MAGNETEK INC
Form 10-Q
May 12, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: April 3, 2005

OR

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

For the transition period from

Commission file number 1-10233

MAGNETEK, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-3917584**

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

10900 Wilshire Blvd., Suite 850
Los Angeles, California 90024
(Address of principal executive offices)
(Zip Code)

(310) 208-1980
(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 ý No o

Indicate by check mark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Exchange Act.

Yes ý No o

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant s Common Stock, as of May 1, 2005, was 28,584,594 shares.

2005 MAGNETEK FORM 10-Q

TABLE OF CONTENTS FOR THE QUARTERLY REPORT ON FORM 10Q

FOR THE FISCAL QUARTER ENDED APRIL 3, 2005

MAGNETEK, INC.

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 (13 Weeks) Ended April 3, 2005	March 28, 2004
Net sales	$ 57,038	$ 61,832
Cost of sales	42,874	46,773
Gross profit	14,164	15,059
Research and development	3,991	3,400
Selling, general and administrative	11,637	10,617
Income (loss) from operations	(1,464)	1,042
Interest expense	486	524
Income (loss) from continuing operations before provision for income taxes	(1,950)	518
Provision for income taxes	150	
Income (loss) from continuing operations	(2,100)	518
Discontinued Operations:		
Loss from operations, net of tax	(524)	(365)
Arbitration award expense, net of tax	(21,977)	
Loss from discontinued operations	(22,501)	(365)
Net income (loss)	$ (24,601)	$ 153
<u>Earnings (loss) per common share</u>		
Basic and diluted:		
Income (loss) from continuing operations	$ (0.07)	$ 0.02
Loss from discontinued operations	(0.79)	(0.01)
Net income (loss)	$ (0.86)	$ 0.01

See accompanying notes

	Nine Months Ended	
	(40 Weeks) April 3, 2005	(39 Weeks) March 28, 2004
Net sales	$ 185,245	$ 164,318
Cost of sales	139,358	126,415
Gross profit	45,887	37,903
Research and development	11,180	9,182
Selling, general and administrative	34,161	32,589
Income (loss) from operations	546	(3,868)
Interest expense	1,184	1,607
Other income	(1,300)	
Income (loss) from continuing operations before provision for income taxes	662	(5,475)
Provision for income taxes	525	
Income (loss) from continuing operations	137	(5,475)
Discontinued Operations:		
Loss from operations, net of tax	(1,259)	(2,059)
Arbitration award expense, net of tax	(21,977)	
Loss from discontinued operations	(23,236)	(2,059)
Net loss	$ (23,099)	$ (7,534)
Earnings (loss) per common share		
Basic and diluted:		
Income (loss) from continuing operations	$ 0.00	$ (0.20)
Loss from discontinued operations	(0.81)	(0.08)
Net loss	$ (0.81)	$ (0.28)

See accompanying notes

MAGNETEK, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands)

	April 3, 2005 (unaudited)	June 27, 2004
ASSETS		
Current assets:		
Cash	$ 3,330	$ 2,318
Accounts receivable, net	52,613	56,056
Inventories	51,039	48,872
Prepaid expenses and other	7,026	8,972
Assets held for sale	4,333	4,474
Total current assets	118,341	120,692
Property, plant and equipment	135,334	122,563
Less-accumulated depreciation and amortization	102,881	90,708
Property, plant and equipment, net	32,453	31,855
Goodwill	64,679	63,828
Prepaid pension	56,416	57,523
Other assets	13,249	14,249
Total Assets	$ 285,138	$ 288,147
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 29,690	$ 40,031
Accrued liabilities	8,754	11,067
Accrued arbitration award	22,602	
Current portion of long-term debt	4,415	1,997
Liabilities held for sale	1,021	1,634
Total current liabilities	66,482	54,729
Long-term debt, net of current portion	18,489	16,129
Pension benefit obligations	88,889	88,889
Other long-term obligations	8,095	7,552
Deferred income taxes	8,576	8,326
Stockholders equity		
Common stock	285	285
Paid in capital in excess of par value	128,059	127,692
Retained earnings	46,389	69,488
Accumulated other comprehensive loss	(80,126)	(84,943)
Total stockholders equity	94,607	112,522
Total Liabilities and Stockholders Equity	$ 285,138	$ 288,147

See accompanying notes

MAGNETEK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

	Nine Months Ended (40 Weeks) April 3, 2005	Nine Months Ended (39 Weeks) March 28, 2004
Cash flows from operating activities:		
Income (loss) from continuing operations	$ 137	$ (5,475)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,270	7,457
Tax refund proceeds, net	3,332	
Changes in operating assets and liabilities	(6,982)	(6,517)
Total adjustments	3,620	940
Net cash provided by (used in) operating activities	3,757	(4,535)
Cash flows from investing activities:		
Proceeds from sale of businesses		1,062
Capital expenditures	(6,076)	(3,429)
Net cash used in investing activities	(6,076)	(2,367)
Cash flow from financing activities:		
Proceeds from issuance of common stock	366	18,738
Borrowings (repayments) under line-of-credit agreements	6,024	(11,528)
Principal payments under capital lease obligations	(417)	(172)
Borrowings under (repayment of) long term notes	(829)	1,514
Increase in deferred financing costs	(82)	(561)
Net cash provided by financing activities	5,062	7,991
Net cash provided by continuing operations	2,743	1,089
Cash flow from discontinued operations:		
Loss from discontinued operations	(23,236)	(2,059)
Adjustments to reconcile net loss to net cash used in discontinued operations:		
Depreciation and amortization	94	125
Arbitration award expense	21,977	
Changes in assets & liabilities of discontinued operations	(550)	430
Capital expenditures	(16)	(52)
Net cash used in discontinued operations	(1,731)	(1,556)
Net increase (decrease) in cash	1,012	(467)
Cash at the beginning of the period	2,318	1,680
Cash at the end of the period	$ 3,330	$ 1,213

See accompanying notes

6

MAGNETEK, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

APRIL 3, 2005

(Amounts in thousands, except per share data)

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company s Form 10-K for the year ended June 27, 2004 filed with the Securities and Exchange Commission. In the Company s opinion, these unaudited statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of the Company as of April 3, 2005, and the results of its operations and its cash flows for the three-month and nine-month periods ended April 3, 2005 and March 28, 2004. Results for the three-months and nine-months ended April 3, 2005 are not necessarily indicative of results that may be experienced for the full fiscal year.

