AVNET INC
Form 10-K
August 29, 2007

Table of Contents

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2007

or

o **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	**11-1890605**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2211 South 47th Street, Phoenix, Arizona	**85034**
(Address of principal executive offices)	*(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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark 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 Form 10-K or any amendment to this Form 10-K. o

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

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

The 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 December 30, 2006 (the last business day of the registrant s most recently completed second fiscal quarter) $3,754,446,293

The number of shares of the registrant s Common Stock (net of treasury shares) outstanding at July 27, 2007 149,874,689

DOCUMENTS INCORPORATED BY REFERENCE

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 on November 8, 2007 are incorporated herein by reference in Part III of this Report.

TABLE OF CONTENTS

PART I

Item 1. *Business*

Avnet, Inc., incorporated in New York in 1955, together with its consolidated subsidiaries (the Company or Avnet), is one of the world s largest industrial distributors, based on sales, of electronic components, enterprise computer and storage products and embedded subsystems. With sales of $15.68 billion in fiscal 2007, Avnet creates a vital link in the technology supply chain that connects over 300 of the world s leading electronic component and computer product manufacturers and software developers as a value-added source for multiple products for a global customer base of over 100,000 original equipment manufacturers (OEMs), electronic manufacturing services (EMS) providers, original design manufacturers (ODMs), and value-added resellers (VARs). Avnet distributes electronic components, computer products and software as received from its suppliers or with assembly or other value added by Avnet. Additionally, Avnet provides engineering design, materials management and logistics services, system integration and configuration, and supply chain advisory services.

Organizational Structure

Avnet has two primary operating groups Electronics Marketing (EM) and Technology Solutions (TS). Both operating groups have operations in each of the three major economic regions of the world: the Americas; Europe, the Middle East and Africa (EMEA); and Asia/Pacific, consisting of Asia, Australia and New Zealand (Asia). Each operating group has its own management team that is led by a group president and includes regional presidents and senior executives within the operating group that manage the various functions within the businesses. Each operating group also has distinct financial reporting that is evaluated at the corporate level and on which operating decisions and strategic planning for the Company as a whole are made. Divisions exist within each operating group that serve primarily as sales and marketing units to further streamline the sales and marketing efforts within each operating group and to enhance each operating group s ability to work with its customers and suppliers, generally along more specific product lines or based upon geography. However, each division relies heavily on the support services that are provided centrally within each operating group and centralized support at the corporate level.

Avnet s operating groups and their sales are as follows:

Region	Fiscal 2007 Sales (Millions)	Percentage of Sales
EM Americas	$ 3,722.7	23.7%
EM EMEA	3,306.3	21.1
EM Asia	2,650.8	16.9
Total EM	9,679.8	61.7
TS Americas	4,103.5	26.2
TS EMEA	1,579.4	10.1
TS Asia	318.4	2.0
Total TS	6,001.3	38.3

Total Avnet	$	15,681.1	100.0%

A description of each operating group and their businesses is presented below. Further financial information by operating group and geography is provided in Note 16 to the consolidated financial statements appearing in Item 15 of this Report.

Electronics Marketing

EM markets and sells semiconductors and interconnect, passive and electromechanical devices (IP&E) on behalf of over 300 of the world s leading electronic component manufacturers. EM markets and sells its products and services to a diverse customer base spread across end-markets including automotive, communications,

Table of Contents

computer hardware and peripheral, industrial and manufacturing, medical equipment, military and aerospace. EM also offers an array of value-added services that help customers evaluate, design-in and procure electronic components throughout the lifecycle of their technology products and systems. By working with EM from the design phase through new product introduction and through the product lifecycle, customers and suppliers can accelerate their time to market and realize cost efficiencies in both the design and manufacturing process.

EM Design Chain Services offers engineers a host of design chain services in support of the sales process. With access to a suite of design tools and engineering services from any point in the design cycle, customers can get product specifications along with evaluation kits and reference designs that enable a broad range of applications from concept through detailed design including new product introduction. EM also offers engineering and technical resources deployed globally to support product design, bill of materials development, design services and technical education and training. By utilizing EM s design chain services, customers can optimize their component selection and improve their time to market.

EM Supply Chain Services provides end-to-end supply chain services to OEMs, EMS providers and electronic component manufacturers, enabling them to optimize supply chains on a local, regional or global basis. By combining internal competencies in global warehousing and logistics, finance, information technology, and asset management with its global footprint and extensive partner relationships, Avnet s supply chain services develop a deeper level of engagement with the customers by allowing them to continuously manage their supply chains to meet the demands of a competitive environment globally without a commensurate investment in physical assets. With proprietary planning tools and a variety of inventory management solutions, EM can provide unique solutions that meet a customer s just-in-time requirements in a variety of scenarios including lean manufacturing, demand flow and outsourcing.

Suppliers of components to EM include:

Analog Devices	ON Semiconductor
Freescale Semiconductor	NXP
Infineon Technologies	ST Microelectronics
Intel	Texas Instruments
National Semiconductor	Xilinx

EM sells to multinational, regional and local OEMs and contract manufacturers including:

Alcatel-Lucent	Hon Hai Precision (FOXCONN)
Benchmark	Jabil
Celestica	Plexus
Compal Electronics	Raytheon
Flextronics	Sanmina-SCI
General Electric	Siemens
Harris	Solectron

Each of EM s regional operating groups has sales and marketing divisions that generally focus on a specific customer segment, particular product lines or on a specific geography. EM Americas addresses the needs of its customers and suppliers through focused channels to service small- to medium-sized customers, global customers, defense and aerospace customers, emerging customers and contract manufacturers. In EMEA, divisions which are organized by semiconductors, IP&E products and supply chain services address customers on both a pan-European and regional basis. EM EMEA does business in over 40 European countries, and over 10 countries in the Middle East and Africa.

