

MAGNETEK, INC.  
Form 10-Q  
August 09, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: July 1, 2012

OR

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

(State or other jurisdiction of  
incorporation or organization)

N49 W13650 Campbell Drive

Menomonee Falls, Wisconsin 53051

(Address of principal executive offices)

95-3917584

(I.R.S. Employer  
Identification Number)

(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller Reporting Company [ X ]

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

Yes [ ] No [X]

The number of shares outstanding of Registrant’s Common Stock, as of August 1, 2012, was 3,170,520 shares.

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FISCAL YEAR 2012 MAGNETEK FORM 10-Q

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FOR THE FISCAL QUARTER ENDED JULY 1, 2012

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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)<br>July 1,<br>2012 | (13 Weeks)<br>July 3,<br>2011 |
| Net sales  | \$29,001                      | \$31,058                      |
| Cost of sales  | 18,846                        | 20,659                        |
| Gross profit   | 10,155                        | 10,399                        |
| Operating expenses:                                    |                               |                               |
| Research and development                               | 955                           | 1,174                         |
| Pension expense  | 1,675                         | 1,595                         |
| Selling, general and administrative                    | 4,985                         | 5,992                         |
| Total operating expenses                               | 7,615                         | 8,761                         |
| Income from continuing operations before income taxes  | 2,540                         | 1,638                         |
| Provision for income taxes                             | 267                           | 102                           |
| Income from continuing operations                      | 2,273                         | 1,536                         |
| Income (loss) from discontinued operations, net of tax | 946                           | (351 )                        |
| Net income   | \$3,219                       | \$1,185                       |
| Earnings per common share - basic:                     |                               |                               |
| Income from continuing operations                      | \$0.72                        | \$0.49                        |
| Income (loss) from discontinued operations             | 0.30                          | (0.11 )                       |
| Net income per common share                            | \$1.02                        | \$0.38                        |
| Earnings per common share - diluted:                   |                               |                               |
| Income from continuing operations                      | \$0.70                        | \$0.48                        |
| Income (loss) from discontinued operations             | 0.29                          | (0.11 )                       |
| Net income per common share                            | \$0.99                        | \$0.37                        |
| Weighted average shares outstanding:                   |                               |                               |
| Basic  | 3,168                         | 3,136                         |
| Diluted  | 3,265                         | 3,198                         |

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              |                               |
|--|-------------------------------|-------------------------------|
|  | (26 Weeks)<br>July 1,<br>2012 | (26 Weeks)<br>July 3,<br>2011 |
| Net sales  | \$57,726                      | \$58,889                      |
| Cost of sales  | 36,930                        | 39,746                        |
| Gross profit   | 20,796                        | 19,143                        |
| Operating expenses:                                    |                               |                               |
| Research and development                               | 1,945                         | 2,291                         |
| Pension expense  | 3,350                         | 3,189                         |
| Selling, general and administrative                    | 10,510                        | 10,543                        |
| Total operating expenses                               | 15,805                        | 16,023                        |
| Income from continuing operations before income taxes  | 4,991                         | 3,120                         |
| Provision for income taxes                             | 543                           | 343                           |
| Income from continuing operations                      | 4,448                         | 2,777                         |
| Income (loss) from discontinued operations, net of tax | 5,652                         | (621 )                        |
| Net income   | \$10,100                      | \$2,156                       |
| Earnings per common share - basic:                     |                               |                               |
| Income from continuing operations                      | \$1.41                        | \$0.89                        |
| Income (loss) from discontinued operations             | 1.79                          | (0.20 )                       |
| Net income per common share                            | \$3.20                        | \$0.69                        |
| Earnings per common share - diluted:                   |                               |                               |
| Income from continuing operations                      | \$1.37                        | \$0.87                        |
| Income (loss) from discontinued operations             | 1.74                          | (0.20 )                       |
| Net income per common share                            | \$3.11                        | \$0.67                        |
| Weighted average shares outstanding:                   |                               |                               |
| Basic  | 3,165                         | 3,135                         |
| Diluted  | 3,251                         | 3,192                         |

See accompanying notes

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MAGNETEK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands, unaudited)

|  | Three Months Ended |                 | Six Months Ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | July 1,<br>2012    | July 3,<br>2011 | July 1,<br>2012  | July 3,<br>2011 |
| Net income                                 | \$3,219            | \$1,185         | \$10,100         | \$2,156         |
| Change in unrecognized pension liability   | 2,000              | 1,682           | 4,000            | 3,364           |
| Change in currency translation adjustments | (96                | ) 26            | 19               | 176             |
| Comprehensive income                       | \$5,123            | \$2,893         | \$14,119         | \$5,696         |

