AVNET INC
Form 10-Q
January 25, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 29, 2018

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

For the transition period from _____ to _____

Commission File #1-4224

AVNET, INC.

(Exact name of registrant as specified in its charter)

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

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

(480) 643-2000

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

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

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

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

As of January 17, 2019, the total number of shares outstanding of the registrant's Common Stock was 108,427,879 shares, net of treasury shares.

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AVNET, INC. AND SUBSIDIARIES

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PART I

FINANCIAL INFORMATION

Item 1.Financial Statements

AVNET, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 29, 2018	June 30, 2018
	(Thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 482,166	$ 621,125
Receivables, less allowances of $51,668 and $48,959, respectively	3,445,807	3,641,139
Inventories	3,306,299	3,141,822
Prepaid and other current assets	156,451	206,513
Total current assets	7,390,723	7,610,599
Property, plant and equipment, net	462,914	522,909
Goodwill	1,010,568	980,872
Intangible assets, net	184,979	219,913
Other assets	185,515	262,552
Total assets	$ 9,234,699	$ 9,596,845
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Short-term debt	$ 1,845	$ 165,380
Accounts payable	2,046,571	2,269,478
Accrued expenses and other	424,350	534,603
Total current liabilities	2,472,766	2,969,461
Long-term debt	1,961,467	1,489,219
Other liabilities	391,729	453,084
Total liabilities	4,825,962	4,911,764
Commitments and contingencies (Note 7)		
Shareholders’ equity:		
Common stock $1.00 par; authorized 300,000,000 shares; issued 108,951,222 shares and 115,825,062 shares, respectively	108,951	115,825
Additional paid-in capital	1,563,633	1,528,713
Retained earnings	2,982,937	3,235,894
Accumulated other comprehensive loss	(246,784)	(195,351)

Total shareholders’ equity	4,408,737	4,685,081
Total liabilities and shareholders’ equity	$ 9,234,699	$ 9,596,845

See notes to consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Second Quarters Ended		Six Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
	(Thousands, except per share amounts)			
Sales	$ 5,048,980	$ 4,521,636	$ 10,138,859	$ 9,182,578
Cost of sales	4,418,947	3,919,175	8,872,077	7,967,563
Gross profit	630,033	602,461	1,266,782	1,215,015
Selling, general and administrative expenses	471,723	484,082	946,868	985,674
Restructuring, integration and other expenses	62,260	36,762	77,048	83,156
Operating income	96,050	81,617	242,866	146,185
Other income, net	2,584	3,349	692	22,270
Interest and other financing expenses, net	(33,718)	(22,826)	(63,811)	(44,841)
Income from continuing operations before taxes	64,916	62,140	179,747	123,614
Income tax expense	28,141	5,346	59,443	8,638
Income from continuing operations, net of tax	36,775	56,794	120,304	114,976
Loss from discontinued operations, net of tax	(374)	(10,070)	(179)	(9,949)
Net income	36,401	46,724	120,125	105,027
Earnings (loss) per share - basic:				
Continuing operations	$ 0.33	$ 0.47	$ 1.07	$ 0.94
Discontinued operations	0.00	(0.08)	(0.01)	(0.08)
Net income per share basic	0.33	0.39	1.06	0.86
Earnings (loss) per share - diluted:				
Continuing operations	$ 0.33	$ 0.47	$ 1.06	$ 0.93
Discontinued operations	0.00	(0.08)	(0.01)	(0.08)
Net income per share diluted	0.33	0.39	1.05	0.85
Shares used to compute earnings per share:				
Basic	110,332	120,400	112,796	121,543
Diluted	111,462	121,749	113,967	122,867
Cash dividends paid per common share	$ 0.20	$ 0.18	$ 0.40	$ 0.36

See notes to consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Second Quarters Ended		Six Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
	(Thousands)			
Net income	$ 36,401	$ 46,724	$ 120,125	$ 105,027
Other comprehensive (loss) income, net of tax:				
Foreign currency translation and other	(65,197)	27,941	(56,396)	116,784
Pension adjustments, net	4,207	9,250	4,963	10,189
Total comprehensive (loss) income	$ (24,589)	$ 83,915	$ 68,692	$ 232,000

