MAGNETEK INC
Form 10-K
September 29, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended July 2, 2006

OR

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

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 No.)
8966 Mason Ave. Chatsworth, California	**91311**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: **(818) 727-2216**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.01 par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of $3.25, per share as reported by the New York Stock Exchange, on December 30, 2005 (the last business day of the Company s most recently completed second fiscal quarter), was $91,340,711. Shares of common stock held by each executive officer and director have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the Registrant s Common Stock, as of September 1, 2006 was 29,312,512 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Magnetek, Inc. 2006 Annual Report for the fiscal year ended July 2, 2006 are incorporated by reference into Part II of this Form 10-K. With the exception of those portions which are expressly incorporated by reference into this Form 10-K, the Magnetek, Inc. 2006 Annual Report is not deemed filed as part of this Form 10-K.

Portions of the Magnetek, Inc. definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended July 2, 2006 are incorporated by reference into Part III of this Form 10-K.

MAGNETEK, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED JULY 2, 2006

The Company uses a 52-53 week fiscal year which ends on the Sunday nearest June 30. Fiscal years 2006 and 2004 contained 52 weeks; fiscal year 2005 contained 53 weeks.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

Magnetek, Inc. (Magnetek or the Company) has been a global provider of digital power products used primarily in information technology, telecommunications, consumer products, transportation, industrial automation and energy markets. Magnetek s products are sold directly or through manufacturers representatives to original equipment manufacturers (OEMs) for incorporation into their products, to system integrators and value-added resellers for assembly and incorporation into end-user systems, to distributors for resale to OEMs and contractors, and to end-users for repair and replacement purposes. Magnetek operates in a single segment, Digital Power Control Systems. The Company was founded in July 1984 and is listed on the New York Stock Exchange (NYSE: MAG).

In the fourth quarter of fiscal 2006, Magnetek s management completed a review of various cash raising alternatives to enable the Company to address certain pending obligations and provide funds for future growth initiatives. As a result of this review, the Company entered into an agreement following July 2, 2006 to divest its power electronics business, including related assets and liabilities. The power electronics business is comprised mainly of Magnetek s wholly-owned subsidiaries, Magnetek S.p.A. (Italy), Magnetek Kft. (Hungary) and Magnetek Electronics Co., Ltd. (China), and a North American division located in Chatsworth, California. The power electronics business accounted for $166 million, or 69% of the Company s reported net sales for fiscal year 2005 of $242 million. Upon divestiture of this business, the Company s remaining operations will be located primarily in North America and in fiscal 2006 generated sales of approximately $83 million. The divestiture is expected to be completed before the end of October 2006. As a result of the divestiture, much of the following description of Magnetek s business, operations and assets does not include the power electronics business and related assets and liabilities. As described in Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s 2006 Annual Report, in the fourth quarter of fiscal 2006, operations associated with this business were reclassified as discontinued operations and the assets and liabilities of this business were reclassified as held for sale.

Digital Power Control Systems

Power-Control Systems. Power-control systems is comprised primarily of programmable motion control and power conditioning systems. The Company is North America s largest independent supplier of digital drives, radio controls, software and accessories for industrial cranes and hoists, and is also the largest independent supplier of digital motion control systems for elevators. Customers include most of the industrial crane and hoist companies in North America and most of the world s leading elevator builders. Magnetek was the world s first and is the largest independent builder of power conditioners for commercial stationary fuel cells, its principal customer being United Technologies. The Company also designs and builds digital power inverters for renewable energy sources such as wind turbines.

Backlog. Magnetek s backlog as of the end of fiscal 2006 was $9.7 million versus $10.8 million at the end of fiscal 2005. The decrease in backlog reflects, primarily, a slowdown in overall economic activity. The Company expects most of the orders in its backlog to be filled during first half of fiscal 2007.

Competition. Magnetek s primary competitors during fiscal 2006 included: Control Techniques; KCI/Konecranes, OMRON, Yaskawa, Toshiba, Bubenzer, Johnson Industries, Fronius, SMA, SatCon Technology, Semikron, Telemics and Xantrex. Some of these companies have substantially greater financial, marketing and other resources, larger product portfolios and greater brand recognition than Magnetek.

