses, before special charges, in absolute dollars were sequentially higher during the last three years, they fell to 10.7% and 10.5% as a percentage of sales during 2001 and 2000, respectively, as compared with 11.9% in 1999. The Company's operating expenses, before special charges, as a percentage of sales for the entire 2000 year reached a record low of 10.5% due in part to the Company's highly successful integration of Marshall Industries into its EM Americas operations. The impact of the synergy benefits was more evident in the first and second quarters of 2001 and the fourth quarter of 2000 as operating expenses as a percentage of sales fell to a record low of 9.7% in those quarters.

The combination of improving industry conditions and the synergy benefits derived from recent acquisitions resulted in a fourth quarter 2000 operating income margin before special charges of 5.2%, the first time operating income margins had exceeded 5.0% since the third quarter of 1998. This was followed by two subsequent quarters of operating income margins above 5.0% (5.6% and 5.3% in the first and second quarters of 2001, respectively). Thereafter, the negative business environment began to impact operating income margins which fell to 4.7% and 2.0% (before special charges), respectively, in the third and fourth quarters of 2001. Operating income, before special charges, of \$581.2 million in 2001 represented 4.5% of sales, as compared with \$417.0 million, or 4.2% of sales, in 2000 and \$251.7 million, or 3.7% of sales, in 1999.

Interest Expense, Income Taxes and Net Income

Interest expense was \$191.9 million in 2001 as compared with \$94.8 million in 2000 and \$62.6 million in 1999. The significant increase in interest expense during the last few years was due primarily to increased borrowings to fund the Company's acquisition program and the additional working capital requirements to support the growth in business. This included approximately \$893.7 million and \$1.35 billion, respectively, for working capital and acquisitions, net of cash received from dispositions of businesses during 2000 and 2001. Interest expense in 2000 was also impacted by increased interest rates as a result of the Federal Reserve's

actions to increase short-term rates and the Company's decision to issue, in February 2000, \$360.0 million of 7 7/8% Notes due 2005.

The Company's effective income tax rate for 2001, including special charges, was 99.9% as compared with 42.7% in 2000. This increase was due primarily to the impact of non-deductible costs related to the acquisition of Kent and the impact of tax rates in foreign jurisdictions.

As a result of the factors described above, consolidated income from continuing operations before special charges in 2001 was \$236.8 million, or \$1.99 per share on a diluted basis, as compared with \$193.0 million, or \$1.78 per share on a diluted basis, in 2000 and \$116.4 million, or \$1.22 per share on a diluted basis, in 1999. Including the special charges referred to above, income from continuing operations in 2001 was \$97 thousand as compared with income from continuing operations of \$162.6 million, or \$1.50 per share on a diluted basis, in 2000 and \$180.3 million, or \$1.86 per share on a diluted basis, in 1999. Income from continuing operations before special charges as a percentage of sales was 1.8% in 2001 as compared with 1.9% and 1.7% in 2000 and 1999, respectively.

Liquidity and Capital Resources

Over the last three years, cash generated from income from continuing operations before depreciation, amortization, deferred taxes, cash payments related to the acquisition of Kent (included in cash used for acquisitions in the Statement of Cash Flows), the pre-tax gain on the disposition of Allied Electronics and other non-cash items (including the non-cash portion of special charges) amounted to \$638.0 million. During that period, \$848.3 million was used for working capital (excluding cash), resulting in \$210.3 million of net cash flows used for operations. In addition, \$333.3 million, net, was needed for other normal business operations including purchases of property, plant and equipment (\$297.0 million) and dividends (\$72.3 million), offset by cash generated from other items (\$36.0 million). This resulted in \$543.6 million being used for normal business operations. During that three-year period, the Company also used \$1.117 billion, net, for the repurchase of its common stock (\$70.1 million), the net cash used for acquisitions of operations in excess of the cash provided from dispositions (\$1.012

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billion) and net cash used for discontinued operations (\$35.2 million). This overall use of cash of \$1.661 billion was financed by a net increase in debt (\$1.162 billion), the proceeds from the asset securitization program (\$350.0 million) and the utilization of available cash (\$148.8 million).

In 2001, the Company generated \$336.3 million from income before depreciation, amortization, deferred taxes, cash payments related to the acquisition of Kent (included in cash used for acquisitions in the Statement of Cash Flows) and other non-cash items (including the non-cash portion of special charges). This was offset by \$150.1 million of cash used for working capital (excluding cash), resulting in \$186.2 million of net cash flows provided from operations. In addition, the Company used \$149.4 million for other normal business operations including purchases of property, plant and equipment (\$125.4 million) and dividends (\$27.4 million), offset by cash generated from other items (\$3.4 million). This resulted in \$36.8 million being generated from normal business operations. The Company also used \$660.5 million for acquisitions, net of cash received from dispositions and the net cash used for discontinued operations. This overall use of cash of \$623.7 million was financed by a \$119.2 million net increase in debt, \$350.0 million of proceeds from the asset securitization program and the utilization of \$154.5 million of available cash.

In 2000, the Company generated \$249.3 million from income before depreciation, amortization, deferred taxes and other non-cash items, and used \$743.7 million for working capital (excluding cash), resulting in \$494.4 million of net cash flows being used for operating activities. In addition, the Company used \$82.5 million for other normal business operations including purchases of property, plant and equipment (\$92.5 million) and dividends (\$18.2 million), offset by cash generated from other items (\$28.2 million). This resulted in \$576.9 million being used for normal business operations. The Company also used \$729.1 million for acquisitions and the net cash used for discontinued operations. This overall use of cash of \$1.306 billion was financed by a \$1.054 billion net increase in debt and the utilization of \$251.7 million of available cash.

The Company's quick assets at June 29, 2001 totaled \$1.727 billion as compared with \$2.168 billion at June 30, 2000. This decrease in quick assets was due to the utilization of cash available at June 30, 2000 to

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partially paydown outstanding debt and to the reduction of receivables outstanding due to the decrease of sales during the fourth quarter of 2001 as compared with the fourth quarter of 2000 and the impact of the Company's accounts receivable securitization program as described below. At June 29, 2001, quick assets were less than the Company's current liabilities by \$843.2 million as compared with an excess of \$131.1 million at the end of 2000. Working capital at June 29, 2001 was \$1.177 billion as compared with \$2.369 billion at June 30, 2000. At June 29, 2001, to support each dollar of current liabilities, the Company had \$0.67 of quick assets and \$0.79 of other current assets, for a total of \$1.46 as compared with \$2.16 at the end of the prior year. However, the above balance sheet amounts at June 29, 2001 were significantly impacted by the reclassification from long-term of a total \$796.8 million of debt related to both the Kent 4.5% Convertible Notes due 2004, which were put back to the Company subsequent to year-end, and amounts outstanding under a long-term bank facility, which facility the Company is in the process of renegotiating. As indicated below, during 2001 the Company entered into a \$1.25 billion syndicated credit facility, which at June 29, 2001 was used to back-up a portion of its outstanding commercial paper. These short-term borrowings were the principal reason for the decline in the working capital ratio and the decrease in the quick ratio indicated above.

In June 2001, the Company entered into a five-year \$350 million accounts receivable securitization program whereby it sells, on a revolving basis, an undivided interest in a pool of its trade accounts receivable. Under the program, the Company sells receivables in securitization transactions and retains a subordinated interest and servicing rights to those receivables. At June 29, 2001, the Company had sold \$350 million of receivables under the program which is reflected as a reduction of receivables in the accompanying balance sheet. The cash received from the sale of receivables was used primarily to pay down outstanding short-term borrowings.