See accompanying notes

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

| ASSETS                                      | July 1,<br>2012<br>(Unaudited) | January 1,<br>2012 |
|---|--------------------------------|--------------------|
| Current assets:                             |                                |                    |
| Cash and cash equivalents                   | \$27,003                       | \$20,594           |
| Restricted cash                             | 262                            | 262                |
| Accounts receivable, net                    | 18,512                         | 16,739             |
| Inventories                                 | 13,813                         | 13,705             |
| Prepaid expenses and other current assets   | 532                            | 932                |
| Total current assets                        | 60,122                         | 52,232             |
| Property, plant and equipment               | 22,491                         | 21,873             |
| Less: accumulated depreciation              | 18,322                         | 17,887             |
| Net property, plant and equipment           | 4,169                          | 3,986              |
| Goodwill                                    | 30,469                         | 30,465             |
| Other assets                                | 5,387                          | 5,322              |
| Total Assets                                | \$100,147                      | \$92,005           |
| <br>LIABILITIES AND STOCKHOLDERS' DEFICIT   |                                |                    |
| Current liabilities:                        |                                |                    |
| Accounts payable                            | \$11,123                       | \$14,373           |
| Accrued liabilities                         | 7,327                          | 6,504              |
| Total current liabilities                   | 18,450                         | 20,877             |
| Pension benefit obligations, net            | 93,601                         | 98,108             |
| Other long term obligations                 | 1,473                          | 1,517              |
| Deferred income taxes                       | 7,708                          | 7,248              |
| Commitments and contingencies               |                                |                    |
| Stockholders' deficit                       |                                |                    |
| Common stock                                | 32                             | 32                 |
| Paid in capital in excess of par value      | 141,284                        | 140,743            |
| Retained earnings                           | 11,433                         | 1,333              |
| Accumulated other comprehensive loss        | (173,834)                      | (177,853)          |
| Total stockholders' deficit                 | (21,085)                       | (35,745)           |
| Total Liabilities and Stockholders' Deficit | \$100,147                      | \$92,005           |

See accompanying notes

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MAGNETEK, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands, unaudited)

|   | Six Months Ended              |                               |
|---|-------------------------------|-------------------------------|
|   | (26 Weeks)<br>July 1,<br>2012 | (26 Weeks)<br>July 3,<br>2011 |
| Cash flows from operating activities:   |                               |                               |
| Net income  | \$10,100                      | \$2,156                       |
| (Income) loss from discontinued operations  | (5,652                        | ) 621                         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                               |                               |
| Depreciation  | 433                           | 475                           |
| Amortization of intangible assets   | 27                            | 26                            |
| Stock based compensation expense  | 399                           | 288                           |
| Pension expense   | 3,350                         | 3,189                         |
| Deferred income tax provision   | 460                           | 356                           |
| Changes in operating assets and liabilities   | (2,987                        | ) 2,815                       |
| Cash contribution to pension fund   | (3,857                        | ) (3,030                      |
| Net cash provided by (used in) operating activities - continuing operations                 | 2,273                         | 6,896                         |
| Net cash provided by (used in) operating activities - discontinued operations               | 4,610                         | (798                          |
| Net cash provided by (used in) operating activities   | 6,883                         | 6,098                         |
| Cash flows from investing activities:   |                               |                               |
| Capital expenditures  | (614                          | ) (549                        |
| Net cash provided by (used in) investing activities - continuing operations                 | (614                          | ) (549                        |
| Net cash provided by (used in) investing activities - discontinued operations               | —                             | —                             |
| Net cash provided by (used in) investing activities   | (614                          | ) (549                        |
| Cash flow from financing activities:  |                               |                               |
| Proceeds from issuance of common stock  | 161                           | 143                           |
| Purchase and retirement of treasury stock   | (19                           | ) —                           |
| Principal payments under capital lease obligations  | (2                            | ) (2                          |
| Net cash provided by (used in) financing activities - continuing operations                 | 140                           | 141                           |
| Net cash provided by (used in) financing activities - discontinued operations               | —                             | —                             |
| Net cash provided by (used in) financing activities   | 140                           | 141                           |
| Net increase (decrease) in cash   | 6,409                         | 5,690                         |
| Cash at the beginning of the period   | 20,594                        | 6,579                         |
| Cash at the end of the period   | \$27,003                      | \$12,269                      |

See accompanying notes



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MAGNETEK, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JULY 1, 2012

(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 Transition Report on Form 10-K for the six-month transition period ended January 1, 2012, 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 July 1, 2012, and the results of its operations and cash flows for the three- and six-month periods ended July 1, 2012, and July 3, 2011. Results for the six months ended July 1, 2012, are not necessarily indicative of results that may be experienced for the full fiscal year.

Fiscal Year

In August 2011, the Company’s Board of Directors approved a change in the Company’s fiscal year-end from the Sunday nearest to June 30 to the Sunday nearest to December 31, which was effective as of January 2, 2012. Fiscal quarters are the 13 or 14 week periods ending on the Sunday nearest March 31, June 30, September 30, and December 31. The three- and six-month periods ended July 1, 2012 and July 3, 2011, each contained 13 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.

Reverse Stock Split

All references to number of common shares and per-share information in this quarterly report on Form 10-Q have been adjusted retroactively to reflect the one for ten reverse stock split effected by the Company on December 5, 2011.

#### Recent Accounting Pronouncements

On January 2, 2012, the Company adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") 2011-05, an amendment to Accounting Standards Codification 220, Comprehensive Income. ASU 2011-05 introduces a new statement, the Consolidated Statement of Comprehensive Income, which begins with net earnings and adds or deducts other recognized changes in assets and liabilities that are not included in net earnings, but are reported directly to equity. For example, unrealized changes in currency translation adjustments are included in the measure of comprehensive income but are excluded from net income. The amendment affects only the display of those components of equity categorized as other comprehensive income and does not change existing recognition and measurement requirements that determine net earnings.

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## Evaluation of Subsequent Events

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 fiscal quarter ended on July 1, 2012.

## 2. Discontinued Operations

Certain expenses incurred related to businesses the Company no longer owns are classified as discontinued operations in the accompanying condensed consolidated financial statements. Expenses related to previously divested businesses have historically included environmental matters, asbestos claims, and product liability claims incurred in connection with indemnification agreements the Company entered into upon divestiture of those businesses.