EM Asia goes to market in China with two focused sales and marketing divisions; it also has separate divisions focused on South Asia, Taiwan and Japan. Collectively, the divisions offer one of the industry s broadest line cards and convenient one-stop shopping with an emphasis on responsiveness, engineering support, on-time delivery and quality. Certain specialty services are made available to the individual divisions through common support service units.

Table of Contents

Technology Solutions

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

TS is a leading partner for system vendors such as IBM, Hewlett-Packard and Sun Microsystems. Other key suppliers TS serves include:

Advanced Micro Devices	Kingston
EMC	Network Appliance
Eizo Nanoa	Oracle
Hitachi	Symantec

TS markets and sells its products and services to the VAR channel and embedded computing customers, which include:

Applied Computer Solutions	Innovativ Systems Design
Avaya	Insight Direct
Avid Technologies	Key Information Systems
Continental Resources	Logicalis
FusionStorm	Sirius Computer Systems
General Electric	Venture SystemSource
	World Wide Technology

As a global technology sales and marketing organization, TS has dedicated sales and marketing divisions focused on specific customer segments including OEMs, independent software vendors, system builders, system integrators, and VARs. The TS select line card strategy enables an exceptional level of attention to the needs of its suppliers.

TS divisions fall within three primary product solutions groups:

Enterprise Solutions

With VARs as their customers, these businesses focus on the value-added distribution of enterprise computing systems, software, storage, services and complex solutions from the world s foremost technology manufacturers, including IBM, Hewlett-Packard, Sun Microsystems, EMC, Network Appliance and other key suppliers. These businesses also provide complementary logistics, financial, marketing, sales and technical services, including engineering support, systems integration and configuration. Geographic markets: Australia, Austria, Belgium, Canada, Czech Republic, France, Germany, Hungary, Italy, Malaysia, Mexico, Netherlands, Poland, Portugal, Romania, Singapore, Slovakia, Spain, Switzerland, UK, US.

Embedded Solutions

These businesses provide technical design, integration and assembly to developers of application-specific computing solutions in the non-PC market, including OEMs targeting the medical, telecommunications, industrial and digital editing arenas. They also provide the latest microprocessor, motherboard and DRAM module technologies to manufacturers of general-purpose computers and system builders. Geographic markets: Americas, EMEA, Asia.

Avnet Visual and Data Solutions

Specializing in audio, video and display products, network products and storage solutions as well as wireless switch and wireless stand-alone solutions, these businesses target primarily VARs and system integrators. Geographic markets: EMEA.

Table of Contents

Foreign Operations

As noted in the operating group discussions, Avnet has significant operations in all three major economic regions of the world: the Americas, EMEA, and Asia/Pacific. The percentage of Avnet s consolidated sales by region is presented in the following table:

Region	Percentage of Sales for Fiscal Year 2007	2006	2005
Americas	50%	51%	52%
EMEA	31	31	33
Asia	19	18	15
	100%	100%	100%

Historically, Avnet s operations in the Americas region (primarily the United States) have contributed the largest percentage of consolidated sales. The Asia region has experienced more continuous rapid growth in recent years which is indicative of a worldwide industry trend and is a result of Avnet s continued investment into this rapidly growing region, particularly in the Peoples Republic of China. Management expects the Asia region to continue to grow, both in volume of business and as a percentage of the Company s global business in the future, although the rate of growth may not remain at the same robust percentages exhibited in the past three to four years. Avnet s foreign operations are subject to a variety of risks. These risks are discussed further under *Risk Factors* in Item 1A and under *Quantitative and Qualitative Disclosures About Market Risk* in Item 7A of this Report. Additionally, the specific translation impacts of foreign currency fluctuations, most notably the Euro, on the Company s consolidated financial statements are further discussed in *Management s Discussion and Analysis of Financial Condition and Results of Operations* in Item 7 of this Report.

Acquisitions

On December 31, 2006, the Company completed the acquisition of Access Distribution (Access), a leading value-added distributor of complex computing solutions, which recorded sales of $1.90 billion in calendar year 2006. As of the end of fiscal 2007, the Access business has been fully integrated into the TS Americas and EMEA operations. Management estimates that it achieved more than $15 million of annualized operating expense synergies as of the end of fiscal 2007; the benefit of which will largely impact fiscal 2008. The preliminary purchase price of $437.6 million, which is subject to adjustment based upon the audited closing net book value, was funded primarily with debt, plus cash on hand. In addition, during fiscal 2007, the Company acquired Azure Technology, an IT solutions provider in Asia that specializes in systems infrastructure and application solutions services. The acquired business operates in Singapore and Malaysia and is focused on the distribution of IBM systems and solutions with annual revenues of approximately $90 million. See Note 2 in the notes to consolidated financial statements in Item 15 of this Form 10-K for further discussion of the Access and other acquisitions.

Subsequent to June 30, 2007, the Company announced a definitive agreement to acquire the European Enterprise Infrastructure division of value-added distributor Magirus Group. The division to be acquired is a distributor of servers, storage systems, software and services of IBM and Hewlett-Packard to resellers in seven European countries and Dubai and has annual revenues of approximately $500 million. The acquisition is expected to close in October

2007, subject to regulatory approval, and is anticipated to be integrated into TS by the end of fiscal 2008. Also, subsequent to June 30, 2007, the Company acquired Flint Distribution, Ltd. a UK-based interconnect, passive and electromechanical distributor with annual revenues of approximately $40 million which will be integrated into EM.