In October 2000, the Company issued \$250.0 million of 8.20% Notes due October 17, 2003 (the 8.20% Notes) and \$325.0 million of Floating Rate Notes due October 17, 2001 (the Floating Rate Notes). The proceeds from the sale of the 8.20% Notes and the Floating Rate Notes were approximately \$572.4 million after deduction of underwriting discounts and other expenses associated with the sale. The Floating Rate Notes bear interest at an annual rate equal to three-month LIBOR, reset quarterly, plus 87.5 basis points (0.875%). The initial rate on the Floating Rate Notes was 7.65% per annum and the current rate is 4.63% per annum. After temporarily using the net proceeds from the 8.20% Notes and the Floating Rate Notes to pay down commercial paper and make investments in short-term securities, the net proceeds were used to fund the acquisition of the EBV Group and RKE Systems as described in the Acquisitions section below.

On October 27, 2000, the Company entered into a \$1.25 billion 364-day credit facility with a syndicate of banks led by Bank of America and Chase Manhattan Bank in order to replace the existing \$500.0 million 364-day syndicated bank credit facility described below. This facility partially financed the acquisition of the EBV Group and RKE Systems and provided additional working capital capacity. The Company may select from various interest rate options and maturities under this facility, although the Company has used the facility primarily as back-up for its commercial paper program pursuant to which the Company is authorized to issue short-term notes for current operational business requirements.

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On February 8, 2000, the Company issued \$360.0 million of 7 7/8% Notes due February 15, 2005 (the 7 7/8% Notes). The proceeds from the sale of the 7 7/8% Notes were approximately \$358.3 million after deduction of the underwriting discounts and other expenses associated with the sale. The net proceeds from the 7 7/8% Notes have been used to repay indebtedness which the Company may re-borrow for general corporate purposes, including capital expenditures, acquisitions, repurchase of the Company's common stock and working capital needs.

The Company also has a five-year facility with a syndicate of banks led by Bank of America which expires in September 2002 and which provides a line of credit of up to \$700.0 million. The Company may select from various interest rate options and maturities under this facility. This credit facility serves as a primary funding vehicle as well as a backup for the Company's commercial paper program. Even though this facility does not expire until September 2002, the Company intends to terminate the facility early and negotiate a new syndicated bank facility which provides both a multi-year tranche and 364-day tranche, which will also replace the \$1.25 billion 364-day facility expiring in October 2001 as described above. Although the

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Company may fall short of certain financial covenants in its 364-day and multi-year syndicated bank credit facility described above, the Company believes, based upon discussions with certain lenders, that it will enter into the new credit agreement without any impact on liquidity or limits on its ability to pursue its business strategy.

In order to partially finance the cash component of the acquisition of Marshall Industries described below and to provide additional working capital capacity, the Company entered into a \$500.0 million 364-day credit facility in October 1999 with a syndicate of banks led by Bank of America. The Company was able to select from various interest rate options and maturities under this facility, although the Company utilized the facility primarily as a back-up for its commercial paper program. This facility was replaced by the new \$1.25 billion 364-day facility described above.

The Company also has several small credit facilities available to fund the short-term working capital, foreign exchange, overdraft and letter of credit needs of its European and Asian operations. In addition, the Company also had a \$100.0 million credit facility with Bank of America, which expired in October 2000, and a \$150.0 million credit facility with Chase Manhattan Bank, which expired in November 2000.

During the last three years, the Company's shareholders' equity increased by \$746.1 million to \$2.375 billion at June 29, 2001, while total debt increased by \$1.204 billion to \$2.222 billion. The increase in shareholders' equity during that three-year period was the net result of the positive impact of net income (\$353.4 million), shares issued in connection with the acquisitions of Marshall Industries, SEI Eurotronics and Savoier Technology (\$462.9 million) and other items, net, principally related to stock option and incentive programs (\$89.9 million), offset by the repurchase of common stock (\$70.1 million), dividends (\$75.5 million) and cumulative translation adjustments (\$14.5 million). The Company's debt to capital (shareholders' equity plus total debt) ratio was approximately 48% at June 29, 2001 and 49% at June 30, 2000.

On August 15, 2001, the Company announced that it would look to more effectively deploy its cash to fuel future earnings growth and deliver increased shareholder value by discontinuing the payment of its cash dividend effective after its anticipated dividend payment on January 2, 2002.

Currently, the Company does not have any material commitments for capital expenditures.

The Company and the former owners of a Company-owned site in Oxford, North Carolina have entered into a Consent Decree and Court Order with the Environmental Protection Agency (EPA) for the environmental clean-up of the site, the cost of which, according to the EPA's remedial investigation and feasibility study, is estimated to be approximately \$6.3 million, exclusive of the \$1.5 million in EPA past costs paid by the potentially responsible parties. Pursuant to a Consent Decree and Court Order entered into between the Company and the former owners of the site, the former owners have agreed to bear at least 70% of the clean-up costs of the site, and the Company will be responsible for not more than 30% of those costs. In addition, the Company has become aware of claims that may be made against it and/or its Sterling Electronics Corp. subsidiary, which was acquired as part of the acquisition of Marshall Industries. Sterling once owned 92.46% of the capital stock of Phaostron, Inc. In August 1995, Sterling sold the interest in Phaostron to Westbase, Inc. At the time of the sale, Sterling and Westbase entered into an agreement related to environmental costs resulting from alleged contamination at a facility leased by Phaostron that is a part of the San Gabriel Valley Superfund Site. The agreement provided that Sterling would pay up to \$800 thousand for environmental costs associated with the site. The Company does not believe that Sterling or the Company will be responsible for environmental costs in excess of \$800 thousand and has established what it believes to be adequate reserves for any share of such costs that may be borne by Sterling or the Company. Based upon the information known to date, management believes that the Company has appropriately accrued for its share of the costs of the clean-ups with respect to the above mentioned sites. The Company is also a defendant in a lawsuit brought against it at an environmental clean-up site in Huguenot, New York. At this time, management cannot estimate the amount of the Company's potential liability, if any, for clean-up costs in connection with this site, but does not anticipate that this matter or any other contingent matters will have a material adverse impact on the Company's financial condition, liquidity or results of operations.

Management is not now aware of any commitments, contingencies or events within the Company's control which may significantly change its ability to generate sufficient cash from internal or external sources to meet its needs.

Acquisitions

During 2001, the Company has acquired a number of businesses that are already having a substantial positive impact on the Company. All of the acquisitions described below, except for the acquisition of Kent, were accounted for using the purchase method of accounting.

On July 3, 2000, the Company acquired Savoir Technology Group, Inc., a leading distributor of IBM mid-range server products in the Americas. In the merger, holders of Savoir common stock received 0.11452 of a share of Avnet common stock for each share of Savoir common stock, and cash in lieu of fractional Avnet shares. The exchange ratio, as well as the price paid for fractional shares, was based upon an Avnet stock price capped at \$34.2736 as adjusted to reflect the Stock Split. Holders of Savoir series A preferred shares received 0.16098 of a share of Avnet common stock for each share they held and cash in lieu of fractional Avnet shares. The total cost of the acquisition of Savoir including estimated expenses was approximately \$145.8 million, consisting of the cost for the Savoir shares of \$111.1 million in Avnet stock and \$0.7 million in Avnet stock options (net of related tax benefits of \$0.5 million) as well as \$1.8 million for transaction expenses and \$32.2 million for the payoff of pre-existing Savoir debt. The above dollar value of Avnet stock reflects the issuance of 3,736,954 shares of Avnet stock valued at an assumed price of \$29.66 per share.

On October 31, 2000, the Company completed its acquisition of certain European operations of the VEBA Electronics Group consisting of (a) the Germany-headquartered EBV Group, consisting of EBV Electronik and WBC, both pan-European semiconductor distributors, and Atlas Services Europe, a logistics provider for EBV and WBC; and (b) the Germany-based RKE Systems, a computer products and services distributor. The amount paid at closing of \$740.0 million includes the payoff of substantially all of the debt on the books of the companies acquired and is subject to closing adjustments.

