MAGNETEK, INC.
Form 10-Q
May 11, 2007

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: April 1, 2007

OR

o TRANSITION 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)

(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 o

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Yes o No x

The number of shares outstanding of Registrant s Common Stock, as of April 30, 2007, was 29,853,064 shares.

2007 MAGNETEK FORM 10-Q

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FOR THE FISCAL QUARTER ENDED APRIL 1, 2007

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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) April 1, 2007	(13 Weeks) April 2, 2006
Net sales	$ 23,311	$ 26,582
Cost of sales	16,406	19,271
Gross profit	6,905	7,311
Operating expenses:		
Research and development	912	1,263
Selling, general and administrative	5,628	7,279
Income (loss) from operations	365	(1,231)
Non operating expense (income):		
Interest expense	142	950
Interest income	(389)	(273)
Other expense	70	
Income (loss) from continuing operations before provision for income taxes	542	(1,908)
Provision for income taxes	307	490
Income (loss) from continuing operations	235	(2,398)
Loss from discontinued operations, net of tax	(654)	(2,032)
Net loss	$ (419)	$ (4,430)
Earnings (loss) per common share		
Basic and diluted:		
Earnings (loss) from continuing operations	$ 0.01	$ (0.08)
Loss from discontinued operations	$ (0.02)	$ (0.07)
Net loss	$ (0.01)	$ (0.15)
Weighted average shares outstanding:		
Basic	29,616	28,911
Diluted	30,269	28,911

See accompanying notes

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

	Nine Months Ended (39 Weeks) April 1, 2007	(39 Weeks) April 2, 2006
Net sales	$ 76,844	$ 76,258
Cost of sales	55,460	53,734
Gross profit	21,384	22,524
Operating expenses:		
Research and development	3,719	3,742
Selling, general and administrative	22,214	21,019
Loss from operations	(4,549)	(2,237)
Non operating expense (income):		
Interest expense	2,275	2,211
Interest income	(1,582)	(405)
Other expense	395	
Loss from continuing operations before provision for income taxes	(5,637)	(4,043)
Provision for income taxes	956	1,169
Loss from continuing operations	(6,593)	(5,212)
Loss from discontinued operations, net of tax	(3,235)	(1,997)
Net loss	$ (9,828)	$ (7,209)
Loss per common share		
Basic and diluted:		
Loss from continuing operations	$ (0.22)	$ (0.18)
Loss from discontinued operations	$ (0.11)	$ (0.07)
Net loss	$ (0.33)	$ (0.25)
Weighted average shares outstanding:		
Basic	29,497	28,905
Diluted	29,497	28,905

See accompanying notes.

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

	April 1, 2007 (Unaudited)	July 2, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,681	$ 96
Restricted cash	22,602	22,602
Accounts receivable, net	15,408	14,765
Inventories	14,653	13,134
Prepaid expenses and other current assets	589	693
Assets held for sale		140,549
Total current assets	57,933	191,839
Property, plant and equipment	19,464	18,580
Less-accumulated depreciation	15,580	14,369
Net property, plant and equipment	3,884	4,211
Goodwill	28,122	28,150
Other assets	7,659	8,826
Total Assets	$ 97,598	$ 233,026
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 9,466	$ 7,862
Accrued liabilities	8,799	8,663
Accrued arbitration award	22,602	22,602
Liabilities held for sale		75,933
Current portion of long-term debt		27,412
Total current liabilities	40,867	142,472
Long-term debt, net of current portion	33	43
Pension benefit obligations, net	25,972	45,494
Deferred income taxes	2,784	2,109
Commitments and contingencies		
Stockholders equity		
Common stock	294	287
Paid in capital in excess of par value	133,139	129,473
Accumulated deficit	(16,659)	(6,831)
Accumulated other comprehensive loss	(88,832)	(80,021)
Total stockholders equity	27,942	42,908
Total Liabilities and Stockholders Equity	$ 97,598	$ 233,026