Competitive Strengths

Management believes that Magnetek benefits most from competitive advantages in the following areas:

Technological Capabilities. Magnetek emphasizes and leverages its ability to provide custom-designed and customized solutions for power and motion control applications through digital power-electronic technology. The Company recruits top talent from universities that stress power electronics in their curricula, and its technical personnel possess substantial expertise in disciplines central to digital power systems and applications. These include analog-to-digital circuit design, thermal management technology, wireless communication technology, and the application of microprocessors, digital signal processors and software algorithms in the development of smart power and motion control systems.

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Customer Relationships. Magnetek has established long-term relationships with major manufacturers of fuel cells, cranes and hoists, elevators and mining equipment, among others. The Company believes that these relationships have resulted from its reliability and responsiveness, and readiness to meet special customer requirements based on innovative technology, the quality and cost-effectiveness of its products, and its commitment to stand behind its products.

Manufacturing and Systems Integration. Magnetek competes as a supplier of high-performance systems and subsystems that are incorporated into customers products, systems and operations. The Company has taken steps to enhance its competitive position by adopting and implementing ISO process guidelines, implementing demand-flow and cellular manufacturing techniques, and investing in state-of-the-art manufacturing capabilities and advanced electronic test equipment, to assure product quality and reliability.

Product Breadth and Market Diversity. Magnetek provides a variety of products to each of its major markets. Since product breadth and subsystems integration capability are important to certain OEM customers, system integrators, dealers, contractors and end-users, these attributes have helped Magnetek establish OEM relationships and sales channel partnerships. Magnetek also addresses a number of end-markets and serves a range of customers in the belief that market diversity and a broad customer base reduce the Company s susceptibility to economic cycles and increase its prospects for profitable growth.

Systems Sales Channels. Management believes that Magnetek s well established network of some 800 Electromotive Systems dealers, Performance Plus centers and key OEM customers constitute a significant competitive advantage in the North American materials handling marketplace.

Competitive Weaknesses

Management considers the Company s primary competitive weaknesses to be its limited size and financial resources.

Based upon current plans and business conditions, the Company believes that proceeds from the divestiture of its power electronics business, borrowing capacity under our various credit facilities, and internally generated cash flows will be sufficient to fund anticipated operational needs, capital expenditures and other near-term commitments. However, some of the Company s competitors have substantially greater financial resources than Magnetek.

Restructuring and Current Strategy

Since the mid-1990s, Magnetek has undertaken a series of strategic initiatives to tighten its business focus, strengthen its financial position and improve its competitiveness. From 1998 through 2001, a number of electrical commodity product businesses, representing more than three-quarters of the Company s revenue, were divested (Motors and Generators in 1999 and Standard Drives, Lighting Ballasts and Component Transformers in 2001). Proceeds from these divestitures were applied to eliminate the Company s long-term debt, repurchase Company stock, and make product-line acquisitions.

Magnetek s current strategy is centered primarily on raising cash to enable the Company to address pending debt repayment and pension obligations, as well as provide funds for future growth initiatives. As a result, the Company has decided to divest its power electronics business. The Company intends to use the proceeds from the sale of the business to repay debt and fund pension obligations.

In addition, the Company intends to continue to build on its competitive strengths in established material handling, elevator, and mining markets, and to continue to invest in research and development to expand the Company s product portfolio aimed at penetrating growing and emerging markets for digital power-based systems, such as alternative energy. Management believes that attractive growth opportunities exist in North American alternative energy markets for Magnetek s power control systems, and that attractive growth opportunities may exist in Europe and Asia for Magnetek s power control systems that have achieved substantial market positions in North America, primarily material handling and elevator systems.

International Operations

International sales accounted for 19% of Magnetek s net revenues in fiscal 2006. The Company defines international sales as sales of products manufactured by its facilities outside the U.S. that are sold outside of the U.S., as well as sales of products manufactured in the U.S. to purchasers outside of the U.S.