On February 15, 2001, Avnet completed the acquisition of RDT Technologies Ltd. and combined its operations with Avnet Gallium to form Avnet Components Israel Ltd. RDT Technologies reported sales for the year ending December 31, 2000 of approximately \$90 million.

On May 10, 2001, Avnet acquired Sunrise Technology Ltd., a privately-held, electronic components distribution company serving indigenous and multinational OEMs and contract manufacturers in China. Sunrise reported revenues of approximately \$230 million for its fiscal year ending March 31, 2001.

In addition, as described at the beginning of this MD&A, the Company completed the acquisition of Kent on June 8, 2001 in a stock-for-stock transaction accounted for as a pooling-of-interests.

On October 20, 1999, the Company acquired Marshall Industries, then one of the world's largest distributors of electronic components and computer products, for a combination of cash and Avnet stock. The total cost of the acquisition of Marshall, including estimated expenses, was approximately \$764.6 million, consisting of the cost for the Marshall shares of \$326.8 million in cash, \$269.3 million in Avnet stock and \$7.0 million in Avnet stock options (net of related tax benefits of \$4.8 million) as well as \$17.5 million for direct transaction costs and estimated expenses and \$144.0 million for the refinancing of Marshall net debt. The above dollar value of Avnet stock reflects the issuance of 6,817,943 shares of Avnet stock valued at an assumed price of \$39.50 per share.

In November 1999, Kent acquired all of the outstanding common stock of Orange Coast Datacomm, Inc., Orange Coast Cabling, Inc. and Go Telecomm, Inc., collectively known as Orange Coast. Orange Coast provided comprehensive end-to-end voice and data network solutions to major corporations from offices in Irvine and Santa Clara, California.

On October 14, 1999, the Company acquired 94% of the SEI Macro Group, an electronics components distributor headquartered in the United Kingdom, and during the second quarter of fiscal 2000 acquired 16% of Eurotronics B.V. (which did business under the name SEI), a pan-European electronics components

distributor headquartered in the Netherlands. On January 3, 2000, the Company completed its acquisition of the SEI Macro Group and Eurotronics B.V. (SEI). The combined annual sales of Eurotronics and the SEI Macro Group were approximately \$750 million.

To capitalize on growing world markets for electronic components and computer products, the Company has pursued and expects to continue to pursue strategic acquisitions to expand its business. However, the Company does not anticipate further material acquisitions until it has completed the integration of its recent acquisitions and strengthened its balance sheet. Management believes that the Company has the ability to generate sufficient capital resources from internal or external sources in order to continue its expansion program. In addition, as with past acquisitions, management does not expect that any future acquisitions will materially impact the Company's liquidity.

Market Risks

Many of the Company's operations, primarily its international subsidiaries, occasionally purchase and sell products in currencies other than their functional currencies. This subjects the Company to the risks associated with fluctuations of foreign currency exchange rates. The Company reduces this risk by utilizing natural hedging (offsetting receivables and payables) as well as by creating offsetting positions through the use of derivative financial instruments, primarily forward foreign exchange contracts with maturities of less than sixty days. The market risk related to the foreign exchange contracts is offset by the changes in valuation of the underlying items being hedged. The amount of risk and the use of derivative financial instruments described above are not material to the Company's financial position or results of operations. As of September 14, 2001, approximately 63% of the Company's outstanding debt (including as debt the \$350 million outstanding under the Company's accounts receivable securitization program) was in variable rate short-term instruments and 37% was in fixed rate instruments. Accordingly, the Company will be impacted by any change in short-term interest rates. The Company does not hedge either its investment in its foreign operations or its floating interest rate exposures. The Company adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities, as amended by Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, on July 1, 2000. The adoption of SFAS 133, as amended, did not have a material impact on the Company's financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See Note 1 to the Consolidated Financial Statements appearing at the end of this Report, and the Market Risks section discussed above.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data are listed under Item 14 of this Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable

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PART III

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

The information called for by Items 10, 11, 12 and 13 (except to the extent set forth in Item 4A above) is incorporated in this Report by reference to the Company's definitive proxy statement relating to the Annual Meeting of Stockholders anticipated to be held November 29, 2001.

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PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

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a. The following documents are filed as part of this Report:

	<u>Page</u>
1. Financial Statements:	
Reports of Independent Public Accountants	27
Avnet, Inc. and Subsidiaries Consolidated Financial Statements:	
Balance Sheets at June 29, 2001 and June 30, 2000	29
Statements of Income for the years ended June 29, 2001, June 30 2000 and July 2, 1999	30
Statements of Shareholders' Equity for the years ended June 29, 2001, June 30, 2000 and July 2, 1999	31
Statements of Cash Flows for the years ended June 29, 2001, June 30, 2000 and July 2, 1999	32
Notes to Consolidated Financial Statements	33
2. Financial Statement Schedules:	
Schedule II (Valuation and Qualifying Accounts) for the years ended June 29, 2001, June 30, 2000 and July 2, 1999	53
Schedules other than that above have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.	
3. Exhibits	The exhibit index for this Report can be found on pages 54 to 56.

b. Reports on Form 8-K

During the fourth quarter of fiscal 2001, the Company filed the following Current Reports on Form 8-K: (1) Current Report on Form 8-K bearing cover date of April 19, 2001 in which the Company reported under Item 9 that it issued a press release announcing a third quarter fiscal 2001 earnings conference call; (2) Current Report on Form 8-K bearing cover date of April 26, 2001 in which the Company reported under Item 5 that it issued a press release announcing third quarter fiscal 2001 earnings; (3) Current Report on Form 8-K bearing cover date of May 14, 2001 in which the Company filed certain management contracts and reported under Items 5 and 7 that it was not required to file financial statements and pro forma financial information regarding the Company's prior acquisition of certain European operations of the VEBA Electronics Group; (4) Current Report on Form 8-K bearing cover date of June 7, 2001 in which the Company reported under Item 9 that it issued a press release announcing that the acquisition of Kent Electronics Corporation ("Kent") by the Company had been approved by the shareholders of each company; (5) Current Report on Form 8-K bearing cover date of June 8, 2001 in which the Company reported under Items 2 and 7 the completion of the acquisition of Kent and provided the required restated supplemental financial statements; (6) Current Report on Form 8-K bearing cover date of June 15, 2001 in which the Company reported under Item 9 that it issued a press release announcing a conference call in which the Company would discuss, among other things, the acquisition of Kent and the accounting treatment related thereto; (7) Current Report on Form 8-K bearing cover date of June 19, 2001 in which the Company reported under Item 9 that it issued a press release announcing that the conference call to be held on June 20, 2001 to discuss the acquisition of Kent and the accounting treatment thereto would also include comments with respect to the current business environment and the Company's projected financial results; and (8) Current Report on Form 8-K bearing cover date of June 20, 2001 in which the Company reported under Item 9 that it issued a press release providing information regarding the Kent acquisition, including the accounting treatment and special charges related thereto, and providing guidance relating to fourth quarter revenues and earnings.

SIGNATURES

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

AVNET, INC.
(Registrant)

Date: September 26, 2001

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By: /s/ ROY VALLEE

Roy Vallee,
Chairman of the Board, Chief Executive
Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on September 26, 2001.