See accompanying notes

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

	(39 Weeks) April 1, 2007	(39 Weeks) April 2, 2006
Cash flows from continuing operating activities:		
Loss from continuing operations	$ (6,593)	$ (5,212)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,513	1,535
Write-off of deferred financing	670	
Stock based compensation expense	1,456	361
Changes in operating assets and liabilities	3,683	4,740
Cash contribution to pension fund	(30,000)	
Total adjustments	(22,678)	6,636
Net cash provided by (used in) continuing operating activities	(29,271)	1,424
Cash flows from investing activities:		
Proceeds from sale of business, net of transaction costs	63,546	
Deposit into escrow account		(22,602)
Capital expenditures	(926)	(519)
Net cash provided by (used in) investing activities	62,620	(23,121)
Cash flow from financing activities:		
Proceeds from issuance of common stock	2,100	236
Borrowings under long term notes		18,000
Repayment of long term notes	(18,000)	
Borrowings (repayments) under line-of-credit agreements	(9,412)	5,337
Principal payments under capital lease obligations	(10)	(9)
Increase in deferred financing costs	(207)	(1,667)
Net cash provided by (used in) financing activities	(25,529)	21,897
Cash flows from discontinued operations:		
Provided by operating activities	2,857	3,296
Used in investing activities	(930)	(3,656)
Used in financing activities	(5,162)	(31)
Cash used in discontinued operations	(3,235)	(391)
Net increase (decrease) in cash	4,585	(191)
Cash at the beginning of the period	96	595
Cash at the end of the period	$ 4,681	$ 404

See accompanying notes

MAGNETEK, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 1, 2007
(Amounts in thousands unless otherwise noted, except per share data, unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Magnetek, Inc. and its subsidiaries (the Company). 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 Form 10-K for the year ended July 2, 2006 filed with the Securities and Exchange Commission. 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 April 1, 2007, and the results of its operations for the three- and nine-month periods ended April 1, 2007 and April 2, 2006 and its cash flows for the nine-months ended April 1, 2007 and April 2, 2006. Results for the three- and nine-months ended April 1, 2007 are not necessarily indicative of results that may be experienced for the full 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 three- and nine-month periods ended April 1, 2007 and April 2, 2006 each contained 13 and 39 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.

Recent Accounting Pronouncements In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48) *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, accounting in interim periods, and disclosure requirements for uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006 (July 2, 2007 for the Company). The adoption of this pronouncement is not expected to have a material effect on the Company s financial position, results of operations, or liquidity.

In September 2006, the FASB issued under Statement of Financial Accounting Standard (SFAS) No. 158, *Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans*, which requires the Company to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Additionally, SFAS No. 158 requires the Company to measure the funded status of a plan as of the date of its fiscal year-end. The requirement to recognize the funded status of a defined benefit postretirement plan and the related disclosure requirements are effective for the Company s fiscal year ended July 1, 2007, while the requirement to measure the funded status as of fiscal year-end is not effective for the Company until fiscal 2009. The Company is currently evaluating the impact that the adoption of SFAS No. 158 will have on its consolidated financial position, results of operations and cash flows.

Reclassifications Certain prior year balances were reclassified to conform to the current year presentation, including the reclassification of the telecom power business assets, liabilities, and results of operations from discontinued operations to continuing operations.

2. **Discontinued Operations**

The Company s power electronics business as well as 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		Nine Months Ended	
	April 1, 2007	April 2, 2006	April 1, 2007	April 2, 2006
Income (loss) from discontinued operations before interest and income taxes	$ (234)	$ (1,311)	$ (1,863)	$ 343
Loss on sale of power electronics business	(420)		(420)	
Interest expense, net		361	521	959
Provision for income taxes		360	431	1,381
Loss from discontinued operations	$ (654)	$ (2,032)	$ (3,235)	$ (1,997)

Loss from discontinued operations in the table above includes expenses of $234 and $544 for the three- and nine-month periods ended April 1, 2007 respectively, and $354 and $1,673 for the three- and nine-month periods ended April 2, 2006, for legal fees and costs related to the Nilssen patent infringement claim (see Note 5 of Notes to Condensed Consolidated Financial Statements), environmental issues and asbestos claims related to businesses that the Company no longer owns.