On May 4, 2005, an arbitrator awarded damages against the Company of $23.4 million in a patent dispute with Ole K. Nilssen (see Notes 3 and 5 of Notes to Condensed Consolidated Financial Statements). Based on the terms of the binding arbitration, the Company is required to pay this amount to Mr. Nilssen within ten days of the award. The Company currently does not have the ability to meet this obligation within the ten-day timeframe. Company management has entered into discussions with its advisors, and with Mr. Nilssen and his advisors regarding various available options to resolve this matter, including the possibility of extending the payment period while investigating financing alternatives. Among the alternatives the Company is exploring are debt financing, equity financing, or a sale of part of the business, or all of the Company.

The Company uses a fifty-two, fifty-three week fiscal year ending on the Sunday nearest to June 30. Fiscal quarters are the thirteen- or fourteen-week periods ending on the Sunday nearest September 30, December 31, March 31 and June 30. The three-month periods ended April 3, 2005 and March 28, 2004 (the Company s third fiscal quarter) each contained thirteen weeks; the nine-month periods ended April 3, 2005 and March 28, 2004 contained forty and thirty-nine weeks, respectively.

2. Summary of Significant Accounting Policies

Principles of Consolidation The condensed consolidated financial statements include the accounts of Magnetek, Inc. and its subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated.

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. Significant areas requiring management estimates include the following key financial areas:

Accounts Receivable

Accounts receivable represent receivables from customers in the ordinary course of business. The Company is subject to losses from uncollectible receivables in excess of its allowances. The Company maintains allowances for doubtful accounts for estimated losses from customers inability to make required payments. In order to estimate the appropriate level of this allowance, the Company analyzes historical bad debts, customer concentrations, current customer creditworthiness, current economic trends and changes in customer payment patterns. If the financial conditions of the Company s customers were to deteriorate and to impair their ability to make payments, additional allowances may be required in future periods. The Company s management believes that all appropriate allowances have been provided.

Inventories

The Company s inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method, including material, labor and factory overhead. Inventory on hand may exceed future demand either because the product is obsolete, or the amount on hand is more than can be used to meet future needs. The Company identifies potentially obsolete and excess inventory by evaluating overall inventory levels. In assessing the ultimate realization of inventories, the Company is required to make judgments as to future demand requirements and compare those with the current or committed inventory levels. If future demand requirements are less favorable than those projected by management, additional inventory write-downs may be required.

Reserves for Contingencies

The Company periodically records the estimated impacts of various conditions, situations or circumstances involving uncertain outcomes. The accounting for such events is prescribed under Statement of Financial Accounting Standard (SFAS) No. 5, Accounting for Contingencies. SFAS No. 5 defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.

SFAS No. 5 does not permit the accrual of gain contingencies under any circumstances. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that the loss has been incurred, given the likelihood of uncertain events; and (2) that the amount of the loss can be reasonably estimated.

The accrual of a contingency involves considerable judgment on the part of management. The Company uses its internal expertise, and outside experts, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

Income Taxes

The Company uses the liability method to account for income taxes. The preparation of consolidated financial statements involves estimating the Company s current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. An assessment of the recoverability of the deferred tax assets is made, and a valuation allowance is established based upon this assessment.

The Company does not record deferred taxes on domestic pretax income or losses, due to (1) the availability of net operating loss (NOL) carryforwards that have been fully reserved through valuation allowances for pretax income, and (2) uncertainty surrounding the timing of realizing NOL carryforwards generated in the current period in future periods.

Federal income taxes are not provided currently on undistributed earnings of foreign subsidiaries since the Company presently intends to reinvest any earnings overseas indefinitely.

Pension Benefits

The valuation of the Company s pension plan requires the use of assumptions and estimates to develop actuarial valuations of expenses, assets and liabilities. These assumptions include discount rates, investment returns and mortality rates. Changes in assumptions and future investments returns could potentially have a material impact on the Company s expenses and related funding requirements.

Revenue Recognition The Company s policy is to recognize revenue when the earnings process is complete. The criteria used in making this determination are persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable, and collectibility is reasonably assured. Sales are recorded net of returns and allowances, which are estimated using historical data, at the time of sale.

Revenue is recognized upon shipment, except in those cases where product is shipped to customers with consignment stock agreements, wherein revenue is recognized when the customer removes the product from consignment stock. With the exception of consignment stock, terms of shipment are FOB shipping point, and payment is not contingent upon resale or any other matter other than passage of time. As a result, title to goods passes upon shipment. Amounts billed to customers for shipping costs are reflected in net sales; shipping costs are reflected in cost of sales.

Sales to distributors are recorded with appropriate reserves for future returns in accordance with SFAS No. 48, Revenue Recognition When Right of Return Exists , and generally do not include future installation obligations or acceptance requirements.

Property, Plant and Equipment Additions and improvement are capitalized at cost, whereas expenditures for maintenance and repair are charged to expense as incurred. Depreciation is provided over the estimated useful lives of the respective assets (ranging from three to forty years) principally using the straight-line method.

Goodwill In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the Company reviews the carrying value of goodwill at least annually, and more frequently if indicators of potential impairment arise, using discounted future cash flow analyses as prescribed in SFAS No. 142.

Deferred Financing Costs Costs incurred to obtain financing are deferred and included in other assets in the condensed consolidated balance sheets. Deferred financing costs are amortized over the term of the financing facility, and related amortization expenses are included in interest expense in the condensed consolidated statements of operations.