Signature	Title
<hr/> /s/ ROY VALLEE	Chairman of the Board, Chief Executive Officer and Director
<hr/> (Roy Vallee) *	Director
<hr/> (Eleanor Baum) *	Director
<hr/> (J. Veronica Biggins) *	Director
<hr/> (Lawrence W. Clarkson) *	Director
<hr/> (Ehud Houminer) *	Director
<hr/> (James A. Lawrence) *	Director
<hr/> (Salvatore J. Nuzzo) *	Director
<hr/> (Ray Robinson) *	Director
<hr/> (Frederic Salerno) *	Director
<hr/> (Gary Tooker) /s/ RAYMOND SADOWSKI	Senior Vice President, Chief Financial Officer and Assistant Secretary
<hr/> (Raymond Sadowski)	

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Signature	Title
<hr/> /s/ JOHN F. COLE	Controller and Principal Accounting Officer
<hr/> (John F. Cole) *By: /s/ RAYMOND SADOWSKI	

(Raymond Sadowski)
Attorney-in-Fact

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Avnet, Inc.:

We have audited the accompanying consolidated balance sheets of Avnet, Inc. (a New York corporation) and Subsidiaries as of June 29, 2001 and June 30, 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended June 29, 2001. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Kent Electronics Corporation and Subsidiaries, a company acquired during 2001 in a transaction accounted for as a pooling-of-interests, as discussed in Note 1. Such statements are included in the consolidated financial statements of Avnet, Inc. and reflect 12 percent of total consolidated assets as of June 30, 2000 and 6 percent, 7 percent and 7 percent of total consolidated revenues for the years ended June 29, 2001, June 30, 2000 and July 2, 1999, respectively. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for Kent Electronics Corporation and Subsidiaries, is based solely upon the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Avnet, Inc. and Subsidiaries as of June 29, 2001 and June 30, 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 29, 2001 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of financial statement schedules is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, based on our audits and the report of the other auditors, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

Phoenix, Arizona
August 14, 2001

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders

Kent Electronics Corporation

We have audited the consolidated balance sheets of Kent Electronics Corporation and Subsidiaries as of March 31, 2001 and April 1, 2000, and the related consolidated statements of earnings, cash flows and stockholders' equity for each of the three years in the period ended March 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kent Electronics Corporation and Subsidiaries as of March 31, 2001 and April 1, 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with generally accepted accounting principles in the United States of America.

/s/ GRANT THORNTON LLP

Houston, Texas
May 8, 2001

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AVNET, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	June 29, 2001	June 30, 2000
(In thousands, except share amounts)		
Assets:		
Current assets:		
Cash and cash equivalents	\$ 97,279	\$ 268,244
Receivables, less allowances of \$65,204 and \$44,523, respectively (Note 3)	1,629,566	1,899,988
Inventories (Note 4)	1,917,044	2,013,221
Net assets of discontinued operations (Note 2)		143,795
Other	103,600	80,550
Total current assets	3,747,489	4,405,798
Property, plant and equipment, net (Note 6)	417,159	345,659
Goodwill, net of accumulated amortization of \$120,127 and \$84,824, respectively (Note 1)	1,404,863	959,995
Other assets	294,637	222,972
Total assets	\$5,864,148	\$5,934,424
Liabilities:		
Current liabilities:		
Borrowings due within one year (Note 7)	\$ 1,302,129	\$ 503,287
Accounts payable	853,196	1,185,292
Accrued expenses and other (Note 8)	414,740	348,532
Total current liabilities	2,570,065	2,037,111
Long-term debt, less due within one year (Note 7)	919,493	1,650,610
Total liabilities	3,489,558	3,687,721
Commitments and contingencies (Notes 11 and 13)		
Shareholders' equity (Notes 1 and 12):		

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Common stock \$1.00 par, authorized 300,000,000 shares and 120,000,000 shares, respectively, issued 117,840,000 shares and 115,400,000 shares, respectively	117,840	115,400
Additional paid-in capital	542,733	470,360
Retained earnings	1,770,645	1,776,025
Cumulative translation adjustments (Note 5)	(56,297)	(54,582)
Cumulative valuation adjustments (Note 5)		2,293
Treasury stock at cost, 12,711 shares and 2,396,000 shares, respectively	(331)	(62,793)
	<u>2,374,590</u>	<u>2,246,703</u>
Total shareholders' equity	2,374,590	2,246,703
	<u>\$5,864,148</u>	<u>\$5,934,424</u>
Total liabilities and shareholders' equity	\$5,864,148	\$5,934,424

See notes to consolidated financial statements

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AVNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended		
	June 29, 2001	June 30, 2000	July 2, 1999
	(In thousands, except per share amounts)		
Sales	\$12,814,010	\$9,915,042	\$6,805,736
Cost of sales (Note 17)	10,948,484	8,470,257	5,757,709
Gross profit	1,865,526	1,444,785	1,048,027
Selling, shipping, general and administrative expenses (Note 17)	1,611,874	1,076,793	865,577
Operating income	253,652	367,992	182,450
Other income, net	25,495	10,452	13,002
Interest expense	(191,895)	(94,798)	(62,591)
Gain on dispositions of businesses (Note 17)			252,279
Income from continuing operations before income taxes	87,252	283,646	385,140
Income taxes (Note 9)	87,155	121,082	204,818
Net income from continuing operations	97	162,564	180,322
Income (loss) from discontinued operations, net of income taxes of \$1,611, \$100 and (\$3,872), respectively (Note 2)	2,416	828	(5,683)
Gain on disposal of discontinued operations, net of income taxes of \$8,611	12,889		
Net income	\$ 15,402	\$ 163,392	\$ 174,639
Earnings per share from continuing operations (Note 14):			
Basic	\$	\$ 1.52	\$ 1.89
Diluted	\$	\$ 1.50	\$ 1.86

Net earnings per share (Note 14):			
Basic	\$.13	\$ 1.53	\$ 1.83
Diluted	\$.13	\$ 1.51	\$ 1.80
Shares used to compute earnings per share (Note 14):			
Basic	117,263	106,627	95,266
Diluted	118,815	108,257	99,916

See notes to consolidated financial statements

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AVNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Years ended June 29, 2001, June 30, 2000 and July 2, 1999

	Common Stock	Additional Paid-in Capital	Retained Earnings	Cumulative Translation Adjustments	Cumulative Valuation Adjustments	Treasury Stock	Total Shareholders Equity
(In thousands, except per share amounts)							
Balance, June 26, 1998	\$56,159	\$594,540	\$1,483,888	\$ (41,804)	\$	\$(464,319)	\$1,628,464
Net income			174,639				174,639
Translation adjustments				(4,237)			(4,237)
Comprehensive income							170,402
				December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Ratio of earnings to fixed charges	N/A	N/A	N/A	N/A	N/A	N/A	N/A

For purposes of calculating the ratio above, earnings consist of income before income taxes plus fixed charges. Fixed charges include interest expense, non-cash interest expense, and an estimate of the interest expense within rental expense.

We did not record earnings for any of the years ended December 31, 2016, 2015, 2014, 2013 or 2012. Accordingly, our earnings were insufficient to cover fixed charges for such periods and we are unable to disclose a ratio of earnings to fixed charges for such periods. The dollar amount of the deficiency in earnings available for fixed charges for the year ended December 31, 2016, the year ended December 31, 2015, the year ended December 31, 2014, the year ended December 31, 2013, and the year ended December 31, 2012

was approximately \$36.4 million, \$57.9 million, \$53.4 million, \$41.2 million, and \$32.0 million, respectively.

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PLAN OF DISTRIBUTION

We may sell securities in any of the ways described below or in any combination:

- through one or more underwriters;
- through dealers, who may act as agents or principal (including a block trade in which a broker or dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction);
 - through one or more agents;
 - through registered direct offerings;
 - as part of a collaboration with a third party;
 - as part of an acquisition or merger with a third party;
 - through at-the-market issuances;
 - in privately negotiated transactions; or
 - directly to purchasers or to a single purchaser.