During the fourth quarter of fiscal year 2006, the Company committed to a plan to divest its power electronics business. As a result, in June 2006, the Company classified the assets and liabilities of the power electronics business as held for sale and the results of this business as discontinued operations. The Company s power electronics business was comprised mainly of the Company s wholly-owned subsidiaries Magnetek S.p.A. (Italy), Magnetek Kft. (Hungary) and Magnetek Electronics Co., Ltd. (China), and a North American division located in Chatsworth, California. The Company entered into an agreement to sell the business to Power-One, Inc. (see Note 13 of Notes to Condensed Consolidated Financial Statements), and the transaction was completed in October, 2006.

During the third quarter of fiscal 2007 the Company and Power-One agreed upon the final purchase price adjustment related to the sale of the power electronics business. As a result, the Company made a payment of $2.3 million to Power One, based upon changes in the tangible net worth of the business and certain indemnified liabilities. The final settlement resulted in a loss on the sale of the power electronics business, net of amounts previously recorded, of $420.

The results of the Company s power electronics business were as follows:

	Three Months Ended		Nine Months Ended	
	April 1, 2007	April 2, 2006	April 1, 2007	April 2, 2006
Net sales	$	$ 37,551	$ 53,545	$ 111,511
Income (loss) from discontinued operations before interest and income taxes	$	$ (957)	$ (1,319)	$ 2,016
Interest expense, net		361	521	959
Provision for income taxes		360	431	1,381
Loss from discontinued operations power electronics business	$	$ (1,678)	$ (2,271)	$ (324)

Assets and liabilities of the Company s power electronics business classified as held for sale as of July 2, 2006, were as follows:

Assets and Liabilities of Discontinued Power Electronics Business	**July 2, 2006**
Cash and equivalents	$ 1,491
Accounts receivable	51,431
Inventories	45,438
Net property, plant and equipment	27,320
Other assets	18,485
Assets of discontinued power electronics business	$ 144,165
Eliminations	(3,616)
Total assets	$ 140,549
Accounts payable	$ 34,985
Other current liabilities	5,926
Other long term liabilities	10,728
Long term debt	24,294
Liabilities of discontinued power electronics business	$ 75,933

During fiscal 2005, the Company committed to a plan to divest its telecom power business, and as a result, classified the telecom power business assets and liabilities as held for sale and the results of the business as discontinued operations. The Company did not complete the divestiture of its telecom power business despite actively marketing the business to potential interested parties at a reasonable price. In October 2006, the Company decided to retain the business, and accordingly, the operating results of its telecom power business have been classified as continuing operations in the accompanying condensed consolidated statements of operations and its assets and liabilities have been reclassified from held for sale to held and used in the accompanying consolidated balance sheets for all periods presented.

3. Stock-Based Compensation

Effective July 4, 2005, the Company adopted SFAS No. 123 (R), *Share-Based Payment*, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the Company s financial statements based upon their fair values. The Company selected the modified prospective method of adoption in which compensation cost is recognized beginning with the effective date. In accordance with the modified prospective method of adoption, the Company s results of operations for prior periods were not restated.

Compensation expense related to director stock option grants in the three- and nine-month periods ended April 1, 2007 was $10 and $85 respectively. As of April 1, 2007, there was $28 of total unrecognized compensation cost related to director grants, to be expensed ratably over a weighted-average remaining period of 1.25 years.

In August 2005, the Company granted 500,000 shares of restricted stock (the August 2005 stock grant) with a fair value of $2.77 per share to certain officers and key employees. The restricted shares fully vest on January 1, 2009. The divestiture of the Company s power electronics business in October 2006 resulted in the forfeiture of 90,000 shares of the August 2005 stock grant from employees of the business. The divestiture also resulted in the termination of several corporate officers and the accelerated vesting of 175,000 shares of the August 2005 stock grant that were granted to these officers. Compensation expense related to the August 2005 stock grant in the three- and nine-month periods ended April 1, 2007 was $48 and $335 respectively. As of April 1, 2007, there was $339 of total unrecognized compensation cost related to the grant, to be expensed ratably over a weighted-average remaining period of 1.75 years.