Table of Contents

On July 5, 2005, the Company completed the acquisition of Memec, a global distributor that marketed and sold a portfolio of semiconductor devices from industry-leading suppliers, and a provider of engineering expertise and design services. The acquisition of Memec is the Company s largest acquisition to date, based on annual sales. Memec recorded sales of $2.28 billion in the twelve months prior to the July 5, 2005 close of the acquisition. The consideration for the Memec acquisition consisted of stock and cash valued at approximately $506.9 million, including transaction costs, plus the assumption of approximately $240.0 million of Memec s net debt (debt less cash acquired). Under the terms of the purchase agreement, Memec investors received approximately 24.011 million shares of Avnet common stock plus approximately $64.0 million in cash. The shares of Avnet common stock were valued at $17.42 per share, which represents the five-day average stock price beginning two days before the acquisition announcement on April 26, 2005.

Avnet has historically pursued a strategic acquisition program to grow its presence in world markets for electronic components and computer products. This program was a significant factor in Avnet becoming one of the largest industrial distributors of such products worldwide. Avnet will continue to pursue strategic acquisitions as part of its overall growth strategy, with its focus likely directed at smaller targets in markets where the Company is seeking to expand its global presence or to increase its scale and scope where an acquisition may be beneficial.

Major Products

One of Avnet s competitive strengths is the breadth and quality of the suppliers whose products it distributes. During fiscal 2007, IBM products accounted for approximately 14% of the Company s consolidated sales, and was the only supplier from which sales exceeded 10% of sales. Listed in the table below are the major product categories and the Company s approximate sales of each during the past three fiscal years:

	Years Ended June 30, 2007	July 1, 2006 (Millions)	July 2, 2005
Semiconductors	$ 9,176.4	$ 8,896.3	$ 6,082.2
Computer products	5,337.8	4,236.6	4,003.8
Connectors	571.3	547.9	481.7
Passives, electromechanical and other	595.6	572.8	499.1
	$ 15,681.1	$ 14,253.6	$ 11,066.8

As of June 30, 2007, the Company had more than 300 locations worldwide, as well as a limited number of instances where Avnet-owned product is stored in customer facilities. Many of these locations contain sales, warehousing and administrative functions for multiple sales and marketing units. Avnet sells to customers in over 70 countries.

Competition & Markets

Avnet is one of the world s largest industrial distributors, based on sales, of electronic components and computer products.

The electronic component and computer products industry continues to be extremely competitive and is subject to rapid technological advances. The Company s major competitors include Arrow Electronics, Inc., Future Electronics and World Peace Group. There are also certain smaller, specialized competitors who focus upon one market or product or a particular sector. As a result of these factors, Avnet must remain competitive in its pricing of goods and services.

Another key competitive factor in the electronic component and computer product distribution industry as a whole is the need to carry a sufficient amount of inventory to meet rapid delivery requirements of customers. However, to minimize its exposure related to valuation of inventory on hand, the majority of the Company s products are purchased pursuant to non-exclusive distributor agreements, which typically provide certain protections to the Company for product obsolescence and price erosion in the form of rights of return and price protection. Furthermore, these agreements are generally cancelable upon 30 to 180 days notice and, in most cases, provide for

Table of Contents

inventory return privileges upon cancellation. 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.

A key strength of the Company is the breadth and quality of the suppliers whose products it distributes. Because of the number of Avnet s suppliers, many customers can make all of their required purchases with Avnet, rather than purchasing from several different vendors.

Seasonality

Historically, Avnet s business has not been materially impacted by seasonality, with the exception of a relatively minor impact on consolidated results from the growth in revenues in the Technology Solutions business during the December quarter. This may be impacted by the recently completed Access acquisition, which has a particularly strong June quarter coinciding with its largest supplier s fiscal year end.

Number of Employees

At June 30, 2007, Avnet had approximately 11,700 employees.

Avnet Website

In addition to the information about Avnet contained in this Report, extensive information about the Company can be found through our website located at www.avnet.com, including information about our management team, products and services and our corporate governance practices.

The corporate governance information on our website includes the Company s Corporate Governance Guidelines, the Code of Conduct and the charters for each of the committees of our Board of Directors. In addition, amendments to the Code of Conduct, committee charters and waivers granted to our directors and executive officers under the Code of Conduct, if any, will be posted in this area of our website. These documents can be accessed at www.avnet.com under the Investor Relations Governance caption. Printed versions of our Corporate Governance Guidelines, our Code of Conduct and the charters of our Board committees can be obtained, free of charge, by writing to the Company at: Avnet, Inc., 2211 South 47th Street, Phoenix, AZ 85034; Attn: Corporate Secretary.

In addition, the Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those Reports, if any, filed or furnished pursuant to Section 13(a) or 15(d) of Securities Exchange Act of 1934, as well as Section 16 filings made by any of the Company s executive officers or directors with respect to Avnet common stock, are available on the Company s website (www.avnet.com under the Investor Relations SEC Filings caption) as soon as reasonably practicable after the report is electronically filed with, or furnished to, the Securities and Exchange Commission.

These details about Avnet s website and its content are only for information. The contents of the Company s website are not, nor shall they be deemed to be, incorporated by reference in this Report.

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

Forward-Looking Statements And Risk Factors

This Report contains forward-looking statements with respect to the financial condition, results of operations and business of Avnet. These statements are generally identified by words like believes, expects, anticipates, should, v may, estimates or similar expressions. Forward-looking statements are subject to numerous assumptions, risks and uncertainties.