The distribution of the securities by us may be effected from time to time in one or more transactions:

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- at a fixed price, or prices, which may be changed from time to time;
 - at market prices prevailing at the time of sale;
- at prices related to such prevailing market prices; or
 - at negotiated prices.

Each prospectus supplement will describe the method of distribution of the securities and any applicable restrictions.

The prospectus supplement will describe the terms of the offering of the securities, including the following, as applicable:

- the terms of the securities being offered, including the public offering price of the securities and the proceeds to us;
- the name or names of any underwriters, dealers or agents and the amounts of securities underwritten or purchased by each of them;
- any underwriting discounts and commissions or agency fees and other items constituting underwriters or agents compensation;
 - any options under which underwriters may purchase additional securities from us;
 - any discounts or concessions allowed or reallocated or paid to dealers; and
 - any securities exchanges on which the securities may be listed.

Only the agents or underwriters named in each prospectus supplement are agents or underwriters in connection with the securities being offered thereby.

We may authorize underwriters, dealers or other persons acting as our agents to solicit offers by certain institutions to purchase securities from us pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. Each contract will be for an amount not less than, and the aggregate amount of securities sold pursuant to such contracts shall not be less nor more than, the respective amounts stated in each applicable prospectus supplement. Institutions with whom the contracts, when authorized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and other institutions, but shall in all cases be subject to our approval. Delayed delivery contracts will be subject only to those conditions set forth in each applicable prospectus supplement, and each prospectus supplement will set forth any commissions we pay for solicitation of these contracts.

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We may indemnify agents, underwriters, dealers, or other third parties who participate in the distribution of securities against certain liabilities, including liabilities under the Securities Act, and agree to contribute to payments which these agents, underwriters, dealers, or other third parties may be required to make. Agents, underwriters, dealers and such other third parties may be customers of, engage in transactions with, or perform services for us in the ordinary course of business. We may also use underwriters or such other third parties with whom we have a material relationship. We will describe the nature of any such relationship in the applicable prospectus supplement.

One or more firms, referred to as remarketing firms, may also offer or sell the securities, if a prospectus supplement so indicates, in connection with a remarketing arrangement upon their purchase. Remarketing firms will act as principals for their own accounts or as our agents. These remarketing firms will offer or sell the securities in accordance with the terms of the securities. Each prospectus supplement will identify and describe any remarketing firm and the terms of its agreement, if any, with us and will describe the remarketing firm's compensation. Remarketing firms may be deemed to be underwriters in connection with the securities they remarket. Remarketing firms may be entitled under agreements that may be entered into with us to indemnification by us against certain civil liabilities, including liabilities under the Securities Act, and may engage in transactions with or perform services for us in the ordinary course of business.

Certain underwriters may use this prospectus and any accompanying prospectus supplement for offers and sales related to market-making transactions in the securities. These underwriters may act as principal or agent in these transactions, and the sales will be made at prices related to prevailing market prices at the time of sale. Any underwriters involved in the sale of the securities may qualify as underwriters within the meaning of Section 2(a)(11) of the Securities Act. In addition, the underwriters' commissions, discounts or concessions may qualify as underwriters' compensation under the Securities Act and the rules of the Financial Industry Regulatory Authority.

Our common stock is listed on The NASDAQ Global Market. Underwriters may make a market in our common stock, but will not be obligated to do so and may discontinue any market making at any time without notice. We can make no assurance as to the development, maintenance or liquidity of any trading market for the securities.

Certain persons participating in an offering may engage in overallotment stabilizing transactions, short covering transactions and penalty bids in accordance with rules and regulations under the Securities Exchange Act of 1934, as amended (the Exchange Act). Overallotment involves sales in excess of the offering size, which create a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Short covering transactions involve purchases of the securities in the open market after the distribution is completed to cover short positions. Penalty bids permit the underwriters to reclaim a selling concession from a dealer when the securities originally sold by the dealer are purchased in a short covering transaction to cover short positions. Those activities may cause the price of the securities to be higher than it would otherwise be. If commenced, the underwriters may discontinue any of the activities at any time.

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DESCRIPTION OF COMMON STOCK

The following summary of the terms of our common stock does not purport to be complete. You should refer to our certificate of incorporation and bylaws, both of which are on file with the SEC as exhibits to previous filings. The summary below is also qualified by provisions of applicable law.

General

Under our certificate of incorporation, we have authority to issue up to 100,000,000 shares of common stock, par value \$0.0001 per share. As of March 15, 2017, we had 36,992,418 shares of common stock outstanding.

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. An election of directors by our stockholders shall be determined by a plurality of the votes cast by the stockholders entitled to vote on the election. Holders of common stock are entitled to receive proportionately any dividends as may be declared by our board of directors, subject to any preferential dividend rights of outstanding preferred stock.

In the event of our liquidation or dissolution, the holders of common stock are entitled to receive proportionately all assets available for distribution to stockholders after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to and may be adversely affected by the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Delaware Anti-Takeover Law and Certain Charter and Bylaw Provisions

Delaware law

We are subject to Section 203 of the Delaware General Corporation Law. Subject to certain exceptions, Section 203 prevents a publicly-traded Delaware corporation from engaging in a business combination with any interested stockholder for three years following the date that the person became an interested stockholder, unless either the interested stockholder attained such status with the approval of our board of directors, the business combination is approved by our board of directors and stockholders in a prescribed manner or the interested stockholder acquired at least 85% of our outstanding voting stock in the transaction in which it became an interested stockholder. A business combination includes, among other things, a merger or consolidation involving us and the interested stockholder and the sale of more than 10% of our assets. In general, an interested stockholder is any entity or person beneficially owning 15% or more of our outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person.

Staggered board

Our certificate of incorporation and our bylaws divide our board of directors into three classes with staggered three-year terms. In addition, our certificate of incorporation and our bylaws provide that directors may be removed only for cause and only by the affirmative vote of the holders of 75% of our shares of capital stock present in person or by proxy and entitled to vote. Under our certificate of incorporation and bylaws, any vacancy on our board of directors, including a vacancy resulting from an enlargement of our board of directors, may be filled only by vote of a majority of our directors then in office. Furthermore, our certificate of incorporation provides that the authorized number of directors may be changed only by the resolution of our board of directors. The classification of our board of directors and the limitations on the ability of our stockholders to remove directors, change the authorized number of directors and fill vacancies could make it more difficult for a third party to acquire, or discourage a third party from seeking to acquire, control of our Company.

Stockholder action; special meeting of stockholders; advance notice requirements for stockholder proposals and director nominations

Our certificate of incorporation and our bylaws provide that any action required or permitted to be taken by our stockholders at an annual meeting or special meeting of stockholders may only be taken if it is properly brought before such meeting and may not be taken by written action in lieu of a meeting. Our certificate of incorporation and our bylaws also provide that, except as otherwise required by law, special meetings of the stockholders can only be called by our chairman of the board, our president or chief executive officer or our board of directors. In addition, our bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders, including proposed nominations of candidates for election to our board of directors. Stockholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our board of directors, or by a stockholder of record on the record date for the meeting who is entitled to vote at the meeting and who has delivered timely written notice in proper form to our secretary of the stockholder's intention to bring such business before the meeting. These provisions could have the effect of delaying until the next stockholder meeting stockholder actions that are favored by the holders of a majority of our outstanding voting securities. These provisions also could discourage a third party from making a tender offer for our common stock, because even if it acquired a majority of our outstanding voting stock, it would be able to take action as a stockholder, such as electing new directors or approving a merger, only at a duly called stockholders meeting and not by written consent.