In July 2006, the Company granted a bonus equal to 200,000 shares of common stock to its former CEO who elected to defer the shares pursuant to the terms of the Director and Officer Compensation and Deferral Investment Plan (DDIP) pending approval of an amendment to the DDIP by the Company s shareholders. Such amendment was approved at the annual meeting of the shareholders on October 25, 2006. The Company recorded compensation expense of $952 related to the bonus in the nine-month period ended April 1, 2007.

In January, 2007, the Company issued an aggregate of 100,000 stock options at exercise prices of $5.31 and $5.83, equal to the market prices of the Company s common stock at the respective grant dates. The shares vest ratably over a four year period. Compensation expense related to the January 2007 option grants in the three- and nine-month periods ended April

1, 2007 was $16. As of April 1, 2007, there was $328 of total unrecognized compensation cost related to the grants, to be expensed ratably over a weighted-average remaining period of 3.75 years.

Also in January 2007, the Company granted an aggregate of 90,000 shares of restricted stock to certain officers which vest on January 1, 2010 and also entered into an agreement with the Company s CEO whereby the CEO will receive cash bonuses payable quarterly in an amount equal to the fair market value of 6,250 shares of common stock (for a total of 12 payments with a total value equal to 75,000 shares). The Company s CEO has elected to defer the bonus payments pursuant to the terms of the DDIP. Payments under the DDIP are made in shares of common stock and the amounts deferred are paid in January following the year in which the termination of service as a key executive occurs. The shares awarded under both of these arrangements had a fair value of $4.98 per share at the grant date. Compensation expense of $68 was included in the condensed consolidated statements of operations for the three- and nine-month periods ended April 1, 2007, and as of April 1, 2007, there was $754 of total unrecognized compensation remaining, to be expensed ratably over a weighted-average remaining period of 2.75 years.

Compensation expense related to all stock-based awards for the three- and nine-month periods ended April 1, 2007 was as follows:

	April 1, 2007 Three months ended	**Nine months ended**
August 2005 restricted stock grant	$ 48	$ 335
Bonus to the Company s former CEO		952
January 2007 stock option grant	16	16
January 2007 restricted stock grant and CEO bonus	68	68
Director stock options	10	85
	$ 142	$ 1,456

4. <u>Inventories</u>

Inventories at April 1, 2007 and July 2, 2006 consist of the following:

	April 1, 2007	**July 2, 2006**
Raw materials and stock parts	$ 10,500	$ 10,210
Work-in-process	1,972	1,637
Finished goods	2,181	1,287
	$ 14,653	$ 13,134

5. <u>Commitments and Contingencies</u>

Litigation Product Liability

The Company has settled or otherwise resolved all of the product liability lawsuits associated with its discontinued business operations. The last remaining limited obligation to defend and indemnify the purchaser of a discontinued business operation against new product liability claims expired in December 2003 and the Company believes that any new claims would either qualify as an assumed liability, as defined in the various purchase agreements, or would be barred by an applicable statute of limitations.   The Company is also a named party in two product liability lawsuits related to the Telemotive Industrial Controls business acquired in December 2002 through the purchase of the stock of MXT Holdings, Inc.   Both claims were tendered to the insurance companies that provided coverage for MXT Holdings, Inc., against such claims and the defense and indemnification has been accepted by the carriers, subject to a reservation of rights. Management believes that the insurers will bear all liability, if any, with respect to both cases and that the proceedings, individually or in the aggregate, will not have a material adverse effect on the Company s results of operations or financial position.

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 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

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insurance carrier and legal counsel has been retained to represent the Company. Plaintiff s claim for damages is unknown at this time, but management believes that the Company s insurer will bear all liability for the claim, if any.

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 is either contractually indemnified against liability for asbestos-related claims or believes that it has no liability for such claims. The Company aggressively seeks dismissal from these proceedings, and has also tendered the defense of these cases to the insurers of the previously acquired businesses and is awaiting their response. The Company has also filed a late claim in the amount of $2.5 million in the Federal-Mogul bankruptcy proceedings to recover attorney s fee paid for the defense of these claims, which the Company believes is an obligation of Federal Mogul although the claim is subject to challenge. 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