See notes to consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	December 29, 2018	December 30, 2017
	(Thousands)	
Cash flows from operating activities:		
Net income	$ 120,125	$ 105,027
Less: Loss from discontinued operations, net of tax	(179)	(9,949)
Income from continuing operations	120,304	114,976
Non-cash and other reconciling items:		
Depreciation	48,124	77,510
Amortization	41,220	47,256
Deferred income taxes	44,857	(55,921)
Stock-based compensation	17,077	17,090
Other, net	77,437	22,386
Changes in (net of effects from businesses acquired and divested):		
Receivables	193,520	108,459
Inventories	(209,582)	(410,361)
Accounts payable	(205,254)	75,342
Accrued expenses and other, net	(140,495)	(55,955)
Net cash flows used for operating activities - continuing operations	(12,792)	(59,218)
Net cash flows used for operating activities - discontinued operations	(56,284)	—
Net cash flows used for operating activities	(69,076)	(59,218)
Cash flows from financing activities:		
Borrowings under accounts receivable securitization, net	366,000	78,000
Repayments under senior unsecured credit facility, net	(59,420)	(99,971)
Repayments under bank credit facilities and other debt, net	(595)	(27,381)
Repurchases of common stock	(335,404)	(135,458)
Dividends paid on common stock	(44,701)	(43,572)
Other, net	15,200	(1,214)
Net cash flows used for financing activities - continuing operations	(58,920)	(229,596)
Net cash flows used for financing activities	(58,920)	(229,596)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(70,186)	(67,397)
Acquisitions of businesses, net of cash acquired	(62,514)	(14,661)
Other, net	963	2,402
Net cash flows used for investing activities - continuing operations	(131,737)	(79,656)

Net cash flows provided by investing activities - discontinued operations	123,473	112,664
Net cash flows (used) provided by investing activities	(8,264)	33,008
Effect of currency exchange rate changes on cash and cash equivalents	(2,699)	8,940
Cash and cash equivalents:		
— decrease	(138,959)	(246,866)
— at beginning of period	621,125	836,384
— at end of period	$ 482,166	$ 589,518

See notes to consolidated financial statements.

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AVNET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and new accounting pronouncements

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

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

Interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year. The information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

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

Recently adopted accounting pronouncements

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

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

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

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

AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

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

Recently issued accounting pronouncements

In October 2018, the FASB issued Accounting Standards Update No. 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes, which permits use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815. This update is effective for the Company in the first quarter of fiscal 2020. The Company intends to adopt this update concurrently with ASU 2017-12. The Company does not expect any impact from the adoption of ASU 2018-16 on its consolidated financial statements as the Company does not currently have any interest rate related derivative financial instruments.

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

In February 2018, the FASB issued Accounting Standards Update 2018-02, Income Statement–Reporting Comprehensive Income (Topic 220):-Reclassification of Certain Tax Effects from Accumulated Other Comprehensive

Income (“ASU 2018-02”), which allows entities to reclassify accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the tax legislation enacted by the U.S. federal governments on December 22, 2017 (the “Act”). This update is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the income tax rate change resulting from the Act is recognized. The Company is currently evaluating the impact of the adoption of ASU 2018-02 on its consolidated financial statements.

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

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases ("ASU 2016-02") and issued subsequent amendments to the initial guidance: ASU 2017-13, ASU 2018-10, ASU 2018-11 and ASU 2018-20 (collectively, Topic 842). Topic 842 requires companies to generally recognize operating and financing lease liabilities on the balance sheet and corresponding right-of-use assets created by those leases with lease terms of more than 12 months. The Company will adopt Topic 842 when it becomes effective in the first quarter of fiscal 2020 using the retrospective cumulative effect adjustment transition method and record a cumulative effect adjustment as of the adoption date. The Company is currently evaluating the impact of its pending adoption of Topic 842 on its consolidated financial statements, including assessing certain available practical expedients, and expects that most operating lease commitments related to the Company's real estate, vehicle and equipment leases will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption, which will materially increase total assets and total liabilities relative to such amounts prior to adoption. The Company does not expect the adoption to have a material impact on the consolidated statements of operations or consolidated statements of cash flows. The Company has established an implementation team inclusive of external advisors and is in the process of gathering information specific to its operating lease portfolio. The Company's information gathering, analysis and evaluation of the new standard will continue through its effective date in the first quarter of fiscal 2020.