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Super-majority voting

The Delaware General Corporation Law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Our bylaws may be amended or repealed by a majority vote of our board of directors or the affirmative vote of the holders of at least 75% of the votes that all our stockholders would be entitled to cast in any annual election of directors. In addition, the affirmative vote of the holders of at least 75% of the votes that all our stockholders would be entitled to cast in any election of directors is required to amend or repeal or to adopt any provisions inconsistent with any of the provisions of our certificate of incorporation described above.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

Listing

Our common stock is listed on The NASDAQ Global Market under the symbol VSTM.

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DESCRIPTION OF PREFERRED STOCK

Under the terms of our certificate of incorporation, our board of directors is authorized to issue up to 5,000,000 shares of our preferred stock, par value \$0.0001 per share, in one or more series without stockholder approval. Our board of directors has the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock. As of March 15, 2017, we had no shares of preferred stock outstanding. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of the holders of common stock until the board of directors determines the specific rights of the holders of preferred stock. However, effects of the issuance of preferred stock include restricting dividends on common stock, diluting the voting power of common stock, impairing the liquidation rights of common stock, and making it more difficult for a third party to acquire us, which could have the effect of discouraging a third party from acquiring, or deterring a third party from paying a premium to acquire, a majority of our outstanding voting stock.

If we offer a specific class or series of preferred stock under this prospectus, we will describe the terms of the preferred stock in the prospectus supplement for such offering and will file a copy of the certificate establishing the terms of the preferred stock with the SEC. To the extent required, this description will include:

- the title and stated value;
- the number of shares offered, the liquidation preference per share and the purchase price;
- the dividend rate(s), period(s) and/or payment date(s), or method(s) of calculation for such dividends;
- whether dividends will be cumulative or non-cumulative and, if cumulative, the date from which dividends will accumulate;
 - the procedures for any auction and remarketing, if any;
 - the provisions for a sinking fund, if any;
 - the provisions for redemption, if applicable;

- any listing of the preferred stock on any securities exchange or market;

- whether the preferred stock will be convertible into our common stock, and, if applicable, the conversion price (or how it will be calculated) and conversion period;

- whether the preferred stock will be exchangeable into debt securities, and, if applicable, the exchange price (or how it will be calculated) and exchange period;
 - voting rights, if any, of the preferred stock;

- a discussion of any material U.S. federal income tax considerations applicable to the preferred stock;

- the relative ranking and preferences of the preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of the affairs of the Company; and

- any material limitations on issuance of any class or series of preferred stock ranking senior to or on a parity with the series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of the Company.

The preferred stock offered by this prospectus, when issued, will not have, or be subject to, any preemptive or similar rights.

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DESCRIPTION OF WARRANTS

We may issue warrants to purchase shares of our common stock, preferred stock and/or debt securities in one or more series together with other securities or separately, as described in each applicable prospectus supplement. Below is a description of certain general terms and provisions of the warrants that we may offer. Particular terms of the warrants will be described in the applicable warrant agreements and the applicable prospectus supplement for the warrants.

The applicable prospectus supplement will contain, where applicable, the following terms of and other information relating to the warrants:

- the specific designation and aggregate number of, and the price at which we will issue, the warrants;
- the currency or currency units in which the offering price, if any, and the exercise price are payable;
- the designation, amount and terms of the securities purchasable upon exercise of the warrants;
- if applicable, the exercise price for shares of our common stock and the number of shares of common stock to be received upon exercise of the warrants;
- if applicable, the exercise price for shares of our preferred stock, the number of shares of preferred stock to be received upon exercise, and a description of that class or series of our preferred stock;
- if applicable, the exercise price for our debt securities, the amount of our debt securities to be received upon exercise, and a description of that series of debt securities;
- the date on which the right to exercise the warrants will begin and the date on which that right will expire or, if the warrants may not be continuously exercised throughout that period, the specific date or dates on which the warrants may be exercised;

- whether the warrants will be issued in fully registered form or bearer form, in definitive or global form or in any combination of these forms, although, in any case, the form of a warrant included in a unit will correspond to the form of the unit and of any security included in that unit;
 - any applicable material U.S. federal income tax consequences;
- the identity of the warrant agent for the warrants and of any other depositaries, execution or paying agents, transfer agents, registrars or other agents;
- the proposed listing, if any, of the warrants or any securities purchasable upon exercise of the warrants on any securities exchange;
- if applicable, the date from and after which the warrants and the common stock, preferred stock and/or debt securities will be separately transferable;
- if applicable, the minimum or maximum amount of the warrants that may be exercised at any one time;
 - information with respect to book-entry procedures, if any;
 - the anti-dilution provisions of the warrants, if any;
 - any redemption or call provisions;
- whether the warrants are to be sold separately or with other securities as parts of units; and
- any additional terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants.

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DESCRIPTION OF DEBT SECURITIES

We will issue the debt securities offered by this prospectus and any accompanying prospectus supplement under an indenture to be entered into between us and the trustee identified in the applicable prospectus supplement. The terms of the debt securities will include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as in effect on the date of the indenture. We have filed a copy of the form of indenture as an exhibit to the registration statement in which this prospectus is included. The indenture will be subject to and governed by the terms of the Trust Indenture Act of 1939.

We may offer under this prospectus debt securities that, unless otherwise specified in the applicable prospectus supplement, will represent direct, unsecured obligations of the Company and will rank equally with all of our other unsecured indebtedness.

The following statements relating to the debt securities and the indenture are summaries, qualified in their entirety by reference to the detailed provisions of the indenture.

General

We may issue the debt securities in one or more series with the same or various maturities, at par, at a premium, or at a discount. We will describe the particular terms of each series of debt securities in a prospectus supplement relating to that series, which we will file with the SEC.

The prospectus supplement will set forth, to the extent required, the following terms of the debt securities in respect of which the prospectus supplement is delivered:

- the title of the series;
- the aggregate principal amount;
- the issue price or prices, expressed as a percentage of the aggregate principal amount of the debt securities;
- any limit on the aggregate principal amount;

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- the date or dates on which principal is payable;
- the interest rate or rates (which may be fixed or variable) or, if applicable, the method used to determine such rate or rates;
- the date or dates from which interest, if any, will be payable and any regular record date for the interest payable;
- the place or places where principal and, if applicable, premium and interest, are payable;
- the terms and conditions upon which we may, or the holders may require us to, redeem or repurchase the debt securities;
- the denominations in which such debt securities may be issuable, if other than denominations of \$1,000 or any integral multiple of that number;
- whether the debt securities are to be issuable in the form of certificated securities (as described below) or global securities (as described below);
- the portion of principal amount that will be payable upon declaration of acceleration of the maturity date if other than the principal amount of the debt securities;
 - the currency of denomination;
- the designation of the currency, currencies or currency units in which payment of principal and, if applicable, premium and interest, will be made;
- if payments of principal and, if applicable, premium or interest, on the debt securities are to be made in one or more currencies or currency units other than the currency of denomination, the manner in which the exchange rate with respect to such payments will be determined;

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- if amounts of principal and, if applicable, premium and interest may be determined by reference to an index based on a currency or currencies or by reference to a commodity, commodity index, stock exchange index or financial index, then the manner in which such amounts will be determined;
 - the provisions, if any, relating to any collateral provided for such debt securities;
- any addition to or change in the covenants and/or the acceleration provisions described in this prospectus or in the indenture;
 - any events of default, if not otherwise described below under **Events of Default** ;
- the terms and conditions, if any, for conversion into or exchange for shares of our common stock or preferred stock;
 - any depositaries, interest rate calculation agents, exchange rate calculation agents or other agents; and
- the terms and conditions, if any, upon which the debt securities shall be subordinated in right of payment to other indebtedness of the Company.

