MAGNETEK, INC.
Form 10-Q
November 12, 2010

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: October 3, 2010

OR

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

For the transition period from

Commission file number 1-10233

MAGNETEK, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	95-3917584
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

(262) 783-3500
(Registrant's telephone number, including area code)

(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 [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [ ] No [ ]

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

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

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

The number of shares outstanding of Registrant's Common Stock, as of November 1, 2010, was 31,255,683 shares.

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FISCAL YEAR 2011 MAGNETEK FORM 10-Q

TABLE OF CONTENTS FOR THE QUARTERLY REPORT ON FORM 10-Q
FOR THE FISCAL QUARTER ENDED OCTOBER 3, 2010

MAGNETEK, INC.

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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 (14 Weeks) October 3, 2010	Three Months Ended (13 Weeks) September 27, 2009
Net sales	$ 24,877	$ 17,834
Cost of sales	17,333	12,212
Gross profit	7,544	5,622
Operating expenses:		
Research and development	996	901
Pension expense	1,717	2,052
Selling, general and administrative	3,897	3,959
Income (loss) from operations	934	(1,290)
Non-operating income:		
Interest income	(1)	(10)
Income (loss) from continuing operations before income taxes	935	(1,280)
Provision for income taxes	272	231
Income (loss) from continuing operations	663	(1,511)
Loss from discontinued operations, net of tax	(392)	(284)
Net income (loss)	$ 271	$ (1,795)
Earnings per common share		
Basic and diluted:		
Earnings (loss) from continuing operations	$ 0.02	$ (0.05)
Loss from discontinued operations	$ (0.01)	$ (0.01)
Net income (loss)	$ 0.01	$ (0.06)
Weighted average shares outstanding:		
Basic	31,230	30,966

Diluted	31,319	30,966

See accompanying notes

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

ASSETS	October 3, 2010 (Unaudited)	June 27, 2010
Current assets:		
Cash and cash equivalents	$ 9,929	$ 8,244
Restricted cash	262	262
Accounts receivable, net	13,472	16,436
Inventories	12,182	10,285
Prepaid expenses and other current assets	668	480
Total current assets	36,513	35,707
Property, plant and equipment	20,882	20,788
Less: accumulated depreciation	17,221	16,963
Net property, plant and equipment	3,661	3,825
Goodwill	30,466	30,443
Other assets	5,664	6,125
Total Assets	$ 76,304	$ 76,100
LIABILITIES AND STOCKHOLDERS’ DEFICIT		
Current liabilities:		
Accounts payable	$ 9,884	$ 9,887
Accrued liabilities	4,896	4,953
Current portion of long-term debt	2	4
Total current liabilities	14,782	14,844
Pension benefit obligations, net	75,462	77,914
Other long term obligations	1,487	1,461
Deferred income taxes	6,081	5,818
Commitments and contingencies		
Stockholders’ deficit		
Common stock	313	312
Paid in capital in excess of par value	139,218	138,965
Accumulated deficit	(6,351)	(6,622)
Accumulated other comprehensive loss	(154,688)	(156,592)
Total stockholders' deficit	(21,508)	(23,937)
Total Liabilities and Stockholders' Deficit	$ 76,304	$ 76,100

See accompanying notes

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

	Three Months Ended	
	(14 Weeks) October 3, 2010	(13 Weeks) September 27, 2009 (restated)
Cash flows from operating activities		
Net income (loss)	$ 271	$ (1,795)
Loss from discontinued operations	392	284
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	254	245
Amortization	13	26
Stock based compensation expense	186	175
Pension expense	1,717	2,052
Deferred Income Tax Provision	263	225
Changes in operating assets and liabilities	1,329	1,011
Cash contribution to pension fund	(2,358)	(4,211)
Net cash provided by (used in) operating activities - continuing operations	2,067	(1,988)
Net cash provided by (used in) operating activities - discontinued operations	(368)	(194)
Net cash provided by (used in) operating activities	1,699	(2,182)
Cash flows from investing activities:		
Capital expenditures	(80)	(274)
Net cash provided by (used in) investing activities - continuing operations	(80)	(274)
Net cash provided by (used in) investing activities - discontinued operations	-	-
Net cash provided by (used in) investing activities	(80)	(274)
Cash flow from financing activities:		
Proceeds from issuance of common stock	67	73
Principal payments under capital lease obligations	(1)	(4)
Net cash provided by (used in) financing activities - continuing opeations	66	69
Net cash provided by (used in) financing activities - discontinued opeations	-	-
Net cash provided by (used in) financing activities	66	69