In April 1998, Ole K. Nilssen (Nilssen) filed a lawsuit in the U.S. District Court for the Northern District of Illinois alleging infringement by the Company of seven of his patents pertaining to electronic ballast technology, and seeking unspecified damages and injunctive relief to preclude the Company from making, using or selling products allegedly infringing his patents. The Company denied that its products infringed any valid patent and filed a response asserting affirmative defenses, as well as a counterclaim for a judicial declaration that its products do not infringe the patents asserted by Mr. Nilssen and also that the asserted patents are invalid. In June 2001, the Company sold its lighting business to Universal Lighting Technologies, Inc. (ULT), and agreed to provide a limited indemnification against certain claims of infringement that Nilssen might allege against ULT. In April 2003, Nilssen s lawsuit and the counterclaims were dismissed with prejudice and both parties agreed to submit limited issues in dispute to binding arbitration before an arbitrator with a relevant technical background. The arbitration occurred in November, 2004 and a decision awarding Nilssen $23.4 million was issued on May 3, 2005, to be paid within ten days of the award. Nilssen s counsel filed a motion to enter the award in U.S. District Court for the Northern District of Illinois, and Magnetek filed a counter-motion to vacate the award for a number of reasons, including that the award was fraudulently obtained. Magnetek s request for oral argument was granted and the hearing took place on October 19, 2005. A decision has not been announced. An unfavorable decision by the Court would likely result in payment of the award to Nilssen.

In February 2003, Nilssen filed a second lawsuit in the U.S. District Court for the Northern District of Illinois alleging infringement by ULT of twenty-nine of his patents pertaining to electronic ballast technology, and seeking unspecified damages and injunctive relief to preclude ULT from making, using or selling products allegedly infringing his patents. ULT made a claim for indemnification, which the Company accepted, subject to the limitations set forth in the sale agreement. The case is now pending in the Central District of Tennessee. Nilssen voluntarily dismissed all but four of the patents from the lawsuit. The Company denies that the products for which it has an indemnification obligation to ULT infringe any valid patent and responded on behalf of ULT asserting affirmative defenses, as well as a counterclaim for a judicial declaration that the patents are unenforceable and invalid and that the products do not infringe Nilssen s patents. ULT requested a re-examination of the patents at issue by the Patent and Trademark Office and the request was granted. Meanwhile, the case against ULT has been stayed pending Nilssen s appeal of an unfavorable decision against him in another case that could influence the outcome of his lawsuits against ULT. The Company will continue to aggressively defend the claims against ULT that are subject to defense and indemnification; however, an unfavorable decision could have a material adverse effect on the Company s financial position, cash flows and results of operations.

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 three and nine months ended April 1, 2007 and April 2, 2006.

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 facilities and offsite locations. 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.

Century Electric (McMinnville, Tennessee)

Prior to the Company s purchase of Century Electric, Inc. (Century Electric) in 1986, Century Electric acquired a business from Gould Inc. (Gould) in May 1983 that included a leasehold interest in a fractional horsepower electric motor manufacturing facility located in McMinnville, Tennessee. Gould agreed to indemnify Century Electric from and against liabilities and expenses arising out of the handling and cleanup of certain waste materials, including but not limited to cleaning up any polychlorinated biphenyls (PCBs) at the McMinnville facility (the 1983 Indemnity). The presence of PCBs and other substances, including solvents, in the soil and in the groundwater underlying the facility and in certain offsite soil, sediment and biota samples has been identified. The McMinnville plant is listed as a Tennessee Inactive Hazardous Waste Substance Site and plant employees were notified of the presence of contaminants at the facility. Gould has completed an interim remedial excavation and disposal of onsite soil containing PCBs and a preliminary investigation and cleanup of certain onsite and offsite contamination. The Company believes the cost of further investigation and remediation (including ancillary costs) is covered by the 1983 Indemnity. The Company sold its leasehold interest in the McMinnville plant in August 1999 and while the Company believes that Gould will continue to substantially perform under its indemnity obligations, Gould s failure to perform such obligations could have a material adverse effect on the Company s financial position, cash flows and results of operations.