Earnings per Share In accordance with SFAS No. 128, Earnings per Share , basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share incorporate the incremental shares issuable upon the assumed exercise of stock options as if all exercises had occurred at the beginning of the fiscal period.

Stock-Based Compensation The Company has elected to continue to use the intrinsic-value method of accounting as prescribed by Accounting Principles Board (APB) No. 25 Accounting for Stock Issued to Employees in accounting for stock based awards to employees. Under APB 25, the Company recognizes no compensation expense with respect to such awards when the exercise price is equal to or greater than the market price at the date of grant. Accordingly, no stock-based employee compensation cost is reflected in reported results of operations for all periods presented. The Company adopted the interim disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement no. 123 .

The following table illustrates the pro forma effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation , to stock-based employee compensation:

	Three Months Ended		Nine Months Ended	
	April 3, 2005	**March 28, 2004**	**April 3, 2005**	**March 28, 2004**
Net income (loss)	$ (24,601)	$ 153	$ (23,099)	$ (7,534)
Deduct: Total stock-based employee compensation expense determimed under fair value based method for all awards	(1,137)	(1,275)	(3,521)	(3,565)
Pro forma net loss	$ (25,738)	$ (1,122)	$ (26,620)	$ (11,099)

Earnings (loss) per share as reported:								
Basic and diluted	$	(0.86)	$	0.01	$	(0.81)	$	(0.28)
Pro forma loss per share:								
Basic and diluted	$	(0.90)	$	(0.04)	$	(0.93)	$	(0.42)

<u>Recent Accounting Pronouncements</u> On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment , which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and amends SFAS No. 95, Statement of Cash Flows . Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

Adoption of SFAS No. 123(R) is required as of the first interim or annual reporting period that begins after June 15, 2005. The Company will adopt the provisions of SFAS No. 123(R) as required in our first quarter of fiscal year 2006.

SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

1. A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

2. A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company plans to adopt SFAS No. 123(R) using the modified-prospective method.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB No. 25 s intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R) s fair value method will have an impact on our result of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income (loss) and earnings (loss) per share in the table above under Stock-Based Compensation. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. To the extent these tax deductions are recognized, this requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

Derivative Financial Instruments The Company has occasionally used derivative financial instruments to reduce financial market risks. These instruments are used to hedge foreign currency and interest rate market exposures. The Company does not use derivative financial instruments for speculative or trading purposes. The Company accounts for derivative instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , and SFAS No. 149, Amendment of Statement 133 on Derivatives and Hedging . These statements require that an entity recognize all derivatives as either assets or liabilities in the statement of financial position, measured at fair value, and that hedge accounting be applied when certain conditions are met. The Company had no derivative financial instruments at April 3, 2005.

Foreign Currency Translation - The Company s foreign entities accounts are measured using local currency as the functional currency. Assets and liabilities are translated at the exchange rate in effect at year-end. Revenues and expenses are translated at the rates of exchange prevailing during the year. Unrealized translation gains and losses arising from differences in exchange rates from period to period are included as a component of accumulated other comprehensive loss in stockholders equity. The Company does not hold large cash balances in foreign currencies, therefore the effect of exchange rate changes on these balances is not material to the consolidated statement of cash flows.

Reclassifications Certain prior year balances were reclassified to conform to the current year presentation.

3. Discontinued Operations

In January 2005, the Company committed to a plan to divest its telecom power system business and began marketing the business during the third quarter of fiscal 2005. Management determined that the assets and liabilities to be sold constituted a disposal group under SFAS No. 144, Accounting for the Impairment of Disposal of Long-Lived Assets , and that all of the assets held for sale criteria outlined in SFAS No. 144 were met. The net book value of the disposal group at April 3, 2005 is $3.3 million. Management is currently in negotiations with a prospective buyer and expects the proceeds from the sale to approximate net book value. Accordingly, the operating results of this business are classified as discontinued operations in the accompanying condensed consolidated statements of operations and its assets and liabilities are classified as held for sale in the accompanying condensed consolidated balance sheets for all periods presented.

Subsequent to the end of the third quarter of fiscal 2005, the Company learned that a decision had been reached in a long-standing patent dispute between the Company and Ole K. Nilssen. In April 1998, Mr. Nilssen filed a lawsuit alleging infringement of patents pertaining to certain types of electronic ballasts previously sold by the Company, and seeking unspecified damages and injunctive relief. The Company denied that these products, which it no longer manufactures, infringed any valid patent. In April 2003, both parties agreed to submit limited issues in dispute to final and binding arbitration. In May 2005, the Company learned that the arbitrator had awarded damages to Mr. Nilssen totaling $23.4 million (see Note 5 of Notes to Condensed Consolidated Financial Statements). As the business to which this award relates was divested by the Company in June, 2001, the accompanying condensed consolidated statements of operations include the impact of this award, net of amounts previously recorded of $1.4 million, in loss from discontinued operations.

The results of discontinued operations are as follows:

	Three Months Ended		Nine Months Ended	
	April 3, 2005	**March 28, 2004**	**April 3, 2005**	**March 28, 2004**
Net Sales	$ 1,896	$ 2,983	$ 6,893	$ 9,023
Loss from telecom business, net of tax	$ (524)	$ (365)	$ (1,259)	$ (2,059)
Arbitration award expense, net of tax	(21,977)		(21,977)	
Loss of discontinued operations	$ (22,501)	$ (365)	$ (23,236)	$ (2,059)

The loss from the telecom business for the three- and nine-month periods ended March 28, 2004, include the Company s telecom service business as well as the telecom power system business. The loss from the telecom business for the nine-month period ended April 3, 2005, include the telecom service business for a seven-week period, until that business was divested in August 2004, the first quarter of fiscal 2005. No tax benefit was recorded related to discontinued operations for any of the periods presented.