For the Company s 2006, 2005, and 2004 fiscal years, revenues derived from domestic sales were $67.1 million, $61.3 million and $55.6 million, respectively, and revenues derived from international sales were $16.0 million, $14.7 million and $12.3 million, and the Company continues to expand sales to global customers.

The majority of the Company s international operations are in Canada. The Company s continuing operations hold assets in the U.S., Canada and the United Kingdom totaling $87.2 million, of which $5.7 million are held in Canada and $0.8 million are in the United Kingdom.

Suppliers and Raw Materials

Virtually all materials and components purchased by the Company are available from multiple suppliers. During fiscal 2006, raw materials purchases accounted for approximately 70% of the Company s cost of sales. Production of digital power control systems depends on various electronic components. The Company seeks to obtain competitive pricing on these raw materials by utilizing multiple suppliers and leveraging its combined purchasing requirements. Based on analyses of the costs and benefits of its level of vertical integration, Magnetek is continuing to increase its outsourcing of certain materials and component parts that previously have been produced internally.

Research and Development

Magnetek s research and development activities, which are conducted primarily in Menomonee Falls, Wisconsin, are directed toward developing new products, improving existing products and customizing or modifying products to meet customers specific needs. Total research and development expenditures were approximately $4.1 million, $3.9 million, and $3.1 million respectively, for the Company s 2006, 2005 and 2004 fiscal years.

Intellectual Property

Magnetek holds numerous patents, trademarks and copyrights, and believes that it holds or licenses all of the patent, trademark, copyright and other intellectual property rights necessary to conduct its business. The Company generally relies upon patents, copyrights, trademarks and trade secret laws to establish and maintain its proprietary rights in its technology and products. There can be no assurance that any of its patents, trademarks or other intellectual property rights will not be challenged, invalidated or circumvented, or that any rights granted there under will provide competitive advantages to the Company. In addition, there can be no assurance that patents will be issued from pending patent applications filed by the Company, or that claims allowed on any future patents will be sufficiently broad to protect Magnetek s technology. Further, the laws of some foreign countries may not permit the protection of Magnetek s proprietary rights to the same extent as do the laws of the United States. Although the Company believes the protection afforded by its patents, patent applications, trademarks and copyrights has value, rapidly changing technology in the power control systems industry and shortened product life cycles make Magnetek s future success dependent primarily on the innovative skills, technological expertise, research and development and management capabilities of its employees rather than on patent, copyright, and trademark protection.

Employee Relations

As of September 29, 2006, the Company had approximately 200 salaried employees and approximately 100 hourly employees, none of whom were covered by collective bargaining agreements with unions. The Company believes that its relationships with its employees are favorable.

Available Information

The Company s Internet address is www.magnetek.com. The Company s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports that are filed by the Company with the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge at or through the Company s website.

Environmental Matters

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 fiscal years 2006 2005 or 2004.

The Company has also been identified by the United States Environmental Protection Agency and certain state agencies as a potentially responsible party for cleanup costs associated with alleged past waste disposal practices at several

previously owned facilities and offsite locations. Its remediation activities as a potentially responsible party were not material in fiscal years 2006, 2005 and 2004. Although the materiality of future expenditures for environmental activities may be affected by the level and type of contamination, the extent and nature of cleanup activities required by governmental authorities, the nature of the Company s alleged connection to the contaminated sites, the number and financial resources of other potentially responsible parties, the availability of indemnification rights against third parties and the identification of additional contaminated sites, the Company s estimated share of liability, if any, for environmental remediation, including its indemnification obligations, is not expected to be material.

Century Electric (McMinnville, Tennessee)

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

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

In 1986, the Company acquired the stock of Universal Manufacturing Company (Universal) from a predecessor of Fruit of the Loom (FOL), and the predecessor agreed to indemnify the Company against certain environmental liabilities arising from pre-acquisition activities at a facility in Bridgeport, Connecticut. Environmental liabilities covered by the indemnification agreement include completion of additional cleanup activities, if any, at the Bridgeport facility (sold in connection with the sale of the transformer business in June 2001) and defense and indemnification against liability for potential response costs related to offsite disposal locations. FOL, the successor to Universal s 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 credits and Magnetek withdrew its claims in the bankruptcy proceeding. FOL s obligation to the state of Connecticut was not discharged in the reorganization proceeding. FOL s inability to satisfy its remaining obligations 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 or results of operations.