2. Revenue recognition

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

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

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

For contracts related to the specialized manufacture of products for customers with no alternative use and for which the Company has an enforceable right to payment, including a reasonable profit margin, the Company recognizes revenue over time as control of the products transfer through the manufacturing process. The contract assets associated with such specialized manufacturing products are not material as these contracts represent less than 2% of the Company’s total sales.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

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

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

3. Acquisitions and Discontinued operations

Acquisition of Softweb Solutions

In December 2018, the Company acquired Softweb Solutions (“Softweb”) a privately held software and artificial intelligence company that delivers software solutions for Internet of Things (IoT) applications and systems designed to increase efficiency, speed time to market, and help businesses transform. The impact of this acquisition was not material to the Company’s consolidated balance sheets or statements of operations and as a result, the Company has not disclosed the preliminary allocation of purchase price or the pro-forma impact of the acquisition.

Discontinued Operations

In February 2017, the Company completed the sale of its Technology Solutions business ("TS business") to Tech Data Corporation (the "Buyer"). The TS business and the financial impacts of the divestiture are classified as discontinued operations in all periods presented. In August 2018, the Company executed a settlement agreement with the Buyer resulting in a final adjustment of $120.0 million and a final geographic allocation of the TS business sales price for tax reporting purposes. This incremental consideration received from the sale of the TS business as well as cash settlements from the resolution of indemnification claims and other cash reimbursements have been classified as cash flow from discontinued operations investing activities. Income tax payments related to the gain on sale of the TS business have been classified as cash flow from discontinued operations operating activities.

In connection with the sale of the TS business, the Company entered into a Transition Services Agreement ("TSA"), pursuant to which the Buyer will pay the Company to provide certain information technology, distribution, facilities, finance and human resources related services for various periods of time depending upon the services not to exceed approximately two years from the closing date. Expenses incurred by the Company to provide such services under the TSA are classified within selling, general and administrative expenses and amounts billed to the Buyer to provide such services are classified as a reduction of such expenses. As of December 29, 2018, the Buyer has formally terminated all TSA services.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Under the contractual terms of the sale of the TS business, the Company has indemnified the Buyer for certain liabilities including income and other tax related matters, which may result in future indemnification payments to the Buyer depending upon the outcome of those matters subject to indemnification.

4. Goodwill and long-lived assets

Goodwill

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

	Electronic Components	Premier Farnell	Total
	(Thousands)		
Carrying value at June 30, 2018 (1)	$ 479,699	$ 501,173	$ 980,872
Additions from acquisitions	49,412	—	49,412
Foreign currency translation	(3,454)	(16,262)	(19,716)
Carrying value at December 29, 2018 (1)	$ 525,657	$ 484,911	$ 1,010,568

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

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

Intangible Assets

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

	December 29, 2018			June 30, 2018		
	Acquired Amount (Thousands)	Accumulated Amortization	Net Book Value	Acquired Amount	Accumulated Amortization	Net Book Value
Customer related	$ 291,979	$ (176,415)	$ 115,564	$ 300,126	$ (148,416)	$ 151,710
Trade name	52,680	(20,473)	32,207	54,391	(16,711)	37,680
Technology and other	63,765	(26,557)	37,208	52,793	(22,270)	30,523
	$ 408,424	$ (223,445)	$ 184,979	$ 407,310	$ (187,397)	$ 219,913

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Intangible asset amortization expense from continuing operations was, and $20.4 million and $21.8 million for the second quarters of fiscal 2019 and 2018, respectively, and $41.2 million and $47.3 million for the first six months of fiscal 2019 and 2018, respectively. Intangible assets have a weighted average remaining useful life of approximately 3 years. The following table presents the estimated future amortization expense for the remainder of fiscal 2019 and the next five fiscal years (in thousands):