We may issue discount debt securities that provide for an amount less than the stated principal amount to be due and payable upon acceleration of the maturity of such debt securities in accordance with the terms of the indenture. We may also issue debt securities in bearer form, with or without coupons. If we issue discount debt securities or debt securities in bearer form, we will describe material U.S. federal income tax considerations and other material special considerations which apply to these debt securities in the applicable prospectus supplement.

We may issue debt securities denominated in or payable in a foreign currency or currencies or a foreign currency unit or units. If we do, we will describe the restrictions, elections, and general tax considerations relating to the debt securities and the foreign currency or currencies or foreign currency unit or units in the applicable prospectus supplement.

Exchange and/or Conversion Rights

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We may issue debt securities which can be exchanged for or converted into shares of our common stock or preferred stock. If we do, we will describe the terms of exchange or conversion in the prospectus supplement relating to these debt securities.

Transfer and Exchange

We may issue debt securities that will be represented by either:

- book-entry securities, which means that there will be one or more global securities registered in the name of a depository or a nominee of a depository; or
- certificated securities, which means that they will be represented by a certificate issued in definitive registered form.

We will specify in the prospectus supplement applicable to a particular offering whether the debt securities offered will be book-entry or certificated securities.

Certificated Debt Securities

If you hold certificated debt securities, you may transfer or exchange such debt securities at the trustee's office or at the paying agent's office or agency in accordance with the terms of the indenture. You will not be charged a service charge for any transfer or exchange of certificated debt securities but may be required to pay an amount sufficient to cover any tax or other governmental charge payable in connection with such transfer or exchange.

You may effect the transfer of certificated debt securities and of the right to receive the principal of, premium, and/or interest, if any, on the certificated debt securities only by surrendering the certificate representing the certificated debt securities and having us or the trustee issue a new certificate to the new holder.

Global Securities

If we decide to issue debt securities in the form of one or more global securities, then we will register the global securities in the name of the depository for the global securities or the nominee of the depository, and the global securities will be delivered by the trustee to the depository for credit to the accounts of the holders of beneficial interests in the debt securities.

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The prospectus supplement will describe the specific terms of the depositary arrangement for debt securities of a series that are issued in global form. None of our Company, the trustee, any payment agent or the security registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a global debt security or for maintaining, supervising or reviewing any records relating to these beneficial ownership interests.

No Protection in the Event of Change of Control

The indenture does not have any covenants or other provisions providing for a put or increased interest or otherwise that would afford holders of our debt securities additional protection in the event of a recapitalization transaction, a change of control of the Company, or a highly leveraged transaction. If we offer any covenants or provisions of this type with respect to any debt securities covered by this prospectus, we will describe them in the applicable prospectus supplement.

Covenants

Unless otherwise indicated in this prospectus or the applicable prospectus supplement, our debt securities will not have the benefit of any covenants that limit or restrict our business or operations, the pledging of our assets or the incurrence by us of indebtedness. We will describe in the applicable prospectus supplement any material covenants in respect of a series of debt securities.

Consolidation, Merger and Sale of Assets

We have agreed in the indenture that we will not consolidate with or merge into any other person or convey, transfer, sell or lease our properties and assets substantially as an entirety to any person, unless:

- the person formed by the consolidation or into or with which we are merged or the person to which our properties and assets are conveyed, transferred, sold or leased, is a corporation organized and existing under the laws of the U.S., any state or the District of Columbia or a corporation or comparable legal entity organized under the laws of a foreign jurisdiction and, if we are not the surviving person, the surviving person has expressly assumed all of our obligations, including the payment of the principal of and, premium, if any, and interest on the debt securities and the performance of the other covenants under the indenture; and
- immediately before and immediately after giving effect to the transaction, no event of default, and no event which, after notice or lapse of time or both, would become an event of default, has occurred and is continuing under the indenture.

Events of Default

Unless otherwise specified in the applicable prospectus supplement, the following events will be events of default under the indenture with respect to debt securities of any series:

- we fail to pay any principal or premium, if any, when it becomes due;

- we fail to pay any interest within 30 days after it becomes due;

- we fail to observe or perform any other covenant in the debt securities or the indenture for 60 days after written notice specifying the failure from the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of that series; and

- certain events involving bankruptcy, insolvency or reorganization of Verastem or any of our significant subsidiaries.

The trustee may withhold notice to the holders of the debt securities of any series of any default, except in payment of principal or premium, if any, or interest on the debt securities of a series, if the trustee considers it to be in the best interest of the holders of the debt securities of that series to do so.

If an event of default (other than an event of default resulting from certain events of bankruptcy, insolvency or reorganization) occurs, and is continuing, then the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of any series may accelerate the maturity of the debt securities. If this happens, the entire principal amount, plus the premium, if any, of all the outstanding debt securities of the affected series plus accrued interest to the date of acceleration will be immediately due and payable. At any time after the acceleration, but before a judgment or decree based on such acceleration is obtained by the trustee, the holders of a majority in aggregate principal amount of outstanding debt securities of such series may rescind and annul such acceleration if:

- all events of default (other than nonpayment of accelerated principal, premium or interest) have been cured or waived;

- all lawful interest on overdue interest and overdue principal has been paid; and

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- the rescission would not conflict with any judgment or decree.

In addition, if the acceleration occurs at any time when we have outstanding indebtedness which is senior to the debt securities, the payment of the principal amount of outstanding debt securities may be subordinated in right of payment to the prior payment of any amounts due under the senior indebtedness, in which case the holders of debt securities will be entitled to payment under the terms prescribed in the instruments evidencing the senior indebtedness and the indenture.

If an event of default resulting from certain events of bankruptcy, insolvency or reorganization occurs, the principal, premium and interest amount with respect to all of the debt securities of any series will be due and payable immediately without any declaration or other act on the part of the trustee or the holders of the debt securities of that series.

The holders of a majority in principal amount of the outstanding debt securities of a series will have the right to waive any existing default or compliance with any provision of the indenture or the debt securities of that series and to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, subject to certain limitations specified in the indenture.

No holder of any debt security of a series will have any right to institute any proceeding with respect to the indenture or for any remedy under the indenture, unless:

- the holder gives to the trustee written notice of a continuing event of default;
- the holders of at least 25% in aggregate principal amount of the outstanding debt securities of the affected series make a written request and offer reasonable indemnity to the trustee to institute a proceeding as trustee;
- the trustee fails to institute a proceeding within 60 days after such request; and
- the holders of a majority in aggregate principal amount of the outstanding debt securities of the affected series do not give the trustee a direction inconsistent with such request during such 60-day period.

These limitations do not, however, apply to a suit instituted for payment on debt securities of any series on or after the due dates expressed in the debt securities.

We will periodically deliver certificates to the trustee regarding our compliance with our obligations under the indenture.

Modification and Waiver

From time to time, we and the trustee may, without the consent of holders of the debt securities of one or more series, amend the indenture or the debt securities of one or more series, or supplement the indenture, for certain specified purposes, including:

- to provide that the surviving entity following a change of control of Verastem permitted under the indenture will assume all of our obligations under the indenture and debt securities;
 - to provide for certificated debt securities in addition to uncertificated debt securities;
 - to comply with any requirements of the SEC under the Trust Indenture Act of 1939;
- to provide for the issuance of and establish the form and terms and conditions of debt securities of any series as permitted by the indenture;
- to cure any ambiguity, defect or inconsistency, or make any other change that does not materially and adversely affect the rights of any holder; and
 - to appoint a successor trustee under the indenture with respect to one or more series.