In January 2012, the Company entered into a settlement agreement with Kirkland & Ellis LLP ("K&E"). Magnetek and K&E were involved in lawsuits in federal and state courts in Illinois in connection with K&E's representation of the Magnetek in a patent infringement matter related to the Company's divested lighting business. Under terms of the settlement agreement, all outstanding claims were settled and released, and the state and federal court proceedings were dismissed with prejudice in consideration of K&E making a payment to Magnetek of \$5 million. The Company received full payment from K&E and both the federal proceeding and the Illinois Supreme Court proceeding were dismissed in January 2012. The impact of the settlement agreement is reflected in the Company's results of discontinued operations for the six months ended July 1, 2012.

The condensed consolidated balance sheet as of July 1, 2012, includes certain accrued liabilities which represent the Company's best estimate of remaining contingent liabilities related to the indemnification provisions included in the sale agreements of divested businesses. The results of discontinued operations for the three- and six-month periods ended July 1, 2012, include a gain of \$1.1 million resulting from non-cash adjustments of liabilities related to previously owned 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:

|                               | July 1,<br>2012 | January 1,<br>2012 |
|-------------------------------|-----------------|--------------------|
| Raw materials and stock parts | \$8,565         | \$9,042            |
| Work-in-process               | 1,497           | 1,174              |
| Finished goods                | 3,751           | 3,489              |
|                               | \$13,813        | \$13,705           |

## 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. In June 2012, the parties engaged in mediation and reached a settlement in principle, under the terms of

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which the Company is not required to make any monetary contribution toward the settlement amount. Finalization of the settlement is pending Court approval.

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 and either 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.

Given the nature of the above issues, uncertainty of the ultimate outcome, and inability to estimate the potential loss, no amounts have been reserved for these matters.

### Litigation-Other

In October 2010, the Company received a request for indemnification from Power-One for an Italian tax matter arising out of the sale of the Company's power electronics business to Power-One in October 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\$2.3 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\$3.1 million) for the alleged failure of the Power-One China Subsidiary to 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 tax authority in Arezzo, Italy issued a tax inspection report in January 2011 for the periods July 2002 to June 2003 and July 2004 to December 2006 claiming that the Power-One China Subsidiary failed to file Italian tax returns for the reported periods. A hearing before the Tax Court was held on July 5, 2012. The Company believes the Italian tax claims are without merit and intends to vigorously defend against them.

### 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 second quarter of fiscal year 2012.

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 utilized, owned or leased facilities and offsite locations. Its remediation activities as a potentially responsible party were not material in the second quarter of fiscal year 2012. 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

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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.

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 and the DEP agreed to the scope of the work plan in November 2010. The Company has recorded a liability of \$0.6 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 consolidated balance sheet as of July 1, 2012.

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 Company, LLC ("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 operated by the Company. 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. 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 to the state of Connecticut related to the Bridgeport facility and any offsite disposal locations, 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.

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## 5. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share for the three-month periods ended July 1, 2012, and July 3, 2011:

|  | Three Months Ended |                 | Six Months Ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | July 1,<br>2012    | July 3,<br>2011 | July 1,<br>2012  | July 3,<br>2011 |
| Numerator:   |                    |                 |                  |                 |
| Income from continuing operations                    | \$2,273            | \$1,536         | \$4,448          | \$2,777         |
| Income (loss) from discontinued operations           | 946                | (351 )          | 5,652            | (621 )          |
| Net income   | \$3,219            | \$1,185         | \$10,100         | \$2,156         |
| Denominator:   |                    |                 |                  |                 |
| Weighted average shares - basic earnings per share   | 3,168              | 3,136           | 3,165            | 3,135           |
| Add dilutive effective of stock based compensation   | 97                 | 62              | 86               | 57              |
| Weighted average shares - diluted earnings per share | 3,265              | 3,198           | 3,251            | 3,192           |
| Income (loss) per share - basic:                     |                    |                 |                  |                 |
| Continuing operations                                | \$0.72             | \$0.49          | \$1.41           | \$0.89          |
| Discontinued operations                              | \$0.30             | \$(0.11 )       | \$1.79           | \$(0.20 )       |
| Net income per share                                 | \$1.02             | \$0.38          | \$3.20           | \$0.69          |
| Income (loss) per share - diluted:                   |                    |                 |                  |                 |
| Continuing operations                                | \$0.70             | \$0.48          | \$1.37           | \$0.87          |
| Discontinued operations                              | \$0.29             | \$(0.11 )       | \$1.74           | \$(0.20 )       |
| Net income per share                                 | \$0.99             | \$0.37          | \$3.11           | \$0.67          |

Outstanding options to purchase 178 thousand and 179 thousand shares of common stock as of July 1, 2012, and July 3, 2011, respectively, 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.