Supplemental Information-Executive Officers of the Company

The following table sets forth certain information regarding the current executive officers of the Company.

Name	Age	Position
Andrew G. Galef	73	Chairman of the Board
Thomas G. Boren	57	President and Chief Executive Officer
Antonio Canova, Ph.D	64	Executive Vice President, Power Electronic Products
Alexander Levran, Ph.D	56	Executive Vice President, Chief Technology Officer
Peter M. McCormick	46	Executive Vice President, Power Control Systems
David P. Reiland	52	Executive Vice President and Chief Financial Officer
Stephen Torres	41	Executive Vice President, Alternative Energy
Tina D. McKnight	48	Vice President, General Counsel and Secretary
Marty J. Schwenner	45	Vice President, Controller and Chief Accounting Officer

Andrew Galef has been the Chairman of the Board of Directors since July 1984 and served as the President and Chief Executive Officer of Magnetek from September 1993 until June 1996 and from May 1999 until May 2005, when he voluntarily resigned his position, at which time he ceased to be an executive officer of the Company. Mr. Galef has been President of The Spectrum Group, Inc., a private investment and management firm, since its incorporation in California in 1978 and has served as Chairman and Chief Executive Officer of the Spectrum Group since 1987.

Thomas Boren has served on the Company s Board of Directors since 1997 and has served as the Company s President and Chief Executive Officer since May 9, 2005. Mr. Boren has held executive positions in the energy products and services sector since 1980, most recently as Executive Vice President of PG&E Corporation, and as President and Chief Executive Officer of PG&E s National Energy Group from August 1999 until December 2002. Prior to joining PG&E Corporation, Mr. Boren was an Executive Vice President with Southern Company and served as President and CEO of Southern Energy Inc., Southern Company s worldwide power plant, energy trading, and energy services businesses.

Antonio Canova is the Executive Vice President responsible for the Company s Power Electronic Products Group in Europe and North America. Dr. Canova joined Magnetek when it acquired Plessey S.p.A. in 1991 and assumed responsibility for the Company s European power components business at that time. With the acquisition of Omega Power Systems, Inc. in 1998, Dr. Canova assumed responsibility for the North American power components business as well. Prior to joining Magnetek, Dr. Canova was the Managing Director of Plessey S.p.A. from 1988 until its acquisition by Magnetek in 1991 and served as its General Manager from 1969 to 1988.

Alexander Levran is Executive Vice President and Chief Technology Officer of the Company. Dr. Levran joined the Company in July 1993 as its Vice President, Technology after serving as Vice President of Engineering and Technology for EPE Technologies, Inc., a subsidiary of Groupe Schneider, from 1991 until 1993. From 1981 until 1991, Dr. Levran held various engineering management positions with Teledyne Inet, a subsidiary of Teledyne, Inc., most recently as Vice President of Engineering.

Peter McCormick is the Executive Vice President responsible for the Company s Power Systems Group (formerly the Industrial Controls Group and the Telecom Power Group). Mr. McCormick has had primary responsibility for the Company s Industrial Controls Group (now part of the Power Systems Group) since 2002. Prior to that, he served as the President of Industrial Controls from 1999 until 2002. Since joining the Company in 1996, Mr. McCormick has also served as the Vice President of Operations for the drives group from 1998 until 1999 and as Vice President of the custom products business group from 1996 until 1998.

David Reiland is an Executive Vice President of the Company and has been its Chief Financial Officer since 1988. In 2003, Mr. Reiland assumed temporary responsibility for the Company s Telecom Power Group during a management restructure. Mr. Reiland has also served as the Controller of the Company from 1986 until 1993 and as Vice President, Finance from 1987 to 1989. Before joining Magnetek, Mr. Reiland was an Audit Manager with Arthur Andersen & Co. where he served in various capacities since 1980. Mr. Reiland is a Certified Public Accountant.

