

MAGNETEK, INC.  
Form 10-Q  
February 09, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

[ X ]

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

For the quarterly period ended: January 2, 2011

OR

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

For the transition period from

Commission file number 1-10233

MAGNETEK, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

95-3917584

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

N49 W13650 Campbell Drive  
Menomonee Falls, Wisconsin 53051  
(Address of principal executive offices)

(262) 783-3500

(Registrant's telephone number, including area code)

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(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  [ X ] No  [ ]

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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 (§232.405 of this chapter) 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, or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of Registrant’s Common Stock, as of February 1, 2011, was 31,311,609 shares.

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FISCAL YEAR 2011 MAGNETEK FORM 10-Q

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## PART I. FINANCIAL INFORMATION

## Item 1 – Financial Statements

MAGNETEK, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Amounts in thousands, except per share data, unaudited)

	Three Months Ended	
	(13 Weeks) January 2, 2011	(13 Weeks) December 27, 2009
Net sales	\$ 26,066	\$ 19,232
Cost of sales	17,596	13,354
Gross profit	8,470	5,878
Operating expenses:		
Research and development	1,073	995
Pension expense	1,594	2,051
Selling, general and administrative	4,411	3,588
Income (loss) from operations	1,392	(756 )
Non-operating income:		
Interest income	-	(6 )
Income (loss) from continuing operations before income taxes	1,392	(750 )
Provision for income taxes	15	130
Income (loss) from continuing operations	1,377	(880 )
Loss from discontinued operations, net of tax	(141 )	(345 )
Net income (loss)	\$ 1,236	\$ (1,225 )
Earnings per common share		
Basic and diluted:		
Earnings (loss) from continuing operations	\$ 0.04	\$ (0.03 )
Loss from discontinued operations	\$ (0.00 )	\$ (0.01 )
Net income (loss)	\$ 0.04	\$ (0.04 )
Weighted average shares outstanding:		
Basic	31,284	31,010
Diluted	31,558	31,010

See accompanying notes

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MAGNETEK, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Amounts in thousands, except per share data, unaudited)

	Six Months Ended	
	(27 Weeks) January 2, 2011	(26 Weeks) December 27, 2009
Net sales	\$ 50,943	\$ 37,066
Cost of sales	34,929	25,566
Gross profit	16,014	11,500
Operating expenses:		
Research and development	2,069	1,896
Pension expense	3,311	4,103
Selling, general and administrative	8,308	7,547
Income (loss) from operations	2,326	(2,046 )
Non-operating income:		
Interest income	(1 )	(16 )
Income (loss) from continuing operations before income taxes	2,327	(2,030 )
Provision for income taxes	287	361
Income (loss) from continuing operations	2,040	(2,391 )
Loss from discontinued operations, net of tax	(533 )	(629 )
Net income (loss)	\$ 1,507	\$ (3,020 )
Earnings per common share		
Basic and diluted:		
Earnings (loss) from continuing operations	\$ 0.07	\$ (0.08 )
Loss from discontinued operations	\$ (0.02 )	\$ (0.02 )
Net income (loss)	\$ 0.05	\$ (0.10 )
Weighted average shares outstanding:		
Basic	31,271	30,985
Diluted	31,513	30,985

See accompanying notes

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MAGNETEK, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Amounts in thousands)

ASSETS	January 2, 2011 (Unaudited)	June 27, 2010
Current assets:		
Cash and cash equivalents	\$ 6,579	\$ 8,244
Restricted cash	262	262
Accounts receivable, net	15,849	16,436
Inventories	14,695	10,285
Prepaid expenses and other current assets	730	480
Total current assets	38,115	35,707
Property, plant and equipment	20,976	20,788
Less: accumulated depreciation	17,422	16,963
Net property, plant and equipment	3,554	3,825
Goodwill	30,485	30,443
Other assets	5,472	6,125
Total Assets	\$ 77,626	\$ 76,100
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 10,558	\$ 9,887
Accrued liabilities	5,428	4,953
Current portion of long-term debt	3	4
Total current liabilities	15,989	14,844
Pension benefit obligations, net	72,345	77,914
Long term debt, net of current portion	6	-
Other long term obligations	1,322	1,461
Deferred income taxes	6,311	5,818
Commitments and contingencies		
Stockholders' deficit		
Common stock	313	312
Paid in capital in excess of par value	139,447	138,965
Accumulated deficit	(5,115 )	(6,622 )
Accumulated other comprehensive loss	(152,992)	(156,592)
Total stockholders' deficit	(18,347 )	(23,937 )



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Total Liabilities and Stockholders' Deficit	\$ 77,626	\$ 76,100
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See accompanying notes

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MAGNETEK, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Amounts in thousands, unaudited)

	Six Months Ended	
	(27 Weeks)	(26 Weeks)
	January 2, 2011	December 27, 2009 (restated)
Cash flows from operating activities		
Net income (loss)	\$ 1,507	\$ (3,020 )
Loss from discontinued operations	533	629
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	439	515
Amortization	27	26
Stock based compensation expense	341	314
Pension expense	3,311	4,103
Deferred income tax provision	493	459
Changes in operating assets and liabilities	(2,075 )	3,519
Cash contribution to pension fund	(5,388 )	(6,859 )
Net cash provided by (used in) operating activities - continuing operations	(812 )	(314 )
Net cash provided by (used in) operating activities - discontinued operations	(838 )	(738 )
Net cash provided by (used in) operating activities	(1,650 )	(1,052 )
Cash flows from investing activities:		
Capital expenditures	(155 )	(693 )
Net cash provided by (used in) investing activities - continuing operations	(155 )	(693 )
Net cash provided by (used in) investing activities - discontinued operations	-	-
Net cash provided by (used in) investing activities	(155 )	(693 )
Cash flow from financing activities:		
Proceeds from issuance of common stock	143	138
Principal payments under capital lease obligations	(3 )	(7 )
Net cash provided by (used in) financing activities - continuing operations	140	131
Net cash provided by (used in) financing activities - discontinued operations	-	-
Net cash provided by (used in) financing activities	140	131

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Net increase (decrease) in cash	(1,665 )	(1,614 )
Cash at the beginning of the period	8,244	18,097
Cash at the end of the period	\$ 6,579	\$ 16,483

See accompanying notes

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MAGNETEK, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JANUARY 2, 2011

(Amounts in thousands unless otherwise noted, except per share data, unaudited)

1. Summary of Significant Accounting Policies

Profile

Magnetek, Inc. (the “Company” or “Magnetek”) is a global provider of digital power control systems that are used to control motion and power primarily in material handling, elevator and energy delivery applications. The Company’s products consist primarily of programmable motion control and power conditioning systems used on the following applications: overhead cranes and hoists; elevators; coal mining equipment; and renewable energy.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Magnetek, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended June 27, 2010 filed with the Securities and Exchange Commission (the “SEC”). In the Company’s opinion, these unaudited statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of the Company as of January 2, 2011, and the results of its operations and cash flows for the three- and six-month periods ended January 2, 2011, and December 27, 2009. Results for the six-months ended January 2, 2011, are not necessarily indicative of results that may be experienced for the full fiscal year.