Fiscal Year	
Remainder of fiscal 2019	$ 41,719
2020	81,132
2021	40,358
2022	14,435
2023	5,965
2024	1,370
Total	$ 184,979

5. Debt

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

	December 29, 2018	June 30, 2018	December 29, 2018	June 30, 2018
	Interest Rate		Carrying Balance	
Bank credit facilities and other	2.86 %	2.91 %	$ 1,845	$ 60,380
Accounts receivable securitization program	—	2.63 %	—	105,000
Short-term debt			$ 1,845	$ 165,380

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

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

	December 29, 2018		June 30, 2018		December 29, 2018	June 30, 2018
	Interest Rate				Carrying Balance	
Revolving credit facilities:						
Accounts receivable securitization program	3.26	%	—		$ 471,000	$ —
Public notes due:						
June 2020	5.88	%	5.88	%	300,000	300,000
December 2021	3.75	%	3.75	%	300,000	300,000
December 2022	4.88	%	4.88	%	350,000	350,000
April 2026	4.63	%	4.63	%	550,000	550,000
Other long-term debt	1.11	%	1.26	%	503	383
Long-term debt before discount and debt issuance costs					1,971,503	1,500,383
Discount and debt issuance costs – unamortized					(10,036)	(11,164)
Long-term debt					$ 1,961,467	$ 1,489,219

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Company has an accounts receivable securitization program (the “Securitization Program”) in the United States with a group of financial institutions to allow the Company to transfer, on an ongoing revolving basis, an undivided interest in a designated pool of trade accounts receivable, to provide security or collateral for borrowings up to a maximum of $500 million. The Securitization Program does not qualify for off balance sheet accounting treatment and any borrowings under the Securitization Program are recorded as debt in the consolidated balance sheets. Under the Securitization Program, the Company legally sells and isolates certain U.S. trade accounts receivable, into a wholly owned and consolidated bankruptcy remote special purpose entity. Such receivables, which are recorded within “Receivables” in the consolidated balance sheets, totaled $814.6 million and $790.5 million at December 29, 2018, and June 30, 2018, respectively. The Securitization Program contains certain covenants relating to the quality of the receivables sold. The Securitization Program also requires the Company to maintain certain minimum interest coverage and leverage ratios, which the Company was in compliance with as of December 29, 2018, and June 30, 2018. The Securitization Program expires in August 2020 and as a result the Company has classified outstanding balances as long-term debt as of December 29, 2018. Interest on borrowings is calculated using a one-month LIBOR rate plus a spread of 0.75%. The facility fee on the unused balance of the facility is up to 0.35%.

The Company has a five-year $1.25 billion senior unsecured revolving credit facility (the “Credit Facility”) with a syndicate of banks, consisting of revolving credit facilities and the issuance of up to $200.0 million of letters of credit and up to $300.0 million of loans in certain approved currencies, which expires in June 2023. Subject to certain conditions, the Credit Facility may be increased up to $1.50 billion. Under the Credit Facility, the Company may select from various interest rate options, currencies and maturities. The Credit Facility contains certain covenants including various limitations on debt incurrence, share repurchases, dividends, investments and capital expenditures. The Credit Facility also includes financial covenants requiring the Company to maintain minimum interest coverage and leverage ratios, which the Company was in compliance with as of December 29, 2018, and June 30, 2018. As of December 29, 2018, and June 30, 2018, there were $3.0 million and $2.0 million, respectively, in letters of credit issued under the Credit Facility.

As of December 29, 2018, the carrying value and fair value of the Company’s total debt was $1.96 billion and $1.97 billion, respectively. At June 30, 2018, the carrying value and fair value of the Company’s total debt was $1.65 billion and $1.67 billion, respectively. Fair value for the public notes was estimated based upon quoted market prices and for other forms of debt fair value approximates carrying value due to the market based variable nature of the interest rates on those debt facilities.