## 6. 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 July 1, 2012, and July 3, 2011, are as follows:

|   | Six Months Ended |                 |
|---|------------------|-----------------|
|   | July 1,<br>2012  | July 3,<br>2011 |
| Balance, beginning of fiscal year                 | \$689            | \$507           |
| Changes in product warranties charged to earnings | 130              | 428             |
| Use of reserve for warranty obligations           | (107 )           | (391 )          |
| Balance, end of period                            | \$712            | \$544           |

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





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## 7. Pension Expense

Pension expense related to the Company's defined benefit pension plan for the three- and six-month periods ended July 1, 2012, and July 3, 2011, follows:

|                                 | Three Months Ended |                 | Six Months Ended |                 |
|---------------------------------|--------------------|-----------------|------------------|-----------------|
|                                 | July 1,<br>2012    | July 3,<br>2011 | July 1,<br>2012  | July 3,<br>2011 |
| Interest cost                   | \$2,125            | \$2,376         | \$4,250          | \$4,751         |
| Expected return on plan assets  | (2,450)            | (2,463)         | (4,900)          | (4,926)         |
| Recognized net actuarial losses | 2,000              | 1,682           | 4,000            | 3,364           |
| Total net pension expense       | \$1,675            | \$1,595         | \$3,350          | \$3,189         |

In February 2011, the Company filed an application with the Internal Revenue Service ("IRS") for a waiver of its minimum required contributions for pension plan year 2011. The amount of the waiver requested was approximately \$17 million, scheduled to be funded in quarterly installments from April 2011 through January 2012, with a final contribution due in September 2012. The waiver request was approved by the IRS in October 2011, and as a result, the Company did not make any contributions to the plan for plan year 2011. Rather, the 2011 plan year required contributions of \$17 million were deferred and will be amortized with interest at a rate of 6% over plan years 2012 through 2016.

Required quarterly contributions to the pension plan resumed in April 2012, and accordingly, the Company contributed \$3.9 million to its pension plan assets. In July 2012, subsequent to the end of the second quarter of fiscal 2012, the Company made the second required quarterly pension contribution of fiscal 2012 in an amount of \$3.9 million. The Company expects to make its third and final contribution of fiscal 2012 in October 2012, also in an amount of \$3.9 million.

The Company disclosed in its Transition Report on Form 10-K for the six-month transition period ended January 1, 2012, that the estimated minimum contributions to the Company's pension plan for fiscal years 2013 and 2014 aggregated \$52 million. Federal legislation signed into law on July 6, 2012, allows pension plan sponsors to use an adjusted 25-year average corporate bond rate versus the current two-year average. Use of the 25-year average rate is expected to result in higher interest rate assumptions in valuing plan liabilities and in determining funding obligations, which in turn will result in lower minimum required contributions for plan sponsors in the near term. As a result of these legislative changes, the Company now estimates that fiscal 2013 minimum required pension contributions will decrease to \$19 million from the previously expected amount of \$26 million. In addition, fiscal 2014 minimum required contributions are currently estimated at \$24 million from the previously estimated amount of \$26 million. Estimated future contributions to achieve 100% funded status, as measured using current actuarial assumptions and in accordance with the recently enacted legislation, are projected to be approximately \$86 million.

## 8. 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 July 1, 2012, and July 3, 2011, includes \$230 of deferred income tax expense related to the increase in the Company's deferred tax liability resulting from the tax-deductible amortization of goodwill. The Company's provision for income taxes for the six-month

periods ended July 1, 2012, and July 3, 2011, includes \$460 and \$356, respectively, of deferred income tax expense related to the increase in the Company's deferred tax liability resulting from the tax-deductible amortization of goodwill. The remaining tax provision is comprised of income taxes of the Company's foreign subsidiary in Canada.

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### 9. 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 included 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.

The Company has subsequently entered into several amendments to the revolving facility, mainly to extend the maturity date of the revolving facility, to broaden the security interest of Associated Bank to collateralize all assets of the Company, and to establish or modify certain covenants with which the Company must comply under the terms of the amended revolving facility.

In December 2011, the Company and Associated Bank entered into the most recent fourth amendment to the revolving facility, the purpose of which was to (i) extend the maturity date of the revolving facility to June 15, 2013; (ii) increase the commitment amount of Associated Bank to \$12.5 million; (iii) establish minimum adjusted earnings before interest, taxes, depreciation and amortization requirements for the three-month periods ending December 31, 2011, through March 31, 2013; and (iv) establish maximum amounts the Company can contribute to its defined benefit pension plan during the term of the agreement.

There were no amounts outstanding on the amended revolving facility as of July 1, 2012. 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

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, mining and renewable energy applications. Our digital power control systems serve the needs of selected niches of traditional and emerging markets that are becoming increasingly dependent on “smart” power. We are North America's largest independent supplier of digital drives, radio controls, software and accessories for industrial cranes and hoists, and we are also the largest independent supplier of digital DC motion control systems for elevators. Customers include most of the industrial crane and hoist companies in North America and the world's leading elevator builders. In addition, we have a growing range of products for energy delivery applications, including motion control systems for mining equipment and power inverters for renewable energy applications. We are focused on providing our customers cost-effective power solutions that will improve efficiency, reduce costs, and save energy. Other trends in our served markets we believe we can capitalize on include the adoption of wireless control solutions, modernization and upgrade of installed equipment, and an increasing desire in our markets for added features, enhanced performance, and safer workplace environments. We believe that with our focus on innovation and our application expertise, combined with strong brand name recognition, broad product offerings and sales channel capabilities, we are well positioned to grow our business by gaining share in both our served markets as well as in new markets. Our operations are located in North America, predominantly in Menomonee Falls, Wisconsin, our Company headquarters.

Our product offerings for material handling applications include innovative power control systems, radio remote controls, and braking, collision-avoidance, and electrification subsystems, sold primarily to OEMs of overhead cranes and hoists. While we sell primarily to OEMs of overhead cranes and hoists, we spend a great deal of effort understanding the needs of end users to gain specification. We can combine our products with engineered services to provide complete customer-specific systems solutions. A primary driver of our growth in this market is our ability to improve our customers' operations and provide them with quantifiable, and in many cases, significant returns on invested capital.