4. Inventories

Inventories at April 3, 2005 and June 27, 2004 consist of the following:

	April 3, 2005	**June 27, 2004**
Raw materials and stock parts	$ 29,742	$ 26,974
Work-in-process	10,694	13,201
Finished goods	10,603	8,697
	$ 51,039	$ 48,872

5. Commitments and Contingencies

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 the products, which it no longer manufactures, 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 April 2003, Mr. Nilssen s lawsuit and the counterclaims were dismissed with prejudice and both parties agreed to submit limited issues in dispute to final and binding arbitration. The arbitration process commenced on November 8, 2004 and closing arguments were heard on March 15, 2005. As reported by the Company in its press release issued May 4, 2005 and Form 8K filed with the SEC on May 4, 2005, on the afternoon of May 3, 2005, the

Company learned of the arbitrator s decision, awarding damages to Nilssen in the amount of $23.4 million. The award has a material adverse effect on the Company s financial position and results of operations for the period ended April 3, 2005, and will have a material adverse effect on the Company s future cash flows and liquidity. The patent award also places the Company in default of its North American credit agreement, resulting in a reclassification of borrowings outstanding from long-term debt to a current liability. While the Company s bank has indicated that it does not currently intend to discontinue the extension of credit or accelerate the loans, the bank reserves the right to do so at its discretion. The Company has entered into discussions with Mr. Nilssen regarding various available options for satisfying the award.

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 Mr. Nilssen might allege against ULT. In February 2003, Mr. Nilssen filed a 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 purchase and sale agreement. The case was successfully removed to the U.S. District Court for the Middle District of Tennessee and is expected to go to trial in February 2006. As in the case against Magnetek, the Company denies that the products for which it has an indemnification obligation to ULT infringe any valid patent and has filed a response on behalf of ULT asserting affirmative defenses, as well as a counterclaim for a judicial declaration that the products do not infringe Mr. Nilssen s patents and that the patents are invalid. The Company will continue to aggressively defend the claims against ULT that are subject to defense and indemnification. The patents and products involved are different than those involved in the May 2005 award, and the Company intends to make different arguments in the U.S. District Court that were not available at the time of arbitration. However, there is a possibility that an adverse decision could be rendered, and such an unfavorable decision could have a material adverse effect on the Company s financial position and results of operations. Discussions with Mr. Nilssen regarding available options for satisfying the arbitrator s recent award will include potential opportunities for concurrently satisfying Mr. Nilssen s claims against ULT.

The Company is a party to several product liability lawsuits associated with discontinued business operations that have been sold. As part of the sales transactions, the Company agreed for a limited time to defend and indemnify the purchasers of the discontinued business operations against certain product liability claims. The last remaining contractual indemnification obligation of that type terminated on December 14, 2003; however, the Company remains obligated to continue defending and indemnifying valid claims made prior to the applicable termination date for each such obligation. The Company is also a named party in two product liability lawsuits related to the Telemotive Industrial Controls business acquired in December 2002, although insurance has accepted the Company s tender of the defense of those claims and it is expected that the policies in effect for the Telemotive Industrial Controls business prior to the sale will cover the losses, if any, and that the Company will be indemnified by the selling shareholders for any uninsured losses. The few remaining product liability cases related to discontinued business operations are being aggressively defended by the Company, and management believes that its insurers will bear all liability, if any, that exceeds applicable deductibles, and that none of these proceedings individually or in the aggregate will have a material adverse effect on the Company s results of operations or financial position.

The Company has been named, along with numerous other defendants, in asbestos-related lawsuits associated with business operations previously acquired by the Company, but which are no longer owned. None of the businesses produced or sold asbestos-containing products during the Company s ownership and the Company believes it has no liability for such claims. The Company is either contractually indemnified against liability for asbestos-related claims or believes that the claims may be covered by policies of insurance in effect prior to the Company s purchase of the businesses. While the outcome of these asbestos-related lawsuits and the availability of coverage cannot be predicted with certainty, claims against the Company have not historically been aggressively pursued by plaintiff s counsel in the past and the Company has routinely been dismissed from such cases prior to trial. In certain jurisdictions, the Company has successfully obtained dismissal early in the proceedings. The Company does not believe the asbestos-related lawsuits, individually or in the aggregate, will have a material adverse effect on its financial position or results of operations.

From time to time, the Company discovered the existence of hazardous substances at certain facilities associated with previously owned businesses and responded as necessary to bring the facilities into compliance with applicable laws and regulations. Upon sale of the businesses, the Company agreed, in some cases, to indemnify the buyers against environmental claims associated with the divested operations, subject to various conditions and limitations. Remediation activities, including those related to the Company s indemnification obligations, did not involve material expenditures during the third quarter of fiscal 2005 and are not expected to involve material expenditures during the fourth quarter of fiscal of 2005.

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 the third quarter of fiscal 2005 and are not expected to be material during the fourth quarter of fiscal 2005. 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.

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 or results of operations.

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, 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 deductions 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.

6. Comprehensive Loss

For the three- and nine-month periods ended April 3, 2005 and March 28, 2004, comprehensive loss consisted of the following:

	Three Months Ended		Nine Months Ended	
	April 3, 2005	**March 28, 2004**	**April 3, 2005**	**March 28, 2004**
Net income (loss)	$ (24,601)	$ 153	$ (23,099)	$ (7,534)
Currency translation adjustment	(2,874)	(1,786)	4,817	3,601
Comprehensive loss	$ (27,475)	$ (1,633)	$ (18,282)	$ (3,933)

7. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share for the three- and nine-month periods ended April 3, 2005 and March 28, 2004:

	Three Months Ended				Nine Months Ended			
	April 3, 2005		March 28, 2004		April 3, 2005		March 28, 2004	
Numerators:								
Net income (loss) from continuing operations	$	(2,100)	$	518	$	137	$	(5,475)
Loss from discontinued operations		(22,501)		(365)		(23,236)		(2,059)
Net income (loss)	$	(24,601)	$	153	$	(23,099)	$	(7,534)
Denominator:								
Weighted average shares used to compute basic earnings (loss) per share		28,544		28,469		28,525		26,629
Add dilutive effect of stock options outstanding				486		704		
Weighted average shares used to compute diluted earnings (loss) per share		28,544		28,955		29,229		26,629
Net income (loss) per share from continuing operations:								
Basic	$	(0.07)	$	0.02	$	0.00	$	(0.20)
Diluted	$	(0.07)	$	0.02	$	0.00	$	(0.20)
Net loss per share from discontinued operations:								
Basic	$	(0.79)	$	(0.01)	$	(0.81)	$	(0.08)
Diluted	$	(0.79)	$	(0.01)	$	(0.81)	$	(0.08)
Net income (loss) per share:								
Basic	$	(0.86)	$	0.01	$	(0.81)	$	(0.28)
Diluted	$	(0.86)	$	0.01	$	(0.81)	$	(0.28)

The dilutive effect of stock options outstanding was not included in the calculation of dilutive loss per share from continuing operations for the three-month period ended April 3, 2005 and nine-month period March 28, 2004, respectively. The Company s continuing operations had a net loss for those periods, and as a result, inclusion of the dilutive effect of stock options would have had an anti-dilutive impact. The dilutive effect of stock options outstanding was not included in the calculation of dilutive loss per share from discontinued operations for any of the periods presented, as all periods resulted in losses from discontinued operations.

8. Warranties

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

	Nine Months Ended	
	April 3, 2005	March 28, 2004
Balance, beginning of fiscal year	$ 254	$ 503
Additions charged to earnings for product warranties	420	8
Use of reserve for warranty obligations	(354)	(29)
Decrease to pre-existing warranties	(20)	(77)
Reclass to liabilities held for sale	(50)	
Balance, end of period	$ 250	$ 405

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

9. Restructuring Costs

During fiscal year 2004, the Company began a series of restructuring activities that impact both its domestic and foreign operations. The Company is accounting for these activities in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , which requires that liabilities associated with exit or disposal activities initiated after December 31, 2002, be recognized when the liability is incurred, with the exception of termination of certain leases and contracts.

The Company began restructuring activities in its European operations during the second quarter of fiscal 2004, which included a workforce reduction of approximately 200 positions in Europe and the relocation of those positions to lower cost facilities, primarily in China. The Company completed these activities during the third quarter of fiscal 2005. The total cost of these restructuring activities was $1.7 million, related to employee severance and lease termination costs. Costs incurred in the three-month and nine-month periods ended April 3, 2005 were $0.1 million and $0.3 million respectively, which are included in selling, general and administrative expense in the accompanying condensed consolidated statements of operations.

In the fourth quarter of fiscal 2004, the Company began the consolidation of its Glendale Heights, Illinois operation into its Menomonee Falls, Wisconsin facility. The Company completed these activities during the third quarter of fiscal 2005. The total cost of the consolidation activities was $1.3 million, related to employee severance, relocation and lease termination costs. Costs incurred in the three-month period ended April 3, 2005 were $0.4 million, which are included in selling, general and administrative expense in the accompanying condensed consolidated statements of operations. Costs incurred in the nine-month period ended April 3, 2005 were $0.9 million, of which $0.3 million are included in cost of goods sold and $0.6 million are included in selling, general and administrative expense in the accompanying condensed consolidated statements of operations.

10. Pension Expense

Pension expense related to the Company s defined benefit pension plan consisted of the following:

	Three Months Ended		Nine Months Ended	
	April 3, 2005	**March 28, 2004**	**April 3, 2005**	**March 28, 2004**
Service cost	$	$	$	$
Interest cost	2,699	2,563	7,602	7,688
Expected return on plan assets	(3,066)	(2,649)	(8,635)	(7,947)
Amortization of prior service cost				
Recognized net actuarial losses	760	885	2,140	2,654
Total net pension expense	$ 393	$ 799	$ 1,107	$ 2,395

The net pension expense amounts above are included in selling, general and administrative expense in the accompanying condensed consolidated statements of operations.

Item 2 - Management s Discussion and Analysis of Results of Operations and Financial Condition

Overview

We are a global provider of digital power-electronic products, including electronic converters, inverters, rectifiers and systems. These products are used primarily in industrial, telecommunications (telecom), data processing, consumer, imaging, alternative energy, power generation and other applications requiring precise, efficient, reliable power. We believe that with our technical and productive resources we are well positioned to respond to increasing demand for such power. We operate in a single business segment, Digital Power Products, which includes two broad product categories, Systems and Components

Our power control systems consist primarily of programmable motion control and power conditioning systems and include alternating current (AC) and direct current (DC) variable-frequency motor drives, and power inverters for fuel cell, wind and photovoltaic markets.

Our embedded power control products, which are sold primarily to original equipment manufacturers for installation in their products, include: AC-to-DC switching power supplies, AC-to-DC rectifiers and battery chargers, DC-to-DC power converters, DC-to-AC power inverters and peripheral component interconnects. These products are used primarily in telecommunications, data processing and storage, digital imaging, semiconductor processing and testing equipment, medical instrumentation and home appliances.

The past several years have been very challenging in the electronic power industry. The industry is characterized by a large number of competitors, rapid changes in markets, product requirements and demand, and consistent price pressure. Beginning in fiscal year 2001 and continuing through fiscal 2003, there was a significant decrease in demand in many of our served markets. This reduction in demand resulted in overcapacity in the industry and, as a result, we generated operating losses throughout fiscal 2003 and during the first half of fiscal 2004. We began to see recovery and increased demand in certain of our end markets in the second half of fiscal year 2004, and that recovery continued into our first half of fiscal 2005, ended January 2, 2005. However, we have experienced recent signs of slowing growth in certain of our served markets. This recent weakness is reflected in our bookings (new orders received) during our second and third quarters of fiscal 2005.