Fiscal Year

The Company uses a fifty-two, fifty-three week fiscal year ending on the Sunday nearest to June 30. Fiscal quarters are the 13 or 14 week periods ending on the Sunday nearest September 30, December 31, March 31 and June 30. The six-month periods ended January 2, 2011 and December 27, 2009, contained 27 weeks and 26 weeks, respectively.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Restatement of Presentation of Cash Flows

The accompanying condensed consolidated statements of cash flows have been restated for the six months ended December 27, 2009, to comply with the presentation requirements of Accounting Standards Codification (“ASC”) Topic

230 (formerly Statement of Financial Accounting Standards No. 95), Statement of Cash Flows.

ASC Topic 230 requires that cash flow statements classify cash inflows and outflows as related to operating, investing, or financing activities, and also requires that the presentation of net cash flow subtotals for each of these three activities include cash flows from both continuing and discontinued operations.

In previous filings, the Company presented cash flows related to operating, investing and financing activities from continuing operations separately from cash flows from discontinued operations for each of these three activities. As a result, our condensed consolidated statements of cash flows in previous filings began with the line item “Net income (loss) from continuing operations.” This presentation was not in compliance with the requirements of ASC Topic 230, which requires that the consolidated statement of cash flows begin with the line item “Net income (loss).”

The restatement impacts only the Company’s reported subtotal related to net cash provided by or used in operating activities, and had no impact on the Company’s statements of operations, net income or total cash flows for the restated periods, or on the Company’s financial position at the end of the restated periods.

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The table below reflects the impact of the restatement on the Company's net cash provided by or used in operating activities for the six months ended December 27, 2009:

## Consolidated Statements of Cash Flows

For the six months ended (amounts in thousands)	December 29, 2009	
	As Previously Reported	As Revised
Net cash provided by (used in) operating activities - continuing operations	\$ (314 )	\$ (314 )
Net cash provided by (used in) operating activities - discontinued operations	-	(738 )
Net cash provided by (used in) operating activities	\$ (314 )	\$ (1,052 )

## Recent Accounting Pronouncements

In February 2010, the SEC approved a work plan regarding convergence of US GAAP with International Financial Reporting Standards ("IFRS") and the timeline for the preparation of financial statements by U.S. registrants under IFRS. IFRS are standards and interpretations adopted by the International Accounting Standards Board. Under the proposed roadmap, the Company would be required to prepare financial statements in accordance with IFRS no earlier than in fiscal 2016, including comparative information also prepared under IFRS for fiscal 2014 and fiscal 2015. The Company is currently assessing the potential impact of IFRS on its financial statements and will continue to follow the proposed roadmap for future developments.

The Company has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were available to be issued, and has concluded that no recognized or non-recognized subsequent events have occurred since its second fiscal quarter ended on January 2, 2011.

## 2. Discontinued Operations

Certain expenses incurred related to businesses the Company no longer owns are classified as discontinued operations. The results of discontinued operations are as follows:

	Three Months Ended		Six Months Ended	
	January 2, 2011	December 27, 2009	January 2, 2011	December 27, 2009
Loss from discontinued operations - telecom power systems	(3 )	(1 )	(7 )	(28 )
Expense related to divested businesses	(138 )	(344 )	(526 )	(601 )
Loss from discontinued operations	\$ (141 )	\$ (345 )	\$ (533 )	\$ (629 )

The condensed consolidated balance sheet as of January 2, 2011, includes certain accrued liabilities which represent the Company's best estimate of remaining contingent liabilities related to indemnification provisions included in sale agreements of divested businesses. While management has used its best judgment in assessing the potential liability for these items, given the uncertainty regarding future events, it is difficult to estimate the possible timing or magnitude of any payments that may be required for liabilities subject to indemnification. Any future adjustment to currently recorded contingencies related to indemnification claims or payments based upon changes in circumstances would be recorded as a gain or loss in discontinued operations.

3. Inventories

Inventories consist of the following:

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	January 2, 2011	June 27, 2010
Raw materials and stock parts	\$ 9,524	\$ 6,858
Work-in-process	1,338	1,124
Finished goods	3,833	2,303
	\$ 14,695	\$ 10,285

## 4. Commitments and Contingencies

## Litigation—Product Liability

In August 2006, Pamela L. Carney, Administrator of the Estate of Michael J. Carney, filed a lawsuit in the Court of Common Pleas of Westmoreland County, Pennsylvania, against the Company and other defendants, alleging that a product manufactured by the Company's Telemotive Industrial Controls business acquired by the Company in December 2002 contributed to an accident that resulted in the death of Michael J. Carney in August 2004. The claim has been tendered to the Company's insurance carrier and legal counsel has been retained to represent the Company. Magnetek is defending the action on the basis of findings that the operator/owner of the product, Alleghany Ludlum Corporation, improperly maintained or modified the product, which led to its alleged failure. In March 2010, Magnetek's primary carrier, Travelers, denied coverage under a reservation of rights. This followed the Company's excess coverage carrier, AIG/AISLIC, denying coverage in June 2009. Travelers has agreed to continue to pay defense counsel to defend the case and has authorized defense counsel to undertake the defense of the "pass through" vendor PDS. Plaintiff's claim for damages is unknown at this time. The case is in the discovery phase and no trial date has been set.

The Company has been named, along with multiple other defendants, in asbestos-related lawsuits associated with business operations previously acquired by the Company, but which are no longer owned. During the Company's ownership, none of the businesses produced or sold asbestos-containing products. With respect to these claims, the Company believes that it has no such liability. For such claims, the Company is uninsured, contractually indemnified against liability, or contractually obligated to defend and indemnify the purchaser of these former Magnetek business operations. The Company aggressively seeks dismissal from these proceedings. Management does not believe the asbestos proceedings, individually or in the aggregate, will have a material adverse effect on its financial position or results of operations.

## Litigation—Patent Infringement and Related Proceedings

As previously reported by the Company, Universal Lighting Technologies, Inc. ("ULT") and Nilssen entered into a consent judgment in April 2008, for dismissal, on collateral estoppel grounds, of the patent infringement lawsuit filed by Nilssen against ULT. The Company had provided the defense in the lawsuit pursuant to an indemnification claim from ULT subject to the terms of the sale agreement under which ULT purchased Magnetek's lighting business in 2003. In September 2009, Nilssen and ULT entered into a settlement agreement relating to attorney's fees. Under the settlement agreement, Nilssen paid to the Company an amount of \$0.75 million as attorney's fees as well as a nominal amount for costs. However, if Nilssen files a Rule 60 Motion and is successful such that ULT ceases to be the "prevailing party" and is no longer entitled to attorney's fees, then the Company is obligated to refund the \$0.75 million attorney's fees settlement amount. At present, further proceedings are stayed pending the outcome of separate appellate matters.