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

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elevators. 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 for lower performance AC applications, and using our new product offerings to expand geographically.

Our product offerings for energy delivery applications include AC and DC drives for mining applications, as well as power inverters for renewable energy applications. We believe that energy needs will continue to grow significantly for the foreseeable future, and with our product offerings, we are positioned to capitalize on that growth. We have a wide variety of product offerings which are engineered to efficiently use available power, or which convert energy to usable power in an energy efficient manner. We have been a leading supplier of AC and DC digital motion control systems to underground coal mining equipment manufacturers for over 25 years. More recently we've developed and introduced power inverters which convert DC power from renewable energy sources to utility-grade AC power. We believe the best revenue growth opportunities in renewable energy markets are currently in the utility-scale solar market, which is expected to continue to grow in North America as solar power becomes increasingly competitive from a cost standpoint with more traditional methods of power generation.

We intend to continue to build on our competitive strengths in established material handling, elevator, and mining markets, while also continuing to market our product portfolio aimed at penetrating growing and emerging markets for digital power-based systems. We further intend to continue to pursue internal growth opportunities in our core product lines, seeking to increase our market share, enter new markets, and expand our current business model geographically.

### 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 growth initiatives, our operations and our obligations.

Throughout calendar year 2011, we experienced improving conditions and increasing demand in most of our major served markets, mainly in traditional industrial markets. Accordingly, both our sales and operating results improved steadily throughout 2011, and that trend has continued into fiscal 2012. While our 2012 second quarter sales decreased 7% to \$29.0 million from \$31.1 million in the comparable period last year, the majority of the decline was due to lower sales of wind power inverters. Sales of products with material handling applications, our largest served market, continued to grow in the second quarter of fiscal 2012, and increased more than 7% over the comparable period last year to nearly \$19 million.

Second quarter 2012 gross profit decreased to \$10.2 million, or 35.0% of sales, compared to \$10.4 million, or 33.5% of sales in the comparable period last year. The increase in our gross profit as a percentage of sales was due mainly to a shift in our sales mix, with higher sales volumes into traditional served industrial markets where margins are typically higher, and lower sales of lower margin products with renewable energy applications. We reported pre-tax income from operations of \$2.5 million, or approximately 8.8% of sales, in the second quarter of 2012, compared to prior year pre-tax income from operations of \$1.6 million, or 5.3% of sales. Diluted earnings per share from continuing operations increased 46% to \$0.70 per share in the second quarter of 2012, compared to \$0.48 per share in the same period of 2011. In addition, our cash balances increased more than \$1 million during the second quarter of 2012, even after contributing \$3.9 million to our defined benefit pension plan.

Our incoming order rate was solid during the second quarter of fiscal 2012, but as expected, was negatively impacted by declining orders for wind power inverters. Demand levels remain healthy in our traditional served industrial

markets, mainly for products with material handling applications. Manufacturing continues to be an area of strength in the U.S. economy, and we expect manufacturing activity and demand in most of our served industrial markets to continue to grow moderately during 2012.

Our declining incoming order rate for wind inverters is indicative of the challenging conditions that have persisted in renewable energy markets for some time, and we expect conditions in the wind market to remain soft for the foreseeable future. Renewable energy markets, like many emerging industries, are characterized by rapid changes in technology, market conditions, and available product solutions. Factors influencing end market conditions include the cost of competing traditional energy sources and the availability of government subsidies. Market conditions for inverter manufacturers have deteriorated considerably over the past year. A growing number of competitors combined

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with high levels of investment in research and development have led to a great deal of pricing pressure and significant reductions in profitability. We also believe that scale is becoming increasingly important in order to compete effectively. Over the past year, we've shifted our focus from wind to utility-scale solar, as we believe the North American solar market offers us better growth opportunities in renewable energy. We continue to directly market our one megawatt solar inverter to engineering, procurement and construction OEMs for utility-scale projects. However, receipt of any orders for solar inverters in the second half of 2012 will likely not result in revenue until 2013 due to lengthy solar project lead times.

Entering the third quarter, we have a healthy backlog of \$17 million, comprised almost entirely of orders for our traditional served markets. Accordingly, we're currently expecting a fairly steep decline in renewable energy sales in the third quarter. In response to the expected lower third quarter sales volume, we've recently taken actions to reduce our cost structure. We also believe we can offset part of the expected decline in revenue from renewable energy with higher sales of products for material handling applications. Finally, sales of our industrial products have higher gross margins than our renewable energy product offerings, and as a result, our sales mix in the third quarter should be more favorable than the past several quarters. In summary, while we're projecting sequentially lower sales and profitability in the third quarter, we expect to generate healthy levels of profit and cash flow, prior to pension contributions, in the third quarter.

Current forecasts indicate the U.S. economic recovery is slowing, and macro-economic conditions remain dynamic and fragile. As a result, 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. For the remainder of 2012, we intend to focus our development and marketing efforts on organic sales growth opportunities across all product lines. In addition, we are executing actions to prudently expand our reach into new end markets and geographical areas, and are also taking actions to reduce our cost structure and reallocate resources in those parts of our business which are not growing.

### 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 include 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 Transition Report on Form 10-K for the six-month transition period ended January 1, 2012.