Third-quarter fiscal 2005 bookings were $55.3 million, 97% of our third-quarter sales, and our backlog as of April 3, 2005 was $65.0 million. Bookings for the third quarter of fiscal 2004 were $70.2 million and our backlog as of March 28, 2004 was $68.3 million. Second-quarter fiscal 2005 bookings were $53.6 million, 86% of our second- quarter sales, and our backlog as of January 2, 2005 was $69.9 million. The decline in bookings versus the prior year is primarily related to traditional embedded power products. We continue to focus on gaining share in systems markets and on new product introductions in industrial, transportation, utility, and alternative energy markets, and our future sales growth is largely dependent on the success of this strategy. As a result, we expect that our product development costs and selling expenses could continue to exceed prior year levels in the fourth quarter of fiscal 2005.

Fiscal 2005 third-quarter sales were $57.0 million, an 8% decrease from fiscal 2004 third-quarter sales of $61.8 million, and down 8% from the fiscal 2005 second-quarter sales of $62.0 million. The decrease in sales volume relates directly to the decline in bookings for traditional embedded power products. We continued to gain new orders for our alternative energy products during the third quarter of fiscal 2005, but sales of those products are not yet contributing significantly to our total sales.

Our loss from continuing operations was $2.1 million in the third quarter of fiscal 2005 compared to income from continuing operations of $0.5 million in the third quarter of fiscal 2004. Income from continuing operations was $0.1 million for the nine months ended April 3, 2005 compared to a loss from continuing operations of $5.5 million for the nine months ended March 28, 2004. The loss from continuing operations in the third quarter of fiscal 2005 was primarily due to lower sales volume, increased legal fees, plant relocation costs, efficiency issues related to our factory move in China, and increased spending on research and development (R&D). We feel increased spending on R&D is essential to achievement of our sales strategy. We completed restructuring activities in the third quarter of fiscal 2005, related mainly to plant consolidation in the U.S. and a move of our existing operations in China to a nearby larger facility, which should double our production capacity in China.

Our telecom power system business continued to generate losses throughout fiscal 2005, and as a result, we are in the process of divesting this business. We are currently in negotiations with a prospective buyer, and we will account for our telecom power system business as discontinued operations until it is divested.

Subsequent to the end of the third quarter of fiscal 2005, we were informed of a decision in a patent infringement claim brought against us by Ole K. Nilssen (see Note 5 of Notes to Condensed Consolidated Financial Statements). We had earlier agreed to binding and final arbitration, and in May 2005, the arbitrator awarded damages to Mr. Nilssen of $23.4 million. Since the patent infringement award relates to a business we divested in June 2001, the accompanying financial statements reflect the impact of this award, net of amounts previously recorded of $1.4 million, in discontinued operations. Mainly as a result of this award, our loss from discontinued operations was $22.5 million for the third quarter of fiscal 2005 compared to a loss of $0.4 million in the third quarter of fiscal 2004. Our loss from discontinued operations totaled $23.2

million and $2.1 million for the nine months ended April 3, 2005 and March 28, 2004, respectively (see Note 3 of Notes to Condensed Consolidated Financial Statements). Based on the terms of the arbitration, we are required to pay the $23.4 million award, net of amounts previously paid of $0.8 million, to Mr. Nilssen within ten days after issuance of the arbitrator s decision. The award has a material adverse effect on the Company s financial position and results of operations for the period ended April 3, 2005, and will have a material adverse effect on the Company s future cash flows and liquidity (see Liquidity and Capital Resources below).

Our cash balances decreased $0.7 million during the third quarter of fiscal 2005, and our total outstanding debt balances decreased by $0.3 million. Fiscal 2005 third-quarter capital expenditures were $2.2 million, and we currently have no plans for major capital outlays.

Our strategy will continue to emphasize diversity in both our product offerings and our targeted markets, continued relocation of manufacturing operations to China, outsourcing of certain products and processes, and increased sales of higher margin products and systems. We believe that future sustained profitability is highly dependent upon increasing sales and gross margins, penetration of higher margin markets (such as utilities and alternative energy) and a shift in our sales mix to a proportionately higher percentage of Systems.

Critical Accounting Policies

The following discussion and analysis of our financial position and results of operations is based upon our condensed consolidated financial statements. In preparing financial statements in conformity with accounting principles generally accepted in the United States, we are required to make estimates and assumptions that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Such estimates are based upon historical experience and other assumptions believed to be reasonable given known circumstances. Actual results could differ from those estimates. On an ongoing basis, we evaluate and update our estimates, and we believe the following discussion addresses our policies which are most critical to understanding our financial position and results of operations, and which require our most complex judgments.

Accounts Receivable and Allowance for Doubtful Accounts

Our allowance for doubtful accounts is determined using a combination of factors to reasonably ensure that receivables balances are not overstated due to uncollectibility. We maintain an allowance for doubtful accounts based on a variety of factors, including the length of time receivables are past due, significant one-time events, financial condition of customers and historical experience. We record specific provisions for individual accounts when we become aware of a customer s inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer s operating results or financial position. In addition, a general allowance is established based on historical bad debt experience as a percentage of sales. We feel these estimates have been accurate in the past; however, market conditions in our industry can change very rapidly. Changes in market conditions, customer circumstances, bad debt experience or sales volumes would impact our assumptions, and our estimates of the recoverability of receivables would be further adjusted, either upward or downward.

Inventories

We identify potentially obsolete and excess inventory by evaluating overall inventory levels in relation to expected future requirements and market conditions, and provisions for excess and obsolete inventory and inventory valuation are recorded accordingly. Obsolete inventory is defined as inventory with no usage or requirements for the past six months and no future requirements. Provisions are made for obsolete inventory at the point in time the determination is made that the inventory is obsolete.

Excess inventory is defined as those items where quantities on hand exceed twelve months usage. Twelve months usage figures consider usage over the past twelve months as well as future expected usage. Adjustments for excess inventory are recorded to cost of sales quarterly.

In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements and compare those with the current or committed inventory levels. Our estimates have been reliable in the past in identifying and quantifying excess and obsolete inventory, with the exception of inventory related to our telecom products, where demand decreased more rapidly and in greater magnitude than we anticipated during fiscal 2002 and 2003, when additional reserves were recorded. If future demand requirements are less favorable than those we currently project, our assumptions could change in the future and additional provisions to increase inventory reserves may be required.