In August 2008, the Company filed a complaint in the Circuit Court of Cook County, Illinois, County Department, Law Division, against Kirkland & Ellis, LLP (“K&E”). The lawsuit involves a claim for breach of professional responsibility arising out of K&E’s representation of Magnetek in the patent infringement action, Ole K. Nilssen v Magnetek, Inc. The Company alleges that, as a result of K&E’s negligent breach of professional duty in failing to discover or investigate the existence of prior art and prior misconduct which would have made Nilssen’s patent claim unenforceable or invalidated his patent, the Company suffered an arbitration award and judgment in the amount of \$23.4 million, which judgment was ultimately settled by the payment to Nilssen of \$18.75 million. The Company is seeking damages in the amount of \$18.75 million, reimbursement of reasonable costs and attorneys fees incurred in the proceeding to vacate the arbitration award and settlement thereof, and costs incurred in connection with this lawsuit. On April 5, 2010, the Circuit Court of Cook County dismissed the complaint against K&E for lack of subject matter jurisdiction. The Court relied upon a then recent Illinois appellate decision in which the Court held that attorney malpractice cases arising out of the prosecution or defense of federal patent claims raised federal questions for which the federal courts have exclusive jurisdiction. An appeal has been taken to the Illinois Appellate Court. On April 7, 2010, the Company filed a substantially identical complaint in the United States District Court for the Northern District of Illinois. The new federal complaint seeks damages in the amount of \$18.8 million, plus any additional damages as may be warranted by the evidence introduced at trial. On June 7, 2010, K&E entered a motion in federal court to have the Company’s complaint dismissed as being “time-barred” or filed beyond the applicable two year statute of limitations. The Company filed its responsive brief on July 15, 2010, arguing,

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among other things, that the doctrine of equitable tolling applies effectively suspending the running of the statute of limitations.

### Litigation—Other

In November 2007, a lawsuit was filed by Antonio Canova in Italy, in the Court of Arezzo, Labor Law Section, against the Company and Power-One Italy, S.p.A. Mr. Canova is a former Executive Vice President of the Company and was Deputy Chairman and Managing Director of the Company's former Italian subsidiary, Magnetek S.p.A. Mr. Canova asserted claims for damages in the amount of 3.5 million Euros (approximately US\$4.8 million) allegedly incurred in connection with the termination of his employment at the time of the sale of the Company's power electronics business to Power-One, Inc. in October 2006. The claims against the Company relate to a change of control agreement and restricted stock grant. The Company believes the claim is without merit and intends to vigorously defend against it.

In October 2010, the Company received a request for indemnification from Power-One, Inc. ("Power-One") for an Italian tax matter arising out of the sale of the Company's power electronic group to Power-One in September 2006. With a reservation of rights, the Company affirmed its obligation to indemnify Power-One for certain pre-closing taxes. The sale included an Italian company, Magnetek, S.p.A., and its wholly owned subsidiary, Magnetek Electronics (Shenzhen) Co. Ltd. (the "Power-One China Subsidiary"). The tax authority in Arezzo, Italy, issued a notice of audit report in September 2010 wherein it asserted that the Power-One China Subsidiary had its administrative headquarters in Italy with fiscal residence in Italy and, therefore, is subject to taxation in Italy. In November 2010, the tax authority issued a notice of tax assessment for the period of July 2003 to June 2004, alleging that taxes of approximately 1.9 million Euros (approximately US\$2.6 million) were due in Italy on taxable income earned by the Power-One China Subsidiary during this period. In addition, the assessment alleges potential penalties calculated at 120% of the tax amount claimed together with interest in the amount of approximately 2.6 million Euros (or approximately US\$3.5 million) for the alleged failure of the Power-One China Subsidiary to timely file its Italian tax return. The Power-One China Subsidiary filed its response with the provincial tax commission of Arezzo, Italy, in January 2011. The Company believes the Italian tax claim is without merit and intends to vigorously defend against it.

### Environmental Matters—General

From time to time, Magnetek has taken action to bring certain facilities associated with previously owned businesses into compliance with applicable environmental laws and regulations. Upon the subsequent sale of certain businesses, the Company agreed to indemnify the buyers against environmental claims associated with the divested operations, subject to certain conditions and limitations. Remediation activities, including those related to the Company's indemnification obligations, did not involve material expenditures during the first six months of fiscal year 2011. The Company has also been identified by the United States Environmental Protection Agency and certain state agencies as a potentially responsible party for cleanup costs associated with alleged past waste disposal practices at several previously owned or leased facilities and offsite locations. Its remediation activities as a potentially responsible party were not material in the first six months of fiscal year 2011. Although the materiality of future expenditures for environmental activities may be affected by the level and type of contamination, the extent and nature of cleanup activities required by governmental authorities, the nature of the Company's alleged connection to the contaminated sites, the number and financial resources of other potentially responsible parties, the availability of indemnification rights against third parties and the identification of additional contaminated sites, the Company's estimated share of liability, if any, for environmental remediation, including its indemnification obligations, is not expected to be material.

Bridgeport, Connecticut Facility

In 1986, the Company acquired the stock of Universal Manufacturing Company (“Universal”) from a predecessor of Fruit of the Loom (“FOL”), and the predecessor agreed to indemnify the Company against certain environmental liabilities arising from pre-acquisition activities at a facility in Bridgeport, Connecticut. Environmental liabilities covered by the indemnification agreement included completion of additional cleanup activities, if any, at the Bridgeport facility and defense and indemnification against liability for potential response costs related to offsite disposal locations. The Company’s leasehold interest in the Bridgeport facility was assigned to the buyer in connection with the sale of the Company’s transformer business in June 2001. FOL, the successor to the indemnification obligation, filed a petition for Reorganization under Chapter 11 of the Bankruptcy Code in 1999 and the Company filed a proof of claim in the proceeding for obligations related to the environmental indemnification agreement. The Company believes that FOL had substantially completed the clean-up obligations required by the indemnification agreement prior to the bankruptcy filing. In November 2001, the Company and FOL entered into an agreement involving the allocation of certain potential tax benefits and Magnetek withdrew its claims in the bankruptcy proceeding. The Company further believes that FOL’s obligation to the state of Connecticut was not discharged in the reorganization proceeding.

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In October 2006, Sergy Company, LLC (“Sergy”), the owner of the Bridgeport facility, filed a lawsuit in Superior Court, Fairfield, Connecticut alleging that the Company is obligated to remediate environmental contamination at the facility. The case was transferred to the Complex Litigation Docket, Waterbury, Connecticut. Sergy filed an amended complaint alleging a breach of lease obligations and violation of Connecticut environmental statutory requirements, which allegations were denied in the Company’s amended answer, affirmative defenses and counterclaims. Sergy amended its complaint to include additional claims against the Company under the Connecticut Transfer Act. The Company’s request to add additional potentially responsible parties as defendants was granted by the Court, and the Company filed declaratory judgment complaints against the FOL successor and Merrit Gavin, trustee of the Sergy Trust, a former owner of the Bridgeport facility, seeking a declaration that the obligations that Sergy seeks to enforce against the Company are the obligations of these other parties. In July 2009, the Court granted Gavin’s motion to dismiss him from the lawsuit, and in February 2010, the Court granted FOL’s motion to dismiss it from the lawsuit, and the Company filed an appeal of such rulings. In January 2011, Sergy and the Company reached an agreement in principle to resolve the lawsuit, including a payment by the Company to Sergy in the amount of \$85 thousand. The Settlement is contingent upon reducing the agreed terms to writing and obtaining certain approvals to support ongoing groundwater remedial measures.