6. Derivative financial instruments

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

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

	December 29, 2018	June 30, 2018
	(Thousands)	
Forward foreign currency exchange contracts not receiving hedge accounting treatment recorded in:		
Other current assets	$ 6,857	$ 2,259
Accrued expenses	5,741	7,083

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

	Second Quarters Ended		Six Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
	(Thousands)			
Net derivative financial instrument gain (loss)	$ (2,417)	$ (1,361)	$ 376	$ 1,715

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

7. Commitments and contingencies

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

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

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

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

8. Income taxes

The Company's effective tax rate on its income before income taxes from continuing operations was 43.3% in the second quarter of fiscal 2019. During the second quarter of fiscal 2019, the Company's effective tax rate was unfavorably impacted primarily by (i) an adjustment to the one-time mandatory deemed repatriation tax liability recorded under the requirements of the Act and (ii) increases in unrecognized tax benefits, partially offset by (iii) the mix of income in lower tax jurisdictions, and (iv) the release of valuation allowances against deferred tax assets that were deemed to be realizable.

During the second quarter of fiscal 2018, the Company's effective tax rate of 8.6% was favorably impacted primarily by the mix of income in lower tax jurisdictions, partially offset by the tax expense created from remeasuring net deferred tax assets as a result of applying the requirements of the Act.

For the first six months of fiscal 2019, the Company's effective tax rate on its income before income taxes from continuing operations was 33.1%. The effective tax rate for the first six months of fiscal 2019 was unfavorably impacted primarily by (i) an adjustment to the one-time mandatory deemed repatriation tax liability recorded under the requirements of the Act and (ii) increases in unrecognized tax benefits, partially offset by (iii) an adjustment to the provisional deferred tax impacts of the Act, (iv) the mix of income in lower tax jurisdictions, and (v) the release of valuation allowances against deferred tax assets that were deemed to be realizable.

The Company's effective tax rate is based on our interpretation of the changes under US tax reform including the computation of Global Intangible Low Taxed Income ("GILTI"). The Company has made a policy election to account for any impacts of the GILTI tax as a period expense. The Company's FY19 effective tax rate may change in future periods due to changes in US tax law and the issuance of additional guidance related to US Tax Reform.

During the first six months of fiscal 2018, the Company's effective tax rate of 7.0% was favorably impacted primarily by (i) the mix of income in lower tax jurisdictions and (ii) the release of unrecognized tax benefit reserves primarily due to the negotiation of a favorable outcome in a foreign jurisdiction, partially offset by (iii) the tax expense created from remeasuring net deferred tax assets as a result of applying the requirements of the Act.

During the second quarter of fiscal 2019, which corresponds to the end of the measurement period allowed for under Staff Accounting Bulletin 118 ("SAB 118"), the Company finalized its estimate of the one-time mandatory deemed repatriation tax liability (the "transition tax"), resulting in an increase to the tax liability of $10.8 million due to additional analysis performed on foreign tax pools and earnings and profits computations. The total transition tax recorded as a result of the Act is estimated to be $257.5 million as of December 29, 2018. The transition tax may change in the future due to changes in tax law as enacted by the US Government, new guidance from federal and state regulators and related interpretations of the Act.

As of the first quarter of fiscal year 2019, the Company had recorded a provisional benefit of $2.4 million to account for the deferred tax impacts of the Act, which was increased by $1.3 million in the second quarter of fiscal 2019 as a result of the Company refining its estimate of the fiscal year 2018 federal net operating loss. This amount may be further refined as the Company finalizes its income tax computations on its US income tax returns which are due in April 2019.

The Company continues to evaluate the impact of the Act including the Company’s historical assertion related to ASC 740 unremitted earnings. The Company has not changed its historical assertion as of December 29, 2018 that its ASC 740 unremitted earnings are permanently reinvested.

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AVNET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

9. Pension plan

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

	Second Quarters Ended		Six Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
	(Thousands)			
Service cost	$ 3,734	$ 3,867	$ 7,468	$ 7,735
Total net periodic pension cost within selling, general and administrative expenses	3,734	3,867	7,468	7,735
Interest cost	6,614	5,783	13,228	11,566
Expected return on plan assets	(13,301)	(13,757)	(26,602)	(27,514)
Amortization of prior service credits	(393)	(393)	(786)	(786)
Recognized net actuarial loss				