Long-Lived Assets and Goodwill

We periodically evaluate the recoverability of our long-lived assets, including property, plant and equipment. Impairment charges are recorded in operating results when the undiscounted future expected cash flows derived from an asset are less than the carrying value of the asset.

We are required to perform annual impairment tests of our goodwill, and may be required to test more frequently in certain circumstances. We have elected to perform our annual impairment test in the fourth quarter of our fiscal year. We have identified our Telecom Power, Power Components and Power Systems groups as reporting units under SFAS No. 142. In assessing potential impairment, we make significant estimates and assumptions regarding the discounted future cash flows of our reporting units to determine the fair value of those reporting units. Such estimates include, but are not limited to, projected future operating results, working capital ratios, cash flow, terminal values, market discount rates and tax rates. When performing our annual impairment tests, we compare all relevant assumptions from the prior year test to the actual results, and have found our assumptions to be accurate in identifying impairment charges. If circumstances cause these estimates to change in the future, or if actual circumstances vary significantly from these assumptions, this could result in additional goodwill impairment charges.

Pension Benefits

We sponsor a defined benefit plan that covers a number of current and former employees in the U.S. The valuation of our pension plan requires the use of assumptions and estimates that attempt to anticipate future events to develop actuarial valuations of expenses, assets and liabilities. These assumptions include discount rates, expected rates of return on plan assets and mortality rates. We consider market conditions, including changes in investment returns and interest rates, in making these assumptions. Our plan assets are comprised mainly of common stock and bond funds. The expected rate of return on plan assets is a long-term assumption and is generally not changed on an annual basis. The discount rate reflects the market for high-quality fixed income debt instruments and is subject to change each year. Changes in assumptions typically result in actuarial gains or losses that are amortized in accordance with the methods specified in SFAS No. 87, Employers Accounting for Pensions .

Significant differences between our assumptions and actual future investment return or discount rates could have a material impact on our financial position or results of operations and related funding requirements.

Income Taxes

We operate in several tax jurisdictions and are therefore subject to a variety of income and related taxes. We record estimated tax provisions and liabilities for estimated income taxes due in various tax jurisdictions where we earn taxable income and where we have determined such liabilities are probable and reasonably estimable. We record deferred income tax assets in tax jurisdictions where we generate losses for income tax purposes. We also record valuation allowances against these deferred tax assets in accordance with SFAS No. 109, Accounting for Income Taxes , when in our judgment, the deferred income tax assets will likely not be realized in the foreseeable future.

Considerable judgment is required in determining income tax provisions, tax liabilities, deferred tax assets and valuation allowances. We assess the adequacy of our tax accounts on a quarterly basis and believe we have reasonably estimated our tax provisions, liabilities, and assets for all jurisdictions. However, it is possible that our actual tax provision and related accounts could differ from our estimates, and any related adjustment could have a material impact on our income tax provision and operating results in any period such a determination is made.

Results of Operations - Three Months Ended April 3, 2005 and March 28, 2004

Net Sales and Gross Profit

Net sales for the third quarter of fiscal 2005 were $57.0 million, a decrease of 8% from the third quarter of fiscal 2004 sales of $61.8 million. The decrease is mainly due to lower sales of embedded power supplies, $4.2 million, and lower sales of power control systems, $1.8 million, partially offset by currency translation impact from the stronger Euro, $1.2 million.

Our fiscal 2005 third quarter gross profit was $14.2 million, or 24.9% of sales, versus $15.1 million, or 24.4% of sales in the third quarter of fiscal 2004. The reduction of gross profit of $0.9 million from the prior year is due to lower sales volume, $1.2 million negative impact to gross profit, excess inventory charges of $0.3 million, and efficiency issues related to the move of our plant in China to a nearby larger facility, partially offset by the relocation of certain product lines from Europe to China and currency translation impact from the stronger Euro.

Research and Development, Selling, General and Administrative

We continued to increase our investment in R&D during the third quarter of fiscal 2005. R&D expense was $4.0 million, or 7.0% of sales, in the third quarter of fiscal 2005 compared to $3.4 million, or 5.5% of sales, in the third quarter of fiscal 2004. We have increased spending on new product development for utility and alternative energy markets, and continue to invest in new power-electronic platforms and applications and expand the breadth of existing product lines. This accounts for $0.5 million of the increase in R&D, mainly in payroll-related expenses, and prototype and product development expenses, with the remaining $0.1 million due to currency translation impact.

Selling, general and administrative (SG&A) expense was $11.6 million (20.4% of sales) in the third quarter of fiscal 2005 versus $10.6 million (17.2% of sales) in the third quarter of fiscal 2004. Our third quarter fiscal 2005 selling expenses were $4.3 million, versus $3.9 million in the third quarter of fiscal 2004, due mainly to higher payroll-related expenses from increased headcount. Our third quarter fiscal 2005 general and administrative (G&A) expense was $7.3 million, compared to third quarter fiscal 2004 expense of $6.7 million. The increase is due to higher legal fees, $0.4 million, increased bad debt provision, $0.4 million, higher payroll-related costs of $0.3 million, and increased restructuring costs of $0.1 million, partially offset by lower pension expense of $0.4 million. G&A expense for the third quarter of fiscal 2005 reflects legal fees of $0.7 million related mainly to the Nilssen patent infringement arbitration (see Note 5 of Notes to Condensed Consolidated Financial Statements), and $0.5 million of restructuring expense related to plant closure and relocation. The fiscal 2004 third quarter included $0.4 million of restructuring expense related to plant closure and relocation. Pension expense in the third quarter of fiscal 2005 was $0.4 million versus pension expense of $0.8 million in the third quarter of fiscal 2004 (see Note 10 of Notes to Condensed Consolidated Financial Statements).

Income (Loss) from Operations

Our loss from operations for the third quarter of fiscal 2005 was $1.5 million compared to income from operations of $1.0 million for the third quarter of fiscal 2004. The loss in the third quarter of fiscal 2005 resulted from lower gross profit due to lower sales volumes, and increased R&D and SG&A expenses.