In January 2007, the Connecticut Department of Environmental Protection (“DEP”) requested parties, including the Company, to submit reports summarizing the investigations and remediation performed to date at the site and the proposed additional investigations and remediation necessary to complete those actions at the site. DEP requested additional information from the Company relating to site investigations and remediation. The Company retained an environmental consultant to review and prepare reports on historical operations and environmental activities at the Bridgeport facility. In November 2009, the Company submitted its site summary report and proposed work plan to the DEP and in October 2010 submitted a revised work plan to the DEP. The Company and the DEP agreed to the scope of the work plan in November 2010. The Company has recorded a liability of \$0.5 million related to the Bridgeport facility, representing the Company’s best estimate of future site investigation costs and remediation costs which are expected to be incurred in the future. The liability is included in accrued liabilities in the condensed consolidated balance sheet as of January 2, 2011.

In April 2008, the Commissioner of Environmental Protection (“CTCEP”) filed an action in Superior Court, Judicial District of Hartford-New Britain at Hartford seeking injunctive relief against Sergy and the Company, which action was commenced after Sergy cut off power to the Bridgeport facility, thereby disabling a groundwater pump and treatment system previously installed by FOL and currently operated by the Company on a voluntary basis. Although a stipulation was entered into by the Company and Sergy relating to the start-up and operation of the groundwater pump and treatment system, the CTCEP filed a request to amend the complaint to assert additional claims and to seek further remedies, including injunctive relief and civil penalties, for alleged failure to investigate and remediate pollution under the Connecticut Transfer Act. In September, 2008 the Hartford Court ordered the case transferred to the Waterbury Court. In July 2009, the Court denied the Company’s motion to join Gavin and FOL in the CTCEP lawsuit and also denied the motion to consolidate the Sergy and CTCEP actions. The lawsuit against the Company was settled with the CTCEP by means of a stipulation for judgment in compromise and settlement which was approved by the Court in November 2010. The stipulation, which included the Company paying the CTCEP \$5 thousand, resolves all liability for past activities and requires the Company to conduct limited additional investigation pursuant to an approved work plan.

FOL’s inability to satisfy its remaining obligations related to the Bridgeport facility and any offsite disposal locations, or in the event a final settlement cannot be achieved and an unfavorable ruling in the lawsuit with the owner of the Bridgeport facility, or the discovery of additional environmental contamination at the Bridgeport facility could have a material adverse effect on the Company’s financial position, cash flows or results of operations.

5. Comprehensive Income

For the three- and six-month periods ended January 2, 2011, and December 27, 2009, comprehensive income consisted of the following:

	Three Months Ended		Six Months Ended	
	January 2,	December	January 2,	December
	2011	27,	2011	27,
		2009		2009
Net income (loss)	\$ 1,236	\$ (1,225 )	\$ 1,507	\$ (3,020 )
Change in unrecognized pension liability	1,681	1,553	3,491	3,105
Change in currency translation adjustments	15	46	109	87
Comprehensive income	\$ 2,932	\$ 374	\$ 5,107	\$ 172

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## 6. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share for the three- and six-months ended January 2, 2011, and December 27, 2009:

	Three Months Ended		Six Months Ended	
	January 2,	December	January 2,	December
	2011	27,	2011	27,
		2009		2009
<b>Numerator:</b>				
Income (loss) from continuing operations	\$ 1,377	\$ (880 )	\$ 2,040	\$ (2,391 )
Loss from discontinued operations	(141 )	(345 )	(533 )	(629 )
Net income (loss)	\$ 1,236	\$ (1,225 )	\$ 1,507	\$ (3,020 )
<b>Denominator:</b>				
Weighted average shares - basic earnings per share	31,284	31,010	31,271	30,985
Add dilutive effective of stock based compensation	274	-	242	-
Weighted average shares - diluted earnings per share	31,558	31,010	31,513	30,985
<b>Basic and Diluted:</b>				
Income (loss) per share from continuing operations	\$ 0.04	\$ (0.03 )	\$ 0.07	\$ (0.08 )
Loss per share from discontinued operations	\$ (0.00 )	\$ (0.01 )	\$ (0.02 )	\$ (0.02 )
Net income (loss) per share	\$ 0.04	\$ (0.04 )	\$ 0.05	\$ (0.10 )

Outstanding options to purchase 2.4 million shares of common stock for the six months ended December 28, 2009, have not been included in the Company's computation of weighted average shares for diluted earnings per share because the effect would have been anti-dilutive.

## 7. Warranties

The Company offers warranties for certain products that it manufactures, with the warranty term generally ranging from one to two years. Warranty reserves are established for costs expected to be incurred after the sale and delivery of products under warranty, based mainly on known product failures and historical experience. Actual repair costs incurred for products under warranty are charged against the established reserve balance as incurred. Changes in the warranty reserve for the six-month periods ended January 2, 2011, and December 27, 2009, are as follows:

	Six Months Ended
	December
	27,
	2009
	January 2,
	2011

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Balance, beginning of fiscal year	\$ 545	\$ 281
Changes in product warranties charged to earnings	112	209
Use of reserve for warranty obligations	(150 )	(228 )
Balance, end of period	\$ 507	\$ 262

Warranty reserves are included in accrued liabilities in the accompanying condensed consolidated balance sheets.

8. Pension Expense

Pension expense related to the Company's defined benefit pension plan for the three- and six-month periods ended January 2, 2011, and December 27, 2009, follows:

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	Three Months Ended		Six Months Ended	
	January 2, 2011	December 27, 2009	January 2, 2011	December 27, 2009
Interest cost	\$ 2,376	\$ 2,705	\$ 4,935	\$ 5,410
Expected return on plan assets	(2,463 )	(2,207 )	(5,115 )	(4,412 )
Recognized net actuarial losses	1,681	1,553	3,491	3,105
<b>Total net pension expense</b>	<b>\$ 1,594</b>	<b>\$ 2,051</b>	<b>\$ 3,311</b>	<b>\$ 4,103</b>

Under current funding regulations, actuarial projections indicate that the Company will be required to make contributions to the defined benefit pension plan of approximately \$6.4 million during the remainder of fiscal year 2011.

#### 9. Income Taxes

Due to historical taxable losses, the Company provides valuation reserves against its U.S. deferred tax assets. A portion of the Company's deferred tax liability relates to tax-deductible amortization of goodwill that is no longer amortized for financial reporting purposes. These deferred tax liabilities are considered to have an indefinite life and are therefore ineligible to be considered as a source of future taxable income in assessing the realization of deferred tax assets.