Avnet does not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

Factors that may cause actual results to differ materially from those contained in the forward-looking statements include the following:

An industry down-cycle in semiconductors could significantly affect the Company s operating results as a large portion of our revenues comes from sales of semiconductors, which has been a highly cyclical industry.

The semiconductor industry historically has experienced periodic fluctuations in product supply and demand, often associated with changes in technology and manufacturing capacity, and is generally considered to be highly cyclical. During each of the last three fiscal years, sales of semiconductors represented over 50% of the Company s consolidated sales, and the Company s revenues, particularly those of EM, closely follow the strength or weakness of the semiconductor market. While the semiconductor industry has strengthened recently as compared with the downturn experienced in 2001 and 2002 and industry cycles appear less volatile, it is uncertain whether this trend will continue. Future downturns in the technology industry, particularly in the semiconductor sector, could negatively affect the Company s operating results and negatively impact the Company s ability to maintain its current profitability levels.

Failure to maintain its relationships with key suppliers could adversely affect the Company s sales.

One of the Company s competitive strengths is the breadth and quality of the suppliers whose products the Company distributes. However, sales of products and services from one of the Company s suppliers, IBM, accounted for approximately 14% of the Company s consolidated sales in fiscal year 2007. Management expects IBM products and services to continue to account for over 10% of the Company s consolidated sales in fiscal year 2008. The Company s contracts with its suppliers, including those with IBM, vary in duration and are generally terminable by either party at will upon notice. To the extent IBM or a group of other primary suppliers is not willing to do business with the Company in the future, the Company s business and relationships with its customers could be materially, adversely affected because its customers depend on the Company s distribution of electronic components and computer products from the industry s leading suppliers. In addition, to the extent that any of the Company s key suppliers modifies the terms of their contracts including, without limitation, the terms regarding price protection, rights of return, rebates or other terms that protect the Company s gross margins, it could materially, adversely affect the Company s results of operations, financial condition or liquidity.

The Company may not have adequate or cost-effective liquidity or capital resources.

The Company s ability to satisfy its cash needs depends on its ability to generate cash from operations and to access the financial markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond the Company s control.

The Company may need to satisfy its cash needs through external financing. However, external financing may not be available on acceptable terms or at all. As of June 30, 2007, Avnet had total debt outstanding of $1.21 billion under various notes and committed and uncommitted lines of credit with financial institutions. The Company needs cash to make interest payments on, and to refinance, this indebtedness and for general corporate purposes, such as funding its ongoing working capital and capital expenditure needs. Under the terms of any external financing, the Company may incur higher than expected financing expenses and become subject to additional restrictions and covenants. Any material increase in the Company s financing costs could have a material adverse effect on its profitability.

Under some of its various credit facilities, the Company is required to maintain certain specified financial ratios and meet certain tests. If the Company fails to meet these financial ratios and tests, it may be unable to continue to utilize these facilities. If the Company could not continue to utilize these facilities, it may not have sufficient cash available to make interest payments on and refinance indebtedness and for general corporate needs. Furthermore, disclosure of any such non-compliance may contribute to increased volatility of the Company s share price and thereby exposing the

Company to potential securities litigation.

Table of Contents

The agreements governing some of the Company s financings contain various covenants and restrictions that limit the discretion of management in operating its business and could prevent us from engaging in some activities that may be beneficial to the Company s business.

The agreements governing the Company s financing, including its five-year, $500 million credit facility and the indentures governing the Company s outstanding notes, contain various covenants and restrictions that, in certain circumstances, limit the Company s ability and the ability of certain subsidiaries to:

- grant liens on assets;
- make restricted payments (including paying dividends on capital stock or redeeming or repurchasing capital stock);
- make investments;
- merge, consolidate or transfer all or substantially all of the Company s assets;
- incur additional debt; or
- engage in certain transactions with affiliates.

As a result of these covenants and restrictions, the Company may be limited in how it conducts its business and may be unable to raise additional debt, compete effectively or make investments.

Declines in the value of the Company s inventory or unexpected order cancellations by the Company s customers could materially, adversely affect its business, results of operations, financial condition or liquidity.

The electronic components and computer products industries are subject to rapid technological change, new and enhanced products and evolving industry standards, which can contribute to a decline in value or obsolescence of inventory. During an industry and/or economic downturn, it is possible that prices will decline due to an oversupply of products and, as a result of the price declines, there may be greater risk of declines in inventory value. Although it is the policy of many of the Company s suppliers to offer distributors like Avnet certain protections from the loss in value of inventory (such as price protection, limited rights of return and rebates), the Company cannot be assured that such return policies and rebates will fully compensate us for the loss in value, or that the vendors will choose to, or be able to, honor such agreements, some of which are not documented and therefore subject to the discretion of the vendor. In addition, the Company s sales are typically made pursuant to individual purchase orders, and the Company generally does not have long-term supply arrangements with its customers. Generally, the Company s customers may cancel orders 30 days prior to shipment with minimal penalties. The Company cannot be assured that unforeseen new product developments, declines in the value of the Company s inventory or unforeseen order cancellations by its customers will not materially, adversely affect the Company s business, results of operations, financial condition or liquidity, or that the Company will successfully manage its existing and future inventories.

Substantial defaults by the Company s customers on its accounts receivable or the loss of significant customers could have a significant negative impact on the Company s business, results of operations, financial condition or liquidity.

A significant portion of the Company s working capital consists of accounts receivable from customers. If customers responsible for a significant amount of accounts receivable were to become insolvent or otherwise unable to pay for products and services, or were to become unwilling or unable to make payments in a timely manner, the Company s business, results of operations, financial condition or liquidity could be adversely affected. An economic or industry downturn could adversely and materially affect the servicing of these accounts receivable, which could result in longer payment cycles, increased collection costs and defaults in excess of management s expectations. A significant deterioration in the Company s ability to collect on accounts receivable could also impact the cost or availability of financing under its Securitization Program.