From time to time we and the trustee may, with the consent of holders of at least a majority in principal amount of an outstanding series of debt securities, amend or supplement the indenture or the debt securities series, or waive compliance in a particular instance by us with any provision of the indenture or the debt securities. We may not, however, without the consent of each holder affected by such action, modify or supplement the indenture or the debt securities or waive compliance with any provision of the indenture or the debt securities in order to:

- reduce the amount of debt securities whose holders must consent to an amendment, supplement, or waiver to the indenture or such debt security;

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- reduce the rate of or change the time for payment of interest or reduce the amount of or postpone the date for payment of sinking fund or analogous obligations;
 - reduce the principal of or change the stated maturity of the debt securities;
 - make any debt security payable in money other than that stated in the debt security;
- change the amount or time of any payment required or reduce the premium payable upon any redemption, or change the time before which no such redemption may be made;
- waive a default in the payment of the principal of, premium, if any, or interest on the debt securities or a redemption payment;
- waive a redemption payment with respect to any debt securities or change any provision with respect to redemption of debt securities; or
- take any other action otherwise prohibited by the indenture to be taken without the consent of each holder affected by the action.

Defeasance of Debt Securities and Certain Covenants in Certain Circumstances

The indenture permits us, at any time, to elect to discharge our obligations with respect to one or more series of debt securities by following certain procedures described in the indenture. These procedures will allow us either:

- to defease and be discharged from any and all of our obligations with respect to any debt securities except for the following obligations (which discharge is referred to as "legal defeasance"):
 - (1) to register the transfer or exchange of such debt securities;

- (2) to replace temporary or mutilated, destroyed, lost or stolen debt securities;
- (3) to compensate and indemnify the trustee; or
- (4) to maintain an office or agency in respect of the debt securities and to hold monies for payment in trust; or
- to be released from our obligations with respect to the debt securities under certain covenants contained in the indenture, as well as any additional covenants which may be contained in an applicable supplemental indenture (which release is referred to as covenant defeasance).

In order to exercise either defeasance option, we must deposit with the trustee or other qualifying trustee, in trust for that purpose:

- money;
- U.S. Government Obligations (as described below) or Foreign Government Obligations (as described below) which through the scheduled payment of principal and interest in accordance with their terms will provide money; or
- a combination of money and/or U.S. Government Obligations and/or Foreign Government Obligations sufficient in the written opinion of a nationally-recognized firm of independent accountants to provide money;

which in each case specified above, provides a sufficient amount to pay the principal of, premium, if any, and interest, if any, on the debt securities of the series, on the scheduled due dates or on a selected date of redemption in accordance with the terms of the indenture.

In addition, defeasance may be effected only if, among other things:

- in the case of either legal or covenant defeasance, we deliver to the trustee an opinion of counsel, as specified in the indenture, stating that as a result of the defeasance neither the trust nor the trustee will be required to register as an investment company under the Investment Company Act of 1940;

- in the case of legal defeasance, we deliver to the trustee an opinion of counsel stating that we have received from, or there has been published by, the Internal Revenue Service a ruling to the effect that, or there has been a change in any applicable federal income tax law with the effect that (and the opinion shall confirm that), the holders of outstanding debt securities will not recognize income, gain or loss for U.S. federal income tax purposes solely as a result of such legal defeasance and will be subject to U.S. federal

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income tax on the same amounts, in the same manner, including as a result of prepayment, and at the same times as would have been the case if legal defeasance had not occurred;

- in the case of covenant defeasance, we deliver to the trustee an opinion of counsel to the effect that the holders of the outstanding debt securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if covenant defeasance had not occurred; and
- certain other conditions described in the indenture are satisfied.

If we fail to comply with our remaining obligations under the indenture and any applicable supplemental indenture after a covenant defeasance of the indenture and any applicable supplemental indenture, and the debt securities are declared due and payable because of the occurrence of any undefeased event of default, the amount of money and/or U.S. Government Obligations and/or Foreign Government Obligations on deposit with the trustee could be insufficient to pay amounts due under the debt securities of the affected series at the time of acceleration. We will, however, remain liable in respect of these payments.

The term U.S. Government Obligations as used in the above discussion means securities which are direct obligations of or non-callable obligations guaranteed by the United States of America for the payment of which obligation or guarantee the full faith and credit of the United States of America is pledged.

The term Foreign Government Obligations as used in the above discussion means, with respect to debt securities of any series that are denominated in a currency other than U.S. dollars (1) direct obligations of the government that issued or caused to be issued such currency for the payment of which obligations its full faith and credit is pledged or (2) obligations of a person controlled or supervised by or acting as an agent or instrumentality of such government the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by that government, which in either case under clauses (1) or (2), are not callable or redeemable at the option of the issuer.

Regarding the Trustee

We will identify the trustee with respect to any series of debt securities in the prospectus supplement relating to the applicable debt securities.

You should note that if the trustee becomes a creditor of Verastem, the indenture and the Trust Indenture Act of 1939 limit the rights of the trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim, as security or otherwise. The trustee and its affiliates may engage in, and will be permitted to continue to engage in, other transactions with us and our affiliates. If, however, the trustee acquires any conflicting interest within the meaning of the Trust Indenture Act of 1939, it must eliminate such conflict or resign.

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The holders of a majority in principal amount of the then outstanding debt securities of any series may direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee. If an event of default occurs and is continuing, the trustee, in the exercise of its rights and powers, must use the degree of care and skill of a prudent person in the conduct of his or her own affairs. Subject to that provision, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any of the holders of the debt securities, unless they have offered to the trustee reasonable indemnity or security.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-3 with the SEC for the securities offered by this prospectus. This prospectus does not include all of the information contained in the registration statement. You should refer to the registration statement and its exhibits for additional information.

We are required to file annual and quarterly reports, current reports, proxy statements, and other information with the SEC. We make these documents publicly available, free of charge, on our website at www.verastem.com as soon as reasonably practicable after filing such documents with the SEC. The information contained on our website is not part of this prospectus. You can read our SEC filings, including the registration statement, on the SEC's website at <http://www.sec.gov>. You also may read and copy any document we file with the SEC at its public reference facility at:

Public Reference Room
100 F Street N.E.
Washington, DC 20549.

Please call the SEC at 1-800-732-0330 for further information on the operation of the public reference facilities.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information in documents that we file later with the SEC will automatically update and supersede information in this prospectus. We incorporate by reference into this prospectus the documents listed below and any future filings made by us with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, except for information furnished under Items 2.02, 7.01 or 9.01 on Form 8-K or other information furnished to the SEC which is not deemed filed and not incorporated in this prospectus, until the termination of the offering of securities described in the applicable prospectus supplement. We hereby incorporate by reference the following documents:

- Our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC on March 23, 2017;
- Our Current Report on Form 8-K filed with the SEC on November 2, 2016, as amended on January 11, 2017; and
- Description of our common stock, which is contained in the Registration Statement on Form 8-A, as filed with the SEC on January 23, 2012, as supplemented by the Description of Common Stock found on page 13 of this prospectus and including any amendments or reports filed for the purpose of updating such description.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Investor Relations
Verastem, Inc.
117 Kendrick Street, Suite 500

Needham, Massachusetts 02494

(781) 292-4200

Copies of these filings are also available, without charge, on the SEC's website at www.sec.gov and on our website at www.verastem.com as soon as reasonably practicable after they are filed electronically with the SEC. The information contained on our website is not a part of this prospectus.

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LEGAL MATTERS

The validity of the issuance of the securities offered pursuant to this prospectus will be passed upon for us by Ropes & Gray LLP, Boston, Massachusetts. The validity of any securities will be passed upon for any underwriters or agents by counsel that we will name in the applicable prospectus supplement.

EXPERTS

The consolidated financial statements of Verastem, Inc. appearing in Verastem, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

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7,777,778 shares

Common Stock

PROSPECTUS SUPPLEMENT

Cantor