The Company's provision for income taxes for each of the three-month periods ended January 2, 2011, and December 27, 2009, includes \$230 and \$234 of deferred income tax expense related to the increase in the Company's deferred tax liability related to tax-deductible amortization of goodwill. The provision for income taxes for the six-month periods ended January 2, 2011, and December 27, 2009 includes \$493 and \$459 of deferred income tax expense related to the increase in the Company's deferred tax liability related to tax-deductible amortization of goodwill. The remaining tax provision is comprised of income taxes of the Company's foreign subsidiary in Canada.

#### 10. Bank Borrowing Arrangements

In November 2007, the Company entered into an agreement with Associated Bank, N.A. ("Associated Bank") providing for a \$10 million revolving credit facility (the "revolving facility"). Borrowings under the revolving facility bore interest at the London Interbank Offering Rate ("LIBOR") plus 1.5%, with borrowing levels determined by a borrowing base formula as defined in the agreement, which includes the level of eligible accounts receivable. The revolving facility also supports the issuance of letters of credit, places certain restrictions on the Company's ability to pay dividends or make acquisitions, and includes covenants that require minimum operating profit levels and limit annual capital expenditures. Borrowings under the revolving facility were originally collateralized by the Company's accounts receivable and inventory.

In December 2008, the Company and Associated Bank entered into a first amendment to the revolving facility, the primary purpose of which was to extend the maturity date of the revolving facility to November 2010. In February 2010, the Company and Associated Bank entered into a second amendment to the revolving facility, the purpose of which was to (i) extend the maturity date of the revolving facility to December 15, 2010, (ii) establish minimum



adjusted earnings before interest, taxes, depreciation and amortization requirements for the periods ending March 31, 2010, June 30, 2010 and September 30, 2010; (iii) reduce the commitment amount of Associated Bank from \$10.0 million to \$7.5 million; (iv) establish maximum cash amounts the Company can contribute to its defined benefit pension plan during calendar year 2010; and (v) broaden the security interest of Associated Bank to collateralize all assets of the Company.

In December 2010, the Company and Associated Bank entered into a third amendment to the revolving facility, the purpose of which was to (i) extend the maturity date of the revolving facility to December 15, 2011; (ii) establish minimum adjusted earnings before interest, taxes, depreciation and amortization requirements for the periods ending March 31, 2011, June 30, 2011 and September 30, 2011; and (iii) establish maximum cash amounts the Company can contribute to its defined benefit pension plan during calendar year 2011. The commitment amount of Associated Bank remained at \$7.5 million under the third amendment to the revolving facility. There were no amounts outstanding on the amended revolving facility as of January 2, 2011. The Company is currently in compliance with all covenants of the revolving facility, as amended.

## Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Overview

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Magnetek, Inc. (“Magnetek,” “the Company,” “we,” or “us”) is a global provider of digital power control systems that are used to control motion and power primarily in material handling, elevator and energy delivery applications. Our systems consist primarily of programmable motion control and power conditioning systems used in the following applications: overhead cranes and hoists, elevators, coal mining equipment; and renewable energy applications. We believe that with our technical and productive resources, application expertise, broad product offerings and sales channel capabilities, we are well positioned to respond to increasing demand in our served markets. Our operations are located in North America, predominantly in Menomonee Falls, Wisconsin, our Company headquarters.

Our product offerings for material handling applications include drive systems, radio remote controls, and braking, collision-avoidance, and electrification subsystems, sold primarily to original equipment manufacturers (“OEMs”) of overhead cranes and hoists. We have a significant market share in North America in alternating current (“AC”) control systems and believe we have growth opportunities in wireless radio controls, direct current (“DC”) control systems for retrofit applications and in automating existing manual material handling processes.

Our product offerings for elevator applications are comprised of highly integrated subsystems and drives used to control motion primarily in high rise, high speed elevator applications. Our products are sold mainly to elevator OEMs and we have a significant share of the available market for DC drives and subsystems used in high-rise elevators primarily for retrofit and modernization projects. We believe we have opportunities for growth in available elevator markets by introducing new energy-saving product offerings for both AC and DC applications, expanding the breadth of our product offerings to include competitive products for lower performance AC applications, and using our new product offerings to expand geographically.

Our product offerings for energy delivery applications include power inverters for renewable energy applications, including wind turbines, which deliver AC power to the utility grid from generators inside wind turbines. Renewable energy markets have grown rapidly in North America over the past several years as both wind and solar power have become increasingly competitive from a cost standpoint with more traditional methods of power generation, and as state governments enact renewable energy portfolio standards. The credit crisis and economic recession had a worldwide impact on solar and wind projects throughout much of calendar 2009, as these markets are heavily dependent on availability of financing over extended periods of time. More recently, renewable energy projects are increasingly gaining financing and many renewable energy end markets have shown signs of recovery. However, the cost of traditional forms of energy, such as natural gas and coal, will likely continue to impact future demand in renewable energy markets. We believe our product offerings have us well positioned to take advantage of growth in renewable energy markets as credit conditions continue to improve and as the cost of traditional forms of energy generation increases along with sustained growth in overall economic activity.

## Continuing Operations

We focus on a variety of key indicators to monitor our business performance. These indicators include order rates, sales growth, gross profit margin, operating profit margin, net income, earnings per share, and working capital and cash flow measures. These indicators are compared to our operating plans as well as to our prior year actual results, and are used to measure our success relative to our objectives. Our Company objectives are to grow sales at least 10% on a year-over-year basis, to achieve 30% gross margins and 10% operating profit margins, and to generate sufficient cash flow to fund our operations and meet our obligations.

The global economic recession resulted in a U.S. industrial slowdown and decline in capital spending, which began to negatively impact our business during the second half of fiscal 2009 and continued to impact us throughout much of

fiscal 2010. Demand for material handling product offerings is influenced by cyclical forces in the industrial marketplace, and during fiscal 2010, we experienced softening demand in certain of our served markets, principally in the automotive and primary metals industries. However, through the first six months of fiscal 2011, we have experienced improving conditions and increasing demand in most of our major served markets, both in industrial markets and renewable energy markets. Accordingly, both our sales and operating results have improved significantly over prior year levels, and we believe our business will continue to improve at a measured pace during fiscal 2011 as U.S. manufacturing capacity utilization rates continue to increase.

Second quarter fiscal 2011 sales were \$26.1 million, a 36% increase over prior year second quarter sales of \$19.2 million, as we experienced year-over-year sales growth in each of our major served markets. Fiscal 2011 second quarter gross profit increased to \$8.5 million, or 32.5% of sales, compared to \$5.9 million, or 30.6% of sales in the second quarter of fiscal 2010. We reported a pre-tax income from operations of \$1.4 million in the second quarter of fiscal 2011 compared to a prior year pre-tax loss from operations of \$0.8 million, due mainly to higher sales volume and lower pension expense, which decreased by \$0.5 million to \$1.6 million in the second quarter fiscal 2011 from second quarter fiscal 2010 levels. In summary, the majority of our key indicators, including order rates, sales levels, and profit margins, improved significantly over the levels of one year ago.