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## Results of Operations - Three Months Ended July 1, 2012, and July 3, 2011

## Net Sales and Gross Profit

Net sales for the three months ended July 1, 2012, were \$29.0 million, a decrease of 7% from the three months ended July 3, 2011, sales of \$31.1 million. The decrease in sales was primarily due to lower sales of wind power inverters into renewable energy markets, partially offset by higher sales volumes into traditional served material handling and mining markets. Net sales by major market were as follows, in millions:

|                         | Three Months Ended |     | July 3, 2011 |     |   |
|-------------------------|--------------------|-----|--------------|-----|---|
|                         | July 1, 2012       |     |              |     |   |
| Material handling       | \$18.9             | 65  | % \$17.6     | 57  | % |
| Elevator motion control | 5.3                | 18  | % 5.6        | 18  | % |
| Energy systems          | 4.8                | 17  | % 7.9        | 25  | % |
| Total net sales         | \$29.0             | 100 | % \$31.1     | 100 | % |

Gross profit for the three months ended July 1, 2012, was \$10.2 million, or 35.0% of sales, versus \$10.4 million, or 33.5% of sales, for the three months ended July 3, 2011. The increase in gross profit as a percentage of sales for the three months ended July 1, 2012, as compared to the three months ended July 3, 2011, was mainly due to a favorable shift in the Company's sales mix, with increased sales of higher margin material handling products.

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

Research and development ("R&D") expense was \$1.0 million, or 3.3% of sales, for the three months ended July 1, 2012, a decrease of \$0.2 million compared to R&D expense of \$1.2 million, or 3.8% of sales, for the three months ended July 3, 2011, due mainly to completion of the Company's solar inverter product in early 2012.

Pension expense was \$1.7 million and \$1.6 million for the three months ended July 1, 2012 and July 3, 2011, respectively (see Note 7 of Notes to Condensed Consolidated Financial Statements). The increase in pension expense was mainly due to increased amortization of actuarial losses resulting from declining interest rates experienced during 2011.

Selling, general and administrative ("SG&A") expense was \$5.0 million (17.2% of sales) for the three months ended July 1, 2012, versus \$6.0 million (19.3% of sales) for the three months ended July 3, 2011. Selling expenses in the three months ended July 1, 2012, increased to \$3.0 million from \$2.7 million in the three months ended July 3, 2011, mainly due to higher commissions and higher discretionary spending. General and administrative ("G&A") expense decreased to \$2.0 million for the three months ended July 1, 2012, from \$3.3 million for the three months ended July 3, 2011, mainly due to lower incentive compensation provisions.

## Income from Operations

Income from operations for the three months ended July 1, 2012, was \$2.5 million compared to income from operations of \$1.6 million for the three months ended July 3, 2011. The increase in income from operations for the three months ended July 1, 2012, as compared to the three months ended July 3, 2011, was mainly due to lower R&D and G&A expenses in the three months ended July 1, 2012, partially offset by lower gross profit due to lower sales volume and increased selling expenses.

## Interest Income

Interest income was negligible for the three months ended July 1, 2012 and July 3, 2011.

Provision for Income Taxes

We recorded a provision for income taxes of \$0.3 million and \$0.1 million for the three months ended July 1, 2012, and July 3, 2011, respectively. 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.

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## Income from Continuing Operations

We recorded income from continuing operations of \$2.3 million for the three months ended July 1, 2012, or \$0.70 per diluted share, compared to income from continuing operations of \$1.5 million for the three months ended July 3, 2011, or \$0.48 per diluted share.

## Income (Loss) from Discontinued Operations

We recorded income from discontinued operations for the three months ended July 1, 2012, of \$0.9 million, or \$.29 per share on a diluted basis, compared to a loss from discontinued operations of \$0.4 million, or a \$0.11 loss per share on a diluted basis, for the three months ended July 3, 2011. Income from discontinued operations in the three months ended July 1, 2012, includes a gain of \$1.1 million from non-cash adjustments of liabilities related to previously owned businesses, partially offset by certain legal and other expenses related to previously owned businesses (see Notes 2 and 4 of Notes to Condensed Consolidated Financial Statements). The loss from discontinued operations in the three months ended July 3, 2011, is comprised entirely of expenses related to previously divested businesses.

## Net Income

Our net income was \$3.2 million in the three months ended July 1, 2012, or \$.99 per diluted share, compared to net income of \$1.2 million in the three months ended July 3, 2011, or \$0.37 per share on a diluted basis.

## Results of Operations - Six Months Ended July 1, 2012, and July 3, 2011

## Net Sales and Gross Profit

Net sales for the six months ended July 1, 2012, were \$57.7 million, a decrease of 2% from the six months ended July 3, 2011, sales of \$58.9 million. The decrease in sales was primarily due to lower sales of wind power inverters into renewable energy markets and lower sales of products with elevator applications, partially offset by higher sales volumes into traditional served material handling and mining markets. Net sales by major market were as follows, in millions:

|                         | Six Months Ended |     | July 3, 2011 |     |   |
|-------------------------|------------------|-----|--------------|-----|---|
|                         | July 1, 2012     |     |              |     |   |
| Material handling       | \$37.2           | 65  | % \$31.5     | 54  | % |
| Elevator motion control | 10.5             | 18  | % 11.9       | 20  | % |
| Energy systems          | 10.0             | 17  | % 15.5       | 26  | % |
| Total net sales         | \$57.7           | 100 | % \$58.9     | 100 | % |

Gross profit for the six months ended July 1, 2012, was \$20.8 million, or 36.0% of sales, versus \$19.1 million, or 32.5% of sales, for the six months ended July 3, 2011. The increase in gross profit as a percentage of sales for the six months ended July 1, 2012, as compared to the six months ended July 3, 2011, was mainly due to a favorable shift in the Company's sales mix, with increased sales of higher margin material handling and mining products, and fewer sales of lower margin wind power inverters.