Table of Contents

The electronics component and computer industries are highly competitive and if the Company cannot effectively compete, its revenues may decline.

The market for the Company s products and services is very competitive and subject to rapid technological advances. Not only does the Company compete with other global distributors, it also competes for customers with regional distributors and some of the Company s own suppliers. The Company s failure to maintain and enhance its competitive position could adversely affect its business and prospects. Furthermore, the Company s efforts to compete in the marketplace could cause deterioration of gross profit margins and, thus, overall profitability.

The sizes of the Company s competitors vary across market sectors, as do the resources the Company has allocated to the sectors in which it does business. Therefore, some of the competitors may have greater financial, personnel, capacity and other resources or a more extensive customer base than the Company has in one or more of its market sectors.

The Company s non-U.S. locations represent a significant and growing portion of its revenue, and consequently, the Company is increasingly exposed to risks associated with operating internationally.

During fiscal year 2007, 2006 and 2005, approximately 50%, 49% and 48%, respectively, of the Company s sales came from its operations outside the United States. Most notable in this growth of non-U.S. sales is the increasing volume of sales activity in the Asia region, which accounted for approximately 19% of consolidated sales during fiscal year 2007. As a result of the Company s foreign sales and locations, its operations are subject to a variety of risks that are specific to international operations, including, but not limited to, the following:

- potential restrictions on the Company s ability to repatriate funds from its foreign subsidiaries;
- foreign currency fluctuations and the impact on the Company s reported results of operations of the translation of the foreign currencies to U.S. dollars;
- import and export duties and value-added taxes;
- import and export regulation changes;
- changing foreign tax laws and regulations;
- political instability, terrorism and potential military conflicts;
- inflexible employee contracts in the event of business downturns; and
- the burden and cost of compliance with foreign laws.

The Company has operations in several locations in emerging or developing economies that have a potential for higher risk. The risks associated with these economies include currency volatility and other economic or political risks. While the Company has and will continue to adopt measures to reduce the impact of losses resulting from volatile currencies and other risks of doing business abroad, the Company cannot be ensured that such measures will be adequate.

If the Company fails to maintain effective internal controls, it may not be able to report its financial results accurately or timely or detect fraud, which could have a material adverse effect on the Company s business or stock price.

Effective internal controls are necessary for the Company to provide reasonable assurance with respect to its financial reports and to effectively prevent fraud. If the Company cannot provide reasonable assurance with respect to its financial reports and effectively prevent fraud, its brand and operating results could be harmed. Pursuant to the Sarbanes-Oxley Act of 2002, the Company is required to furnish a report by management on internal control over financial reporting, including management s assessment of the effectiveness of such control. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls cannot provide absolute assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the

Table of Contents

control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If the Company fails to maintain the adequacy of its internal controls, including any failure to implement required new or improved controls, or if the Company experiences difficulties in their implementation, the Company s business and operating results could be harmed, and the Company could fail to meet its reporting obligations, which could have a material adverse effect on its business and the share price.

If the Company s internal information systems fail to function properly, its business operations could suffer.

The Company s expanding operations put increasing reliance on the Company s internal information systems in producing timely, accurate and reliable reports on financial and operational results. Currently, the Company s global operations are tracked with multiple internal information systems. The Company recently implemented a new financial system for its North America operations. There is no guarantee that the Company will be successful at all times or that there will not be integration difficulties that will adversely affect the Company s operations or the accurate recording and reporting of financial data. In addition, these systems are subject to computer hacking or other general system failure. Maintaining and operating these systems requires continuous investments. Failure of any of these internal information systems or material difficulties in upgrading these information systems could have material adverse effects on the Company s business and its compliance with securities laws.

Item 1B. ***Unresolved Staff Comments***

Not applicable.

Item 2. ***Properties***

At June 30, 2007, the Company owned and leased approximately 839,000 and 3,918,000 square feet of space, respectively, of which approximately 44% is located in the United States. The following table summarizes certain of the Company s key facilities as of June 30, 2007. In addition, the Company has numerous facilities that were added as a result of acquisitions, including Access warehouse facilities, certain of which are expected to be exited within the next twelve months.

Location	Sq. Footage	Leased or Owned	Primary Use
Phoenix, Arizona	176,000	Leased	Corporate and EM headquarters
Tempe, Arizona	132,000	Leased	TS headquarters
Chandler, Arizona	395,000	Owned	EM warehousing and value-added operations
Phoenix, Arizona	122,000	Leased	TS warehousing, integration and value-added operations
Grapevine, Texas	181,000	Owned	EM warehousing and value-added operations
Poing, Germany	423,000	Leased	EM warehousing, value-added operations and offices
Tongeren, Belgium	244,000	Owned	EM and TS warehousing and value-added operations
Tsuen Wan, Hong Kong	181,000	Leased	EM warehousing and value-added operations

Item 3. ***Legal Proceedings***

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

Table of Contents

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

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

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

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

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

Not applicable.

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market price per share

The Company s common stock is listed on the New York Stock Exchange under the symbol AVT. Quarterly high and low sales prices (as reported for the New York Stock Exchange composite transactions) for the last two fiscal years were:

	2007		2006	
Fiscal Quarters	**High**	**Low**	**High**	**Low**
1st	$ 20.29	$ 16.77	$ 26.61	$ 23.30
2nd	26.07	19.45	24.50	22.36
3rd	38.01	25.70	26.21	23.57
4th	43.62	36.39	27.10	19.21

The Company has not paid dividends since fiscal 2002 and does not currently contemplate any future dividend payments.