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We currently anticipate continued improvement in our future operating performance, supported by recent healthy levels of incoming orders received (“bookings”) as well as backlog amounts. Bookings during the second quarter of fiscal 2011 (ended January 2, 2011) were \$25.4 million, which represented a 2.1% increase from bookings of \$24.8 million in the first quarter of fiscal 2011, and included bookings for material handling products of \$14.4 million. We entered the third quarter of fiscal 2011 with a total backlog of \$22.4 million and, in the first week of our third quarter, we received additional wind inverter orders valued at more than \$6 million, increasing our backlog in mid-January 2011 to more than \$28 million.

We believe that future sustained profitability is largely dependent upon increased sales revenue and continued improvement in gross margins. Our past sales growth has been, and we believe future sales growth will continue to be, dependent on strong demand for material handling products, our customers’ ability to obtain financing and willingness to invest in the current economic environment, successful introduction and increasing acceptance of new products, and a continuing recovery in renewable energy markets. In the event the U.S. manufacturing recovery continues throughout calendar year 2011, sales of our material handling products should continue to increase, which should result in increases in our gross profit and income from operations. In addition, a further increase in the valuation of our pension plan assets or increases in interest rates, primarily related to long-term high-quality corporate bond rates, would favorably impact our periodic pension expense and required pension contributions in future periods.

Additional improvement in gross margins is mainly dependent upon favorable economic conditions, continued acceptance of recently introduced product offerings by the marketplace, and ongoing successful cost reduction actions related to recently introduced product offerings. We intend to focus our development and marketing efforts on organic sales growth opportunities across all product lines, and also plan to continue to tightly control our operating expenses.

Our current outlook projects a 25% to 30% sales increase in fiscal 2011 as compared to fiscal 2010, and we are currently projecting fiscal 2011 gross margins to exceed our stated goal of 30% of sales. Total operating expenses are expected to increase slightly compared to fiscal 2010 total operating expenses of \$26.4 million. Our pension expense is expected to decrease to \$6.5 million in fiscal 2011 from \$8.2 million in fiscal 2010, mainly due to positive returns on plan assets experienced during fiscal 2010. The favorable impact of lower pension expense is expected to be offset by higher selling expenses, increased spending on research and development, and increased incentive compensation provisions. While we currently expect to report income from operations of 5% to 6% of sales for fiscal 2011, this is dependent mainly on achieving our sales growth objectives during fiscal 2011. We believe overall economic conditions are improving and the U.S. economic recovery is continuing at an accelerating pace, however, it remains challenging to predict the duration or the magnitude of the current economic recovery, whether in the U.S. overall or in the specific end markets we serve.

## Discontinued Operations

Certain expenses related to previously divested businesses have been classified as discontinued operations in the accompanying condensed consolidated financial statements and footnotes for all periods presented (see Note 2 of Notes to Condensed Consolidated Financial Statements). Expenses related to previously divested businesses have historically included certain expenses for environmental matters, asbestos claims and product liability claims (see Note 4 of Notes to Condensed Consolidated Financial Statements). All of these issues relate to businesses we no longer own and most relate to indemnification agreements that we entered into when we divested those businesses.

Going forward, our results of discontinued operations may include additional costs incurred related to businesses no longer owned, and may include additional costs above those currently estimated and accrued related to the divestiture of our telecom power systems (“TPS”) business, which was divested in September 2008, and our power electronics

business, which was divested in October 2006.

#### Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in our Annual Report on Form 10-K for the fiscal year ended June 27, 2010.

#### Results of Operations - Three Months Ended January 2, 2011, and December 27, 2009

##### Net Sales and Gross Profit

Net sales for the three months ended January 2, 2011, were \$26.1 million, an increase of nearly 36% from the three months ended December 27, 2009, sales of \$19.2 million. The increase in sales was primarily due to higher sales volumes in our

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material handling and energy systems product lines, primarily increase sales of wind inverters. Net sales by product line were as follows, in millions:

	Three Months Ended					
	January 2, 2011			December 27, 2009		
Material handling	\$ 14.7	56	%	\$ 12.6	66	%
Elevator motion control	5.6	21	%	4.3	22	%
Energy systems	5.8	23	%	2.3	12	%
Total net sales	\$ 26.1	100	%	\$ 19.2	100	%

Gross profit for the three months ended January 2, 2011, was \$8.5 million, or 32.5% of sales, versus \$5.9 million, or 30.6% of sales, for the three months ended December 27, 2009. The increase in gross profit as a percentage of sales for the three months ended January 2, 2011, as compared to the three months ended December 27, 2009, was due to increased sales of higher margin material handling products as well as improvement in wind inverter gross margins in fiscal 2011 due to material cost reductions and higher sales volume.

#### Research and Development, Pension Expense, and Selling, General and Administrative

Research and development (“R&D”) expense was \$1.1 million, or 4.1% of sales, for the three months ended January 2, 2011, comparable to R&D expense of \$1.0 million, or 5.2% of sales, for the three months ended December 27, 2009.

Pension expense was \$1.6 million and \$2.1 million for the three months ended January 2, 2011 and December 27, 2009, respectively (see Note 8 of Notes to Condensed Consolidated Financial Statements). The decrease in pension expense was mainly due to lower interest costs and positive returns on plan assets experienced during fiscal 2010.

Selling, general and administrative (“SG&A”) expense was \$4.4 million (16.9% of sales) for the three months ended January 2, 2011, versus \$3.6 million (18.7% of sales) for the three months ended December 27, 2009. Selling expenses in the three months ended January 2, 2011, increased to \$2.2 million from \$2.1 million in the three months ended December 27, 2009, due to higher volume-related commissions. General and administrative (“G&A”) expense increased to \$2.3 million for the three months ended January 2, 2011, from \$1.5 million for the three months ended December 27, 2009, mainly due to higher incentive compensation provisions.

#### Income (Loss) from Operations

Income from operations for the three months ended January 2, 2011, was \$1.4 million compared to loss from operations of \$0.8 million for the three months ended December 27, 2009. The increase in income from operations for the three months ended January 2, 2011, as compared to the three months ended December 27, 2009, was mainly due to higher gross profit earned on sales volume increases in the three months ended January 2, 2011.

#### Interest Income

Interest income was negligible for the three months ended January 2, 2011 and December 27, 2009.

#### Provision for Income Taxes

We recorded a negligible income tax provision for the three months ended January 2, 2011, compared to an income tax provision of \$0.1 million for the three months ended December 27, 2009. The income tax provision in both periods includes non-cash deferred income tax provisions of \$0.2 million related to changes in deferred tax liabilities from goodwill amortization for tax purposes.

#### Income (Loss) from Continuing Operations

We recorded income from continuing operations of \$1.4 million for the three months ended January 2, 2011, or a \$0.04 income per share on both a basic and diluted basis, compared to a loss from continuing operations of \$0.9 million for the three months ended December 27, 2009, or \$0.03 loss per share on both basic and diluted basis.