Effect of Fruit of the Loom Bankruptcy (Bridgeport, Connecticut)

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 include 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. FOL s obligation to the state of Connecticut was not discharged in the reorganization proceeding. In October 2006, the owner of the Bridgeport facility filed a lawsuit in Superior Court, J.D. of Fairfield, Connecticut alleging that the Company is obligated to remediate environmental contamination at the facility. The Company has filed a Motion to Stay and Remand the matter to the Connecticut Department of Environmental Protection (DEP) on the basis that DEP has primary jurisdiction to determine the need and responsibility for any further remediation. DEP recently 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. FOL s inability to satisfy its remaining obligations related to the Bridgeport facility and any offsite disposal locations, or 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.

6. Comprehensive Loss

For the fiscal periods ended April 1, 2007 and April 2, 2006, comprehensive loss consisted of the following:

	Three Months Ended		Nine Months Ended	
	April 1, 2007	**April 2, 2006**	**April 1, 2007**	**April 2, 2006**
Net loss	$ (419)	$ (4,430)	$ (9,828)	$ (7,209)
Currency translation adjustment	7	1,247	(170)	1,404
Comprehensive loss	$ (412)	$ (3,183)	$ (9,998)	$ (5,805)

7. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share for the three- and nine-months ended April 1, 2007 and April 2, 2006:

	Three Months Ended		Nine Months Ended	
	April 1, 2007	April 2, 2006	April 1, 2007	April 2, 2006
Numerator:				
Income (loss) from continuing operations	$ 235	$ (2,398)	$ (6,593)	$ (5,212)
Loss from discontinued operations	(654)	(2,032)	(3,235)	(1,997)
Net loss	$ (419)	$ (4,430)	$ (9,828)	$ (7,209)
Denominator:				
Weighted average shares for basic earnings per share	29,616	28,911	29,497	28,905
Add dilutive effective of stock based compensation	653			
Weighted average shares for diluted earnings per share	30,269	28,911	29,497	28,905
Basic & Diluted:				
Income (loss) per share from continuing operations	$ 0.01	$ (0.08)	$ (0.22)	$ (0.18)
Loss per share from discontinued operations	$ (0.02)	$ (0.07)	$ (0.11)	$ (0.07)
Net loss per share	$ (0.01)	$ (0.15)	$ (0.33)	$ (0.25)

Outstanding options to purchase 4.2 million and 7.2 million shares of common stock for the three months ended April 1, 2007 and April 2, 2006, respectively, were not included in the Company s computation of weighted average shares for diluted earnings per share because the effect would have been anti-dilutive. Similarly, outstanding options to purchase 4.3 million and 7.3 million shares of common stock for the nine months ended April 1, 2007 and April 2, 2006, respectively, were not included in the Company s computation of weighted average shares for diluted earnings per share because the effect would have been anti-dilutive.

8. 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 nine-month periods ended April 1, 2007 and April 2, 2006 were as follows:

	Nine Months Ended	
	April 1, 2007	April 2, 2006
Balance, beginning of fiscal year	$ 430	$ 310
Additions charged to earnings for product warranties	218	423
Use of reserve for warranty obligations	(313)	(397)
Balance, end of period	$ 335	$ 336

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

9. Restructuring Costs

As a result of the divestiture of the Company s power electronics business in October, 2006 the Company downsized and relocated its corporate office to Menomonee Falls, Wisconsin from Chatsworth, California. In addition, the Company decided to retain and restructure the telecom power business, including relocating the manufacturing operations from Dallas, Texas to Menomonee Falls.

The condensed consolidated statement of operations for the nine-month period ended April 1, 2007, includes severance costs of $1.9 million related to downsizing the corporate office, of which $0.6 million is included in research and

development expense and $1.3 million is included in selling, general and administrative expense. All of the severance amounts were paid by the end of the Company s third quarter of fiscal 2007.

Costs incurred related to the restructuring and relocation of the telecom power business, including inventory charges and duplicate facility and labor costs, of $0.3 million and $1.2 million are included in cost of sales in the condensed consolidated statements of operations for the three- and nine-month periods ended April 1, 2007, respectively.

The Company completed these restructuring activities during the third quarter of fiscal 2007.

10. Pension Expense

For the three- and nine-month periods ended April 1, 2007 and April 2, 2006, pension expense related to the Company s defined benefit pension plan consisted of the following:

	Three Months Ended		Nine Months Ended
	April 1,	April 2,	