Record Holders

As of July 27, 2007, there were approximately 3,402 holders of record of Avnet s common stock.

Equity Compensation Plan Information as of June 30, 2007

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders(1)	5,322,668(2)	$ 19.53	4,954,500(3)

(1) Options assumed through acquisitions accounted for as purchases are excluded from (2) below. The outstanding balance of acquired options was 43,936 (column (a)) with a related weighted average exercise price of $40.18 (column (b)).

(2) Includes 3,868,922 of options outstanding and 982,795 stock incentive shares and 427,015 performance shares awarded but not yet delivered and excludes options assumed through acquisitions as noted in (1).

(3) Does not include 358,963 shares available for future issuance under the Employee Stock Purchase Plan, which is a non-compensatory plan.

Table of Contents

Stock Performance Graphs and Cumulative Total Returns

The two graphs below compare Avnet, Inc. s cumulative 5-year and 4-year total shareholder return on common stock with the cumulative total returns of the S&P 500 index and a peer group. The Peer Group includes seven companies which are Agilysys Inc, Arrow Electronics Inc, Bell Microproducts Inc, Ingram Micro Inc, Jaco Electronics, Nu Horizons Electronics Corp. and Tech Data Corp. The graph tracks the performance of a $100 investment in our common stock, the peer group, and the index (with the reinvestment of all dividends) from June 28, 2002 to June 30, 2007 and June 27, 2003 to June 30, 2007, respectively.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Avnet, Inc., The S&P 500 Index And A Peer Group

* $100 invested on 6/28/02 in stock or index-including reinvestment of dividends.

Index calculated on month-end basis.

www.researchdatagroup.com/S&P.htm

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

	6/28/02	6/27/03	7/2/04	7/2/05	7/1/06	6/30/07
Avnet, Inc.	100.00	56.34	95.04	103.27	91.04	180.26
S&P 500	100.00	100.25	119.41	126.96	137.92	166.32
Peer Group	100.00	74.71	107.64	115.09	129.75	150.45

Table of Contents

COMPARISON OF 4 YEAR CUMULATIVE TOTAL RETURN*
Among Avnet, Inc., The S&P 500 Index And A Peer Group

* $100 invested on 6/27/03 in stock or on 6/30/03 in index-including reinvestment of dividends.

Index calculated on month-end basis.

	6/27/03	7/2/04	7/2/05	7/1/06	6/30/07
Avnet, Inc.	100.00	168.68	183.29	161.58	319.94
S&P 500	100.00	119.11	126.64	137.57	165.90
Peer Group	100.00	144.08	154.04	173.66	201.38

Issuer Purchases of Equity Securities

The following table includes the Company s monthly purchases of common stock during the fourth quarter ended June 30, 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet be Purchased Under the Plans or Programs
April	4,500	$ 38.15		
May	6,000	$ 42.78		
June	5,000	$ 42.02		

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

Table of Contents

Item 6. ***Selected Financial Data***

	Years Ended				
	June 30, 2007	**July 1, 2006**	**July 2, 2005**	**July 3, 2004**	**June 27, 2003**
	(Millions, except for per share and ratio data)				
Income:					
Sales	$ 15,681.1	$ 14,253.6	$ 11,066.8	$ 10,244.7	$ 9,048.4
Gross profit	2,048.6	1,839.0(b)	1,459.0	1,364.9	1,215.0
Operating income	678.3(a)	433.1(b)	321.3	202.2(c)	12.7(d)
Income tax provision (benefit)	193.5(a)	111.6(b)	71.5	25.5(c)	(33.3)(d)
Earnings (loss)	393.1(a)	204.5(b)	168.2	72.9(c)	(46.1)(d)
Financial Position:					
Working capital	2,711.8	2,029.1	2,065.4	1,839.0	1,820.0
Total assets	7,355.1	6,215.7	5,098.2	4,863.7	4,500.0
Long-term debt	1,156.0	918.8	1,183.2	1,196.2	1,278.4
Shareholders equity	3,400.6	2,831.2	2,097.0	1,953.4	1,832.5
Per Share:					
Basic earnings (loss)	2.65(a)	1.40(b)	1.39	0.61(c)	(0.39)(d)
Diluted earnings (loss)	2.63(a)	1.39(b)	1.39	0.60(c)	(0.39)(d)
Book value	22.70	19.30	17.36	16.21	15.33
Ratios:					
Operating income margin on sales	4.3%(a)	3.0%(b)	2.9%	2.0%(c)	0.1%(d)
Profit (loss) margin on sales	2.5%(a)	1.4%(b)	1.5%	0.7%(c)	(0.5)%(d)
Return on equity	12.69%(a)	7.8%(b)	8.1%	3.9%(c)	(2.6)%(d)
Return on capital	11.2%(a)	7.6%(b)	7.5%	5.1%(c)	0.2%(d)
Quick	1.3:1	1.1:1	1.5:1	1.3:1	1.4:1
Working capital	2.0:1	1.8:1	2.2:1	2.1:1	2.4:1
Total debt to capital	26.2%	30.4%	37.2%	41.0%	44.4%