#### Loss from Discontinued Operations

We recorded a loss from discontinued operations for the three months ended January 2, 2011, of \$0.1 million, or a \$0.00 loss per share on both a basic and diluted basis, compared to a loss from discontinued operations of \$0.3 million, or a \$0.01 loss per share on both a basic and diluted basis, for the three months ended December 27, 2009. The loss from discontinued operations in the three months ended January 2, 2011, and in the three months ended December 27, 2009, is comprised entirely of expenses related to previously divested businesses.

#### Net Income (Loss)

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Our net income was \$1.2 million in the three months ended January 2, 2011, or a \$0.04 income per share, basic and diluted, compared to a net loss of \$1.2 million in the three months ended December 27, 2009, or \$0.04 per share on a basic and diluted basis.

## Results of Operations - Six Months Ended January 2, 2011, and December 27, 2009

## Net Sales and Gross Profit

Net sales for the six months ended January 2, 2011, were \$50.9 million, an increase of nearly 37% from the six months ended December 27, 2009, sales of \$37.1 million. The increase in sales was primarily due to higher sales volumes in each of our major product lines. Net sales by product line were as follows, in millions:

	Six Months Ended					
	January 2, 2011			December 27, 2009		
Material handling	\$ 27.6	54	%	\$ 23.5	63	%
Elevator motion control	11.1	22	%	9.3	25	%
Energy systems	12.2	24	%	4.3	12	%
Total net sales	\$ 50.9	100	%	\$ 37.1	100	%

Gross profit for the six months ended January 2, 2011, was \$16.0 million, or 31.4% of sales, versus \$11.5 million, or 31.0% of sales, for the six months ended December 27, 2009. The increase in gross profit as a percentage of sales for the six months ended January 2, 2011, as compared to the six months ended December 27, 2009, was due to increased sales of higher margin material handling products as well as improvement in wind inverter gross margins in fiscal 2011 due to material cost reductions and higher sales volume.

## Research and Development, Pension Expense, and Selling, General and Administrative

R&D expense was \$2.1 million, or 4.1% of sales, for the six months ended January 2, 2011, comparable to R&D expense of \$1.9 million, or 5.1% of sales, for the six months ended December 27, 2009.

Pension expense was \$3.3 million and \$4.1 million for the six months ended January 2, 2011 and December 27, 2009, respectively (see Note 8 of Notes to Condensed Consolidated Financial Statements). The decrease in pension expense was mainly due to lower interest costs and positive returns on plan assets experienced during fiscal 2010.

SG&A expense was \$8.3 million (16.3% of sales) for the six months ended January 2, 2011, versus \$7.5 million (20.4% of sales) for the six months ended December 27, 2009. Selling expenses in the six months ended January 2, 2011, increased to \$4.3 million from \$4.1 million in the six months ended December 27, 2009, due to higher volume-related commissions. General and administrative ("G&A") expense increased to \$2.2 million for the three months ended January 2, 2011, from \$1.5 million for the three months ended December 27, 2009, mainly due to higher incentive compensation provisions.

## Income (Loss) from Operations



Our income from operations for the six months ended January 2, 2011, was \$2.3 million compared to loss from operations of \$2.1 million for the six months ended December 27, 2009. The increase in income from operations for the six months ended January 2, 2011, as compared to the six months ended December 27, 2009, was mainly due to higher sales volumes and lower pension expense in the six months ended January 2, 2011.

#### Interest Income

Interest income was negligible for the six months ended January 2, 2011 and December 27, 2009.

#### Provision for Income Taxes

We recorded an income tax provision of \$0.3 million and \$0.4 million for the six months ended January 2, 2011 and December 27, 2009 respectively. The income tax provision in both periods includes non-cash deferred income tax provisions of \$0.5 million related to changes in deferred tax liabilities from goodwill amortization for tax purposes.

#### Income (Loss) from Continuing Operations

We recorded income from continuing operations of \$2.0 million for the six months ended January 2, 2011, or \$0.07 per share, on both a basic and diluted basis, compared to a loss from continuing operations of \$2.4 million for the six months ended December 27, 2009, or a \$0.08 loss per share on both basic and diluted basis.

#### Loss from Discontinued Operations

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We recorded a loss from discontinued operations for the three months ended January 2, 2011, of \$0.5 million, or a \$0.02 loss per share on both a basic and diluted basis, compared to a loss from discontinued operations of \$0.6 million, or a \$0.02 loss per share on both a basic and diluted basis, for the six months ended December 27, 2009. The loss from discontinued operations in both periods is comprised entirely of expenses related to previously divested businesses.

### Net Income (Loss)

Our net income was \$1.5 million in the six months ended January 2, 2011, or \$0.05 per share, basic and diluted, compared to a net loss of \$3.0 million in the six months ended December 27, 2009, or a \$0.10 loss per share on both a basic and diluted basis.

### Liquidity and Capital Resources

Our unrestricted cash and cash equivalent balance decreased approximately \$1.6 million during the first six months of fiscal 2011, from \$8.2 million at June 27, 2010, to \$6.6 million at January 2, 2011. Restricted cash balances remained unchanged during the first six months of fiscal 2011 at \$0.3 million. The primary source of cash during the first six months of fiscal 2011 was from adjusted income from continuing operating activities of \$6.7 million (net income from continuing operations adjusted to add back non-cash depreciation, amortization, pension, stock compensation and deferred income tax provisions).

The primary uses of cash in the first six months of fiscal 2011 were \$5.4 million in contributions to our defined benefit pension plan, net increases in operating assets and liabilities of \$2.1 million (mainly changes in inventory, accounts receivable and accounts payable balances), \$0.8 million of disbursements related to previously divested businesses and \$0.2 million for capital expenditures. Inventory increased during the first six months of fiscal 2011 by \$4.4 million, due to increased lead times for certain raw materials and new product introductions, and to meet expected increased production based on the increased order backlog. Accounts receivable decreased during the first six months of fiscal 2011 by \$0.6 million due to a reduction in days' sales outstanding from 61 days at June 2010 to 55 days at the end of the second quarter of fiscal 2011, partially offset by higher sale volume. Accounts payable and other accrued liabilities balances increased by \$1.0 million during the first six months of fiscal 2011, again mainly due to higher volume. In addition, other assets decreased more than \$0.6 million, due mainly to a participation payment of \$0.5 million related to an annuity contract.

While we may make further investments to increase capacity and improve efficiency, we do not anticipate that capital expenditures in fiscal 2011 will exceed \$1.5 million. The expected amount of capital expenditures could change depending upon changes in revenue levels, our financial condition and the general economy.