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

R&D expense was \$1.9 million, or 3.4% of sales, for the six months ended July 1, 2012, a decrease of \$0.4 million compared to R&D expense of \$2.3 million, or 3.9% of sales, for the six months ended July 3, 2011, due mainly to completion of the Company's solar inverter product in early 2012.

Pension expense was \$3.4 million and \$3.2 million for the six months ended July 1, 2012 and July 3, 2011, respectively (see Note 7 of Notes to Condensed Consolidated Financial Statements). The increase in pension expense was mainly due to increased amortization of actuarial losses resulting from declining interest rates experienced during 2011.

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SG&A expense was \$10.5 million (18.2% of sales) for the six months ended July 1, 2012, comparable to SG&A expense of \$10.5 million (17.9% of sales) for the six months ended July 3, 2011. Selling expenses in the six months ended July 1, 2012, increased to \$5.9 million from \$4.9 million in the six months ended July 3, 2011, mainly due to higher commissions from increased sales of material handling products, higher payroll costs, and higher discretionary spending. G&A expense decreased to \$4.6 million for the six months ended July 1, 2012, from \$5.6 million for the six months ended July 3, 2011, mainly due to lower incentive compensation provisions.

### Income from Operations

Income from operations for the six months ended July 1, 2012, was \$5.0 million compared to income from operations of \$3.1 million for the six months ended July 3, 2011. The increase in income from operations for the six months ended July 1, 2012, as compared to the six months ended July 3, 2011, was mainly due to higher gross profit on increased sales of material handling and mining products, and lower R&D and G&A expenses in the six months ended July 1, 2012, partially offset by increased selling expenses.

### Interest Income

Interest income was negligible for the six months ended July 1, 2012 and July 3, 2011.

### Provision for Income Taxes

We recorded a provision for income taxes of \$0.5 million and \$0.3 million for the six months ended July 1, 2012, and July 3, 2011, respectively, which includes non-cash deferred income tax provisions of \$0.5 million and \$0.4 million, respectively, related to changes in deferred tax liabilities from goodwill amortization for tax purposes.

### Income from Continuing Operations

We recorded income from continuing operations of \$4.4 million for the six months ended July 1, 2012, or \$1.37 per diluted share, compared to income from continuing operations of \$2.8 million for the six months ended July 3, 2011, or \$.87 per diluted share.

### Income (Loss) from Discontinued Operations

We recorded income from discontinued operations for the six months ended July 1, 2012, of \$5.7 million, or \$1.74 per share on a diluted basis, compared to a loss from discontinued operations of \$0.6 million, or a \$0.20 loss per share on a diluted basis, for the six months ended July 3, 2011. Income from discontinued operations in the six months ended July 1, 2012, includes a gain of \$5.0 million from a settlement agreement resulting in resolution of a legal matter (see Notes 2 and 4 of Notes to Condensed Consolidated Financial Statements). Income from discontinued operations in the six months ended July 1, 2012, also includes a gain of \$1.1 million from non-cash adjustments of liabilities related to previously owned businesses, partially offset by certain legal and other expenses related to previously owned businesses. The loss from discontinued operations in the six months ended July 3, 2011, is comprised entirely of expenses related to previously divested businesses.

### Net Income

Our net income was \$10.1 million in the six months ended July 1, 2012, or \$3.11 per diluted share, compared to net income of \$2.2 million in the six months ended July 3, 2011, or \$.67 per share on a diluted basis.

### Liquidity and Capital Resources

Our unrestricted cash and cash equivalent balance increased approximately \$6.4 million during the first six months of fiscal 2012, from \$20.6 million at January 1, 2012, to \$27.0 million at July 1, 2012. Restricted cash balances remained unchanged during the first six months of fiscal 2012 at \$0.3 million. The primary source of cash during the first six months of fiscal 2012 was income from continuing operations of \$4.4 million, which included non-cash charges aggregating \$4.7 million for depreciation, amortization, pension, stock compensation, and deferred income tax provisions. In addition, our income from discontinued operations of \$5.7 million included a payment of \$5.0 million from a settlement agreement entered into during the first six months of fiscal 2012 to resolve a long-standing legal issue (see Note 4 of Notes to Condensed Consolidated Financial Statements).

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The primary uses of cash in the first six months of fiscal 2012 included a \$3.9 million contribution to our pension plan and a \$3.0 million net increase in operating assets and liabilities. Accounts receivable increased by \$1.8 million during the first six months of fiscal 2012, mainly due to an increase in days sales outstanding, which increased from 51.4 days at January 1, 2012, to 57.9 days at July 1, 2012. Accounts payable and other accrued liabilities decreased by \$2.4 million during the first six months of fiscal 2012, due to lower accounts payable balances as well as payment of incentive compensation amounts accrued as of January 1, 2012. In addition, \$1.1 million of the reduction in accounts payable and other accrued liabilities resulted from non-cash adjustments to liabilities related to previously owned businesses. In addition, we consumed cash of \$0.4 million for disbursements related to previously divested businesses and \$0.6 million for capital expenditures.