(a) Includes the impact of restructuring, integration and other items as a result of the integration of Access which was acquired at the beginning of the third quarter of fiscal 2007 and cost-reduction initiatives implemented during the second half of fiscal 2007 as part of the Company s continued focus on operating efficiencies in all three regions. The restructuring and integration charges amounted to $19.9 million pre-tax, $12.9 million after tax and $0.08 per share on a diluted basis. In addition, the Company recorded a pre-tax benefit of $12.5 million in fiscal 2007 resulting from the favorable outcome of a contingent liability acquired in connection with an acquisition completed in a prior year. The impact of both the prior year acquisition-related benefit and the restructuring, integration and other items amounted to a charge of $7.4 million pre-tax, $5.3 million after tax and $0.03 per share on a diluted basis. Also during fiscal 2007, the Company incurred debt extinguishment costs amounting to $27.4 million pre-tax, $16.5 million after tax and $0.11 per share on a diluted basis related to the Company s election to redeem all of its outstanding 93/4% Notes due February 15, 2008. The results for fiscal 2007 also included a gain on sale of business lines of $3.0 million pre-tax, $1.8 million after tax, and $0.01 per share on a diluted basis as a result of contingent purchase price proceeds received related to the fiscal 2006 sale of Technology Solutions single tier businesses in the Americas. The total impact of these items on the twelve months ended June 30, 2007 amounted to charges of $31.7 million pre-tax, $20.0 million after tax and $0.13 per share on a diluted basis.

(b) Includes the impact of restructuring, integration and other items recorded during fiscal 2006, including inventory writedowns for terminated lines (recorded in cost of sales), resulting from the Company s acquisition and integration of Memec into Avnet s existing business and actions taken following the divestitures of two TS businesses in the Americas, certain cost-cutting initiatives in the TS EMEA region and other actions. These

Table of Contents

combined charges amounted to $69.9 million pre-tax (including $9.0 million recorded in cost of sales), $49.9 million after tax and $0.34 per share on a diluted basis. Fiscal 2006 results also include a loss on the sale of business lines consisting of a loss on the sale of two small, non-core EM businesses in the EMEA region recorded in the fourth quarter for which no tax benefit was available, partially offset by a gain on sale of the TS single tier businesses in the Americas recorded in the third quarter. The net loss on sale of businesses recorded in fiscal 2006 amounted to $2.6 million pre-tax, $7.1 million after tax and $0.05 per share on a diluted basis. In addition, the fiscal 2006 results include debt extinguishment costs associated with the early repurchase of $254.1 million of the Company s 8% Notes due November 15, 2006 in the first quarter and the early repurchase of $113.6 million of the Company s 93/4% Notes due February 15, 2008 in the fourth quarter. The debt extinguishment costs amounted to $22.6 million pre-tax, $13.6 million after tax and $0.09 per share on a diluted basis. In comparison with fiscal 2005, fiscal 2006 results include incremental stock-based compensation expense resulting from the Company s adoption of the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standard (SFAS) 123R, *Share-based Payments* (SFAS 123R), and modifications to stock-based compensation plans in fiscal 2006. The incremental charges amounted to $16.6 million pre-tax, $10.6 million after tax, and $0.07 per share on a diluted basis. The Company also incurred incremental amortization expense associated with amortizable intangible assets recorded in fiscal 2006 as a result of the Memec acquisition which amounted to $4.2 million pre-tax, $2.7 million after tax and $0.02 per share on a diluted basis. The total impact of these charges recorded in fiscal 2006 amounted to $115.9 million pre-tax, $83.9 million after tax and $0.57 per share on a diluted basis.

(c) Includes the impact of restructuring and other charges recorded in both the first and second quarters of fiscal 2004 in connection with cost cutting initiatives and the combination of the Computer Marketing (CM) and Applied Computing (AC) operating groups into one Technology Solutions operating group. These charges amounted to $55.6 million (all of which was included in operating expenses), $38.6 million after-tax and $0.32 per share on a diluted basis. Fiscal 2004 results also include the impact of debt extinguishment costs associated with the Company s cash tender offer completed during the third quarter of fiscal 2004 for $273.4 million of the 77/8% Notes due February 15, 2005. These debt extinguishment costs amounted to $16.4 million pre-tax, $14.2 million after-tax and $0.12 per share on a diluted basis. The total impact of these charges recorded in fiscal 2004 amounted to $72.0 million pre-tax, $52.8 million after-tax and $0.44 per share on a diluted basis.

(d) Includes the impact of restructuring and other charges related to certain cost cutting initiatives instituted during fiscal 2003, including severance costs, charges for consolidation of facilities and write-offs of certain capitalized IT-related initiatives. These charges totaled $106.8 million pre-tax (all of which was included in operating expenses), $65.7 million after-tax and $0.55 per share on a diluted basis. Fiscal 2003 results also include the impact of debt extinguishment costs associated with the Company s cash tender offers and repurchases completed during the third quarter of fiscal 2003 for $159.0 million of its 6.45% Notes due August 15, 2003 and $220.1 million of its 8.20% Notes due October 17, 2003. These debt extinguishment costs amounted to $13.5 million pre-tax, $8.2 million after tax and $0.07 per share on a diluted basis. The total impact of the charges recorded in fiscal 2003 amounted to $120.3 million pre-tax, $73.9 million after-tax and $0.62 per share on a diluted basis.

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

For an understanding of Avnet and 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 description of the business appearing in Item 1 of this Report and the consolidated financial statements, including the related notes, and other information appearing in Item 15 of this Report. The Company operates on a 52/53-week fiscal year. The fiscal years ended June 30, 2007, July 1, 2006 and July 2, 2005 all contained 52 weeks.