Stephen Torres is the Executive Vice President responsible for the Alternative Energy business. Mr.Torres joined the Company in April, 2005 after serving for four years as the Vice President responsible for marketing and project development for FuelCell Energy, Inc. Before that, Mr. Torres was director of business development, channel management and Latin America marketing for Capstone Turbine Corporation. Prior to joining Capstone, Mr. Torres was Manager, Manufacturing Practice, with Deloitte Consulting Group for five years, where he focused on marketing, supply chain processes and operations improvement. Before joining Deloitte Consulting Group, he served in brand management and technical sales with Procter & Gamble and General Electric.

Tina McKnight joined the Company in September 2000 as Vice President, General Counsel and Secretary. Prior to joining Magnetek, Ms. McKnight was Vice President and Assistant General Counsel of creditcards.com from 1999 to 2000 and Vice President, Senior Counsel and Assistant Secretary of Great Western Bank from 1990 to 1999. Ms. McKnight was an attorney with the law firms of Brobeck, Phleger & Harrison in Los Angeles, California from 1987 until 1990 and with Peterson, Ross, Schloerb & Seidel in Los Angeles, California from 1985 until 1987.

Marty Schwenner has been a Vice President of the Company since 2003 and Controller since 2002. Mr. Schwenner was Vice President of Finance for the Power Electronic Group from 1998 until 2002. Mr. Schwenner also served as the Chief Financial Officer of the Company s European Operations from 1992 to 1998 and as Internal Audit Manager from 1991 until 1992. Mr. Schwenner joined Magnetek as an Internal Auditor in 1989. Before joining Magnetek, Mr. Schwenner was a Financial Analyst with Nortek, Inc. since 1985. Mr. Schwenner is a Certified Public Accountant and a Certified Internal Auditor.

ITEM 1A. RISK FACTORS

The information called for by this Item 1A is hereby incorporated by reference to the section of the Company s 2006 Annual Report entitled Risk Factors Affecting the Company s Outlook.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Magnetek s headquarters and each of its manufacturing facilities for the continuing operations of the Company are listed below, each of which is leased.

Location	Lease Term	Approximate Size (Sq.Ft.)	Principal Use
Menomonee Falls, Wisconsin	2009	84,000	Power control systems manufacturing
Mississauga, Canada	2006	18,000	Power control systems manufacturing
Pittsburgh, Pennsylvania	2009	9,000	Power control systems manufacturing

The Company believes its facilities are in satisfactory condition and are adequate for its continuing operations.

ITEM 3. LEGAL PROCEEDINGS

Litigation Product Liability

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

In August 2006, Pamela L. Carney, Administrator of the Estate of Michael J. Carney, filed a lawsuit in the Court of Common Pleas of Westmoreland County, Pennsylvania, against the Company and other defendants, alleging that a product manufactured by the Telemotive Industrial Controls business acquired by the Company in December 2002 contributed to an accident that resulted in the death of Michael J. Carney in August 2004. The claim has been tendered to the Company s insurance carrier and legal counsel has been retained to represent the Company. Plaintiff s claim for damages is unknown at this time, but management believes that its insurer will bear all liability for the claim, if any.

The Company has been named, along with multiple other defendants, in asbestos-related lawsuits associated with business operations previously acquired by the Company, but which are no longer owned. During the Company s ownership, none of the businesses produced or sold asbestos-containing products. With respect to these claims, the Company is either contractually indemnified against liability for asbestos-related claims or believes that it has no liability for such claims. The Company aggressively seeks dismissal from these proceedings, and has also tendered the defense of these cases to the insurers of the previously acquired businesses and is awaiting their response. The Company has also filed a late claim in the amount of $2.5 million in the Federal-Mogul bankruptcy proceedings to recover attorney s fee paid for the defense of these claims, which the Company believes is an obligation of Federal Mogul although the claim is subject to challenge. Management does not believe the asbestos proceedings, individually or in the aggregate, will have a material adverse effect on its financial position or results of operations.

Litigation Patent Infringement

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

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to the stockholders of the Company during the quarter ended July 2, 2006.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth the high and low sales prices of the Company s Common Stock during each quarter of fiscal 2006 and 2005:

	High	Low
Fiscal Year 2006		