While we may make further investments to increase capacity and improve efficiency, we do not anticipate that capital expenditures in fiscal 2012 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 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, 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 were collateralized by our accounts receivable and inventory. We have subsequently entered into four amendments to the revolving facility, the primary purpose of which was to extend the maturity dates of the revolving facility and to broaden the security interest of Associated Bank to include all assets of the Company.

In December 2011, we entered into the most recent fourth amendment to the revolving facility with Associated Bank, the purpose of which was to (i) extend the maturity date of the revolving facility to June 15, 2013; (ii) increase the commitment amount of Associated Bank to \$12.5 million; (iii) establish minimum adjusted earnings before interest, taxes, depreciation and amortization requirements for the three-month periods ending December 31, 2011, through March 31, 2013; and (iv) establish maximum cash amounts that we can contribute to our defined benefit pension plan during the term of the agreement. There were no amounts outstanding on the amended revolving facility as of July 1, 2012. 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 decade, the accumulated benefit obligation of our defined benefit pension plan currently exceeds plan assets. We contributed \$30 million to our pension plan in December 2006 following the divestiture of our power electronics business, and subsequently have made contributions to the plan aggregating \$42 million from April 2008 through July 1, 2012, funded by cash generated from operations and existing cash on hand.

In response to the level of our projected pension funding obligations relative to our current operating cash flows, we filed an application with the Internal Revenue Service (“IRS”) in February 2011 for a waiver of our minimum funding requirements (contributions) for the pension plan year 2011. The amount of the funding waiver requested was approximately \$17 million, scheduled to be funded in quarterly installments from April 2011 through January 2012, with a final installment due in September 2012. The waiver request was approved by the IRS in October 2011, and as a result, we did not make any contributions to the plan for the pension plan year 2011. Rather, the 2011 plan year required contributions of \$17 million will be deferred and amortized with interest at a rate of approximately 6% over plan years 2012 through 2016.

Required quarterly contributions to the pension plan resumed in April 2012, and accordingly, we contributed \$3.9 million to our pension plan assets. In July 2012, subsequent to the end of the second quarter of fiscal 2012, we made

the second required quarterly pension contribution of fiscal 2012 in an amount of \$3.9 million. We expect to make our third and final contribution of fiscal 2012 in October 2012, also in an amount of \$3.9 million.

In our Transition Report on Form 10-K for the six-month transition period ended January 1, 2012, we disclosed that our estimated minimum contributions to our pension plan for fiscal years 2013 and 2014 aggregated \$52 million. Federal legislation signed into law on July 6, 2012, allows pension plan sponsors to use an adjusted 25-year average corporate bond rate versus the current two-year average. Use of the 25-year average rate is expected to result in higher interest rate assumptions in valuing plan liabilities and in determining funding obligations, which in turn will result in lower minimum required contributions for plan sponsors in the near term. As a result of these legislative



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changes, we now estimate that our fiscal 2013 minimum required pension contributions will decrease to \$19 million from the previously expected amount of \$26 million. In addition, fiscal 2014 minimum required contributions are currently estimated at \$24 million from the previously estimated amount of \$26 million. Estimated future contributions to achieve 100% funded status, as measured using current actuarial assumptions and in accordance with the recently enacted legislation, are projected to be approximately \$86 million.

These estimates and the actual timing and amount of required plan contributions are dependent upon many factors, including returns on invested assets, the level of certain market interest rates, the discount rate used to determine pension obligations, the regulations to be adopted that implement the legislation, and other potential regulatory actions.

Based upon current plans and business conditions, we believe that current cash balances 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 Transition Report on Form 10-K filed with the Securities and Exchange Commission for the six-month transition period ended January 1, 2012, 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

We do not have any debt outstanding at July 1, 2012. However, we do have pension liabilities and pension funding obligations which vary as interest rates change. We used an average interest rate of 4.7% in determining our aggregate funding obligations of approximately \$94.8 million as of January 1, 2012, disclosed in our Transition Report on Form 10-K for the transition period ended January 1, 2012.

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Recent federal legislation, signed into law on July 6, 2012, allows pension plan sponsors to use an adjusted 25-year average corporate bond rate versus the current two-year average which was used to calculate the funding obligations as of January 1, 2012. Use of the 25-year average rate is expected to result in higher interest rate assumptions in valuing plan liabilities and in determining funding obligations, which in turn will result in lower minimum required contributions for plan sponsors in the near term. As a result of these legislative changes, we now estimate that our fiscal 2013 minimum required pension contributions will decrease to \$19 million from the previously expected amount of \$26 million. In addition, fiscal 2014 minimum required contributions are currently estimated at \$24 million from the previously estimated amount of \$26 million. Our aggregate funding obligations as of July 1, 2012, undiscounted, are estimated at \$85.8 million using an average interest rate of 5.1%. The net present value of our future funding obligations, discounted at a rate of 5.1%, total approximately \$72.7 million.

We did not have any outstanding hedge instruments or foreign currency contracts outstanding at July 1, 2012, or July 3, 2011.

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 July 1, 2012; and (ii) no change in internal control over financial reporting occurred during the quarter ended July 1, 2012, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

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.

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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 Transition Report on Form 10-K for the six-month transition period ended January 1, 2012, 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 July 1, 2012.

Item 1A – Risk Factors

There have been no material changes to the risk factors disclosed in our Transition Report on Form 10-K for the six-month transition period ended January 1, 2012.

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

There were no unregistered sales of equity securities during our fiscal quarter ended July 1, 2012.

Item 3 – Defaults upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

None.

Item 5 – Other Information

None.

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: August 9, 2012

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

Date: August 9, 2012

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