There are numerous references to the impact of foreign currency translation in the discussion of the Company s results of operations that follow. Over the past several years, the exchange rates between the US Dollar and many foreign currencies, especially the Euro, have fluctuated significantly. For example, the US Dollar has weakened against the Euro by approximately 7% when comparing fiscal 2007 to fiscal 2006, but strengthened against the Euro by approximately 4% from fiscal 2006 to fiscal 2005. When the weaker US Dollar exchange rates of the current year are used to translate the results of operations of Avnet s subsidiaries denominated in foreign currencies, the resulting impact is an increase, in US Dollars, of reported results. When the stronger US Dollar exchange rates are used to translate the results, the resulting impact is a decrease, in US Dollars, of reported results. In the discussion that follows, this is referred to as the translation impact of changes in foreign currency exchange rates. When this translation impact of changes in foreign currency exchange rates is excluded from the reported results on a pro forma basis, it is referred to as constant dollars. Results as reported in the financial statements which include this translation impact are referred to as delivered dollars or reported dollars.

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

Results of Operations

Executive Summary

Several items impacted the financial results for Avnet as a whole when comparing fiscal 2007 results with fiscal 2006. The acquisitions of Access Distribution (Access) and Azure Technology (Azure) (both discussed further below), which occurred in the third and fourth quarter of fiscal 2007, respectively, positively impacts the comparison of results to prior period results of Avnet and TS as prior periods do not include the acquired business results before the date of acquisition. Also, in conjunction with the acquisition of Access and reflecting recent industry trends, the Company reviewed its method of recording revenue related to the sales of supplier service contracts and determined that such sales will now be classified on a net revenue basis rather than on a gross basis beginning the third quarter of fiscal 2007 (referred to as the change to net revenue reporting in this MD&A). Although this change reduces sales and cost of sales for the Technology Solutions operating group and on a consolidated basis, it has no impact on operating income, net income, cash flow or the balance sheet. The Company divested of several small non-core businesses during fiscal 2006 affecting both EM and TS which also negatively impacts fiscal 2007 sales comparisons with fiscal 2006 as the prior periods include the sales of the divested businesses. These items, when aggregated, have a net positive impact on fiscal 2007 sales comparisons to prior periods and are presented in tables under ***Sales.***

As mentioned above, on December 31, 2006, Avnet completed the acquisition of Access Distribution, a leading value-added distributor of complex computing solutions which recorded sales of $1.90 billion in calendar year 2006. The purchase price of approximately $437.6 million, subject to adjustment based upon the audited closing net book value, was funded primarily with debt plus cash on hand. The integration of the Access business into the TS Americas and EMEA operations was complete as of the end of fiscal 2007 and, as a result, the Company estimates it achieved more than $15 million of annualized synergies; the benefit of which will largely impact fiscal 2008. In addition, during fourth quarter of fiscal 2007, the Company acquired Azure, an IT solutions provider in Asia that specializes in systems infrastructure and application solutions services with annualized sales of approximately $90 million.

Avnet s consolidated sales for fiscal 2007 were a record $15.68 billion, up $1.43 billion or 10.0%, over fiscal 2006 of $14.25 billion, with approximately $340 million of the increase resulting from the translation impact of foreign currency exchange rates. The TS operating group was the driver of the year-over-year growth primarily as a result of the Access and Azure acquisitions, which contributed over $950 million in sales since they were acquired. TS sales were up 20.2% year over year and EM sales were up 4.5%. As presented in the tables under ***Sales,***

Table of Contents

consolidated sales were impacted by the Access and Azure acquisitions, the businesses divested in fiscal 2006 and the change to net revenue reporting.

Avnet s ongoing focus on the management of operating costs and returns on capital has resulted in its highest level of operating income, operating income margin and returns on capital since before the multi-year economic and industry downturn that began in 2001. On a consolidated basis, operating income grew 56.6% to a record $678.3 million as compared with fiscal 2006 operating income of $433.1 million. Operating profit margin also increased year over year to 4.3%, up 129 basis points from 3.0% in the prior fiscal year. Both operating groups contributed to the year-over-year increase in operating profit margin, with EM and TS reporting operating profit margins of 5.5% (an increase of 95 basis points) and 3.9% (an increase of 55 basis points), respectively, for fiscal 2007. For EM, the fourth quarter of fiscal 2007 marks the sixth quarter in a row that operating income margin is over 5.0%. For TS, the fourth quarter of fiscal 2007 marks the sixteenth consecutive quarter of year-over-year improvement in both operating income dollars and margin. The consolidated current and prior year results included certain restructuring, integration and other items discussed further in this MD&A, which amounted to $7.4 million for fiscal 2007 and $69.9 million ($9.0 million of which was included in cost of sales) for the prior year. Despite these charges, the year-over-year operating income improved primarily as a result of continued focus on profitable growth, cost efficiencies and the effect of the realization of a full year of synergies after the successful integration of the Memec acquisition.

Operating efficiency and working capital management will remain a key focus of Avnet s overall value-based management initiatives to increase return on capital and its efforts to continue to grow profitability at a faster rate than its growth in revenues.

It is difficult for the Company, as a distributor, to forecast the material trends of the electronic component and computer products industry, aside from some of the normal seasonality discussed herein, because Avnet does not typically have material forward-looking information available from its customers and suppliers beyond a few months of forecast information by way of incoming order rates. As such, management relies on the publicly available information published by certain industry groups and other related analyses in evaluating its business plans in the longer term.

Sales

The table below provides a year-over-year summary of sales for the Company and its operating groups:

Three-Year Analysis of Sales: By Operating Group and Geography

	Years Ended						Percent Change	
	June 30, 2007	**% of Total**	**July 1, 2006**	**% of Total**	**July 2, 2005**	**% of Total**	**2007 to 2006**	**2006 to 2005**
	(Dollars in millions)							
Sales by Operating Group:								