In November 2007 we entered into an agreement with Associated Bank, N.A. ("Associated Bank") providing for a \$10 million revolving credit facility (the "revolving facility"). Borrowings under the revolving facility bear interest at the London Interbank Offering Rate ("LIBOR") plus 1.5%, with borrowing levels determined by a borrowing base formula as defined in the agreement, based on the level of eligible accounts receivable. The revolving facility also supports the issuance of letters of credit, places certain restrictions on our ability to pay dividends or make acquisitions, and includes covenants which require minimum operating profit levels and limit annual capital expenditures. Borrowings under the revolving facility are collateralized by our accounts receivable and inventory. In December 2008, we entered into an amendment to the revolving facility with Associated Bank, the primary purpose of which was to

extend the maturity date of the revolving facility to November 1, 2010. In February 2010, we entered into a second amendment to the revolving credit facility with Associated Bank, the purpose of which was to (i) extend the maturity date of the revolving facility to December 15, 2010; (ii) establish minimum adjusted earnings before interest, taxes, depreciation and amortization requirements for the periods ending March 31, 2010, June 30, 2010 and September 30, 2010; (iii) reduce the commitment amount of Associated Bank from \$10.0 million to \$7.5 million; (iv) establish maximum cash amounts the Company can contribute to its defined benefit pension plan during calendar year 2010; and (v) broaden the security interest of Associated Bank to include all assets of the Company.

On December 9, 2010, we entered into a third amendment to the revolving facility with Associated Bank, the purpose of which was to (i) extend the maturity date of the revolving facility to December 15, 2011; (ii) establish minimum adjusted earnings before interest, taxes, depreciation and amortization requirements for the periods ending March 31, 2011, June 30, 2011 and September 30, 2011; and (iii) establish maximum cash amounts we can contribute to our defined benefit pension plan during calendar year 2011. The commitment amount of Associated Bank remained at \$7.5 million under the third amendment to the revolving facility. There were no amounts outstanding on the amended revolving facility as of January 2, 2011. We are currently in compliance with all covenants of the revolving facility, as amended.

Primarily as a result of the decline in interest rates over the past several years and more recent declines in values in equity markets, the accumulated benefit obligation of our defined benefit pension plan currently exceeds plan assets. We have made contributions to the plan aggregating \$33.1 million from April 2008 through December 2010, funded by cash

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generated from operations and existing cash on hand. Under funding regulations, current actuarial projections indicate that we will be required to make contributions to the plan aggregating approximately \$12.0 million in fiscal 2011, of which we have contributed \$5.4 million as of January 2, 2011. Required contributions beyond fiscal 2011 could still be significant, and will depend on future interest rate levels, values in equity and fixed income markets, and the level and timing of additional interim contributions we may make to the plan.

Based upon current plans and business conditions, we believe that current cash balances, borrowing capacity under our revolving facility and internally generated cash flows will be sufficient to fund anticipated operational needs, capital expenditures, required pension plan contributions and other commitments over the next 12 months.

## Caution Regarding Forward-Looking Statements and Risk Factors

This document, including documents incorporated herein by reference, contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe,” “expect,” “estimate,” “anticipate,” “intend,” “may,” “might,” “will,” “would,” “could,” “project,” and “predict,” or similar words and phrases generally identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties which in many cases are beyond our control and which cannot be predicted or quantified. As a result, future events and actual results could differ materially from those set forth in, contemplated by, or underlying forward-looking statements. Forward-looking statements contained in this document speak only as of the date of this document or, in the case of any document incorporated by reference from another document, the date of that document. We do not have any obligation to publicly update or revise any forward-looking statement contained or incorporated by reference in these documents to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

Our future results of operations and the other forward-looking statements contained in this filing, including this section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” involve a number of risks and uncertainties. In particular, the statements regarding future economic conditions, our goals and strategies, new product introductions, penetration of new markets, projections of sales revenues and sales growth, manufacturing costs and operating costs, pricing of our products and raw materials required to manufacture our products, gross margin expectations, relocation and outsourcing of production capacity, capital spending, research and development expenses, the outcome of pending legal proceedings and environmental matters, payment of certain claims by insurance carriers, tax rates, sufficiency of funds to meet our needs including contributions to our defined benefit pension plan, and our plans for future operations, as well as our assumptions relating to the foregoing, are all subject to risks and uncertainties.

A number of factors could cause our actual results to differ materially from our expectations. We are subject to all of the business risks facing public companies, including business cycles and trends in the general economy, financial market conditions, changes in interest rates, demand variations and volatility, potential loss of key personnel, supply chain disruptions, government legislation and regulation, and natural causes. Additional risks and uncertainties include but are not limited to industry conditions, competitive factors such as technology and pricing pressures, business conditions in our served markets, dependence on significant customers, increased material costs, risks and costs associated with acquisitions and divestitures, environmental matters and the risk that our ultimate costs of doing business exceed present estimates. This list of risk factors is not all-inclusive, as other factors and unanticipated events could adversely affect our financial position or results of operations. Further information on factors that could affect our financial results can be found in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended June 27, 2010, under the heading “Risk Factors” as well as below in Part II, Item

1A under the heading “Risk Factors”.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to the quantitative and qualitative disclosures about our market risk disclosed in our Annual Report on Form 10-K for the fiscal year ended June 27, 2010. We did not have any outstanding hedge instruments or foreign currency contracts outstanding at January 2, 2011, or December 27, 2009.

Item 4 – Controls and Procedures

In connection with this Quarterly Report on Form 10-Q, under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, and internal control over financial reporting and concluded that (i) our disclosure controls and procedures were effective as of January 2, 2011; and (ii) no change in internal control over financial reporting occurred during the quarter ended January 2, 2011, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

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Attached as exhibits to this Quarterly Report on Form 10-Q are certifications of the Company's Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934. This "Controls and Procedures" section includes information concerning the controls and evaluation thereof referred to in the attached certifications, and it should be read in conjunction with the attached certifications for a more complete understanding of the topics presented.

PART II - OTHER INFORMATION

Item 1 – Legal Proceedings

Information about our legal proceedings is contained in Part I, Item 3, Legal Proceedings, and Note 11 in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended June 27, 2010, which is incorporated herein by reference, and in Note 4 of the Notes to Condensed Consolidated Financial Statements contained in our Quarterly Reports on Form 10-Q. Except as set forth in Note 4 of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q, we believe that there have been no other material developments with respect to these matters during the fiscal quarter ended January 2, 2011.

Item 1A – Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended June 27, 2010.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of equity securities and there were no repurchases of equity securities during our fiscal quarter ended January 2, 2011.

Item 3 – Defaults upon Senior Securities

None.

Item 4 – (Removed and Reserved)

Item 5 – Other Information

Item 6 - Exhibits

(a) Index to Exhibits

31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. *
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. *
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

\* Filed with this Report on Form 10-Q.



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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MAGNETEK, INC.  
(Registrant)

Date: February 9, 2011

/s/ PETER M.  
MCCORMICK  
Peter M. McCormick  
President and Chief Executive Officer  
(Duly authorized officer of the Registrant  
and principal executive officer)

Date: February 9, 2011

/s/ MARTY J.  
SCHWENNER  
Marty J. Schwenner  
Vice President and Chief Financial Officer  
(Duly authorized officer of the Registrant  
and principal financial officer)