Net increase (decrease) in cash	1,685	(2,387)
Cash at the beginning of the period	8,244	18,097
Cash at the end of the period	$ 9,929	$ 15,710

See accompanying notes

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MAGNETEK, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 3, 2010
(Amounts in thousands unless otherwise noted, except per share data, unaudited)

1. Summary of Significant Accounting Policies

Profile

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

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended June 27, 2010 filed with the Securities and Exchange Commission (the “SEC”). In the Company's opinion, these unaudited statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of the Company as of October 3, 2010, and the results of its operations and cash flows for the three month periods ended October 3, 2010 and September 27, 2009. Results for the three-months ended October 3, 2010 are not necessarily indicative of results that may be experienced for the full fiscal year.

Fiscal Year

The Company uses a fifty-two, fifty-three week fiscal year ending on the Sunday nearest to June 30. Fiscal quarters are the 13 or 14 week periods ending on the Sunday nearest September 30, December 31, March 31 and June 30. The three-month periods ended October 3, 2010 and September 27, 2009, contained 14 weeks and 13 weeks, respectively.

Use of Estimates

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

Restatement of Presentation of Cash Flows

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

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

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

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

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

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

Consolidated Statements of Cash Flows

For the three months ended (amounts in thousands)	September 27, 2009	
	As Previously Reported	As Revised
Net cash provided by (used in) operating activities - continuing operations	$ (1,988)	$ (1,988)
Net cash provided by (used in) operating activities - discontinued operations	-	(194)
Net cash provided by (used in) operating activities	$ (1,988)	$ (2,182)

Recent Accounting Pronouncements

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

The Company has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were available to be issued, and has concluded that no recognized or non-recognized subsequent events have occurred since its first quarter ended on October 3, 2010.

2. Discontinued Operations

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

	Three Months Ended	
	October 3, 2010	September 27, 2009
Loss from discontinued operations - telecom power systems	(4)	(27)
Expense related to divested businesses	(388)	(257)
Loss from discontinued operations	$ (392)	$ (284)

The condensed consolidated balance sheet as of October 3, 2010 includes certain accrued liabilities which represent the Company's best estimate of remaining contingent liabilities related to indemnification provisions included in sale agreements of divested businesses. While management has used its best judgment in assessing the potential liability for these items, given the uncertainty regarding future events, it is difficult to estimate the possible timing or magnitude of any payments that may be required for liabilities subject to indemnification. Any future adjustment to currently recorded contingencies related to indemnification claims or payments based upon changes in circumstances would be recorded as a gain or loss in discontinued operations.

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3. Inventories

Inventories consist of the following:

	October 3, 2010	June 27, 2010
Raw materials and stock parts	$ 8,100	$ 6,857
Work-in-process	1,135	1,124
Finished goods	2,947	2,304
	$ 12,182	$ 10,285

4. Commitments and Contingencies

Litigation—Product Liability

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

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

Litigation—Patent Infringement and Related Proceedings

As previously reported by the Company, Universal Lighting Technologies, Inc. ("ULT") and Nilssen entered into a consent judgment in April 2008, for dismissal, on collateral estoppel grounds, of the patent infringement lawsuit filed by Nilssen against ULT. The Company had provided the defense in the lawsuit pursuant to an indemnification claim from ULT subject to the terms of the sale agreement under which ULT pur