Interest Expense

Interest expense was $0.5 million in the third quarter of fiscal 2005, comparable to interest expense of $0.5 million in the third quarter of fiscal 2004. There was no allocation of interest expense to discontinued operations in fiscal 2005 or 2004.

Loss from Discontinued Operations

Our loss from discontinued operations was $22.5 million in the third quarter of fiscal 2005, compared to a loss of $0.4 million in the third quarter of fiscal 2004 (see Note 3 of Notes to Condensed Consolidated Financial Statements). The increased loss in the third quarter of fiscal 2005 is due to a patent arbitration charge of $22.0 million.

Net Income (Loss)

Our net loss was $24.6 million in the third quarter of fiscal 2005, compared to net income of $0.1 million in the third quarter of fiscal 2004. On a per share basis, our net loss was $0.86 per share for the three months ended April 3, 2005, compared to net income of $0.01 per diluted share for the three months ended March 28, 2004. We recorded a tax provision of $0.1 million in the third quarter of fiscal 2005, associated with our foreign operations. We did not record a tax benefit on our pretax loss, due to the uncertainty of realizing any such tax benefits. We did not record a tax provision in the third quarter of fiscal 2004.

Results of Operations - Nine Months Ended April 3, 2005 and March 28, 2004

Net Sales and Gross Profit

Net sales for the first nine months of fiscal 2005 were $185.2 million, an increase of 12.7% from the fiscal 2004 first nine-month sales of $164.3 million. The increase of $20.9 million is due to higher sales of power systems, $8.4 million, higher sales of embedded power supplies, $6.8 million, and currency translation impact from the stronger Euro, $5.7 million. In addition, the first nine months of fiscal 2005 contained forty weeks while the first nine months of fiscal 2004 contained thirty-nine weeks. This additional week accounts for approximately $4.9 million of the sales increase in power supplies and power systems described above.

Our gross profit for the first nine months of fiscal 2005 was $45.9 million, or 24.8% of sales, versus $37.9 million, or 23.1% of sales, in the first nine months of fiscal 2004. The improvement in gross profit of $8.0 million is primarily due to higher sales volume and improved product mix, $4.8 million, relocation of production to lower cost facilities, $3.6 million, and currency translation impact from the stronger Euro, $1.1 million, partially offset by excess inventory charges of $0.3 million and restructuring costs of $0.3 million (see Note 9 of Notes to Condensed Consolidated Financial Statements). The divestiture in the first half of fiscal 2004 of our telecom service business also improved margins by $0.7 million on a comparable basis in fiscal 2005, as that business was generating negative gross profits in fiscal 2004.

Research and Development, Selling, General and Administrative

R&D expense was $11.2 million, or 6.0% of sales, for the first nine months of fiscal 2005 compared to $9.2 million, or 5.6% of sales for the first nine months of fiscal 2004. The increase is due to higher payroll-related expenses from increased headcount, increased prototype, testing and certification expenses, and currency translation impact from the stronger Euro, as most of our R&D spending (60%) occurs in Europe. For the first nine months of fiscal 2005, we continued to increase spending in new product development aimed at utility, transportation, back-up power and alternative energy markets, in addition to continued spending for development of new power-electronic platforms and applications.

SG&A expense was $34.2 million (18.5% of sales) for the first nine months of fiscal 2005 versus $32.6 million (19.8% of sales) for the first nine months of fiscal 2004. Of these amounts, selling expenses were $13.8 million for the first nine months of fiscal 2005, versus $11.5 million for the first nine months of fiscal 2004, due mainly to increased commission expense on the higher sales volume. G&A expenses were $20.4 million for the first nine months of fiscal 2005, versus $21.1 for the first nine months of fiscal 2004. The reduction in G&A expense is due to reduced provision for bad debts, $1.3 million, lower pension expense, $1.3 million, and reduced insurance expense, $0.5 million, partially offset by higher legal fees, $1.3 million, and payroll-related expenses of $1.2 million. G&A expense for the first nine months of fiscal 2005 includes legal fees of $1.5 million related to the Nilssen patent infringement arbitration (see Note 5 of Notes to Condensed Consolidated Financial Statements), and pension expense of $1.1 million. G&A expense for fiscal 2004 includes pension expense of $2.4 million, and a $1.7 million charge to write down the value of accounts receivable related to a customer bankruptcy.

Income (Loss) from Operations

Income from operations for the first nine months of fiscal 2005 was $0.5 million compared to a loss from operations of $3.9 million for the first nine months of fiscal 2004. The improvement in income from operations is due to higher sales volumes, which resulted in improvement in gross profits, partially offset by higher SG&A expense as described above.

Interest Expense

Interest expense was $1.2 million for the first nine months of fiscal 2005 compared to interest expense of $1.6 million for the same period in fiscal 2004. The decrease is mainly due to deferred financing charges, which decreased from $0.5 million in the first nine months of fiscal 2004 to $0.2 million in the first nine month of fiscal 2005. There was no allocation of interest expense to discontinued operations in fiscal 2005 or 2004.

Other Income

Other income for the first nine months of fiscal 2005 was $1.3 million, comprised of the one-time sale and license of certain patents and technology rights. Under the terms of the sale agreement, we have no remaining obligations nor will we receive future royalties. We received $1.3 million in cash upon consummation of the agreement during the second quarter of fiscal 2005. There was no other income in the first nine months of fiscal 2004.

Loss from Discontinued Operations

Our loss from discontinued operations for the first nine months of fiscal 2005 was $23.2 million, compared to a loss of $2.1 million for the first nine months of fiscal 2004 (see Note 3 of Notes to Condensed Consolidated Financial Statements). The increased loss in the first nine months of fiscal 2005 is due to a patent arbitration charge of $22.0 million, partially offset by the divestiture of our telecom service business during the first quarter of fiscal 2004, which was generating significant operating losses in fiscal 2004.

Net Loss

Our net loss for the first nine months of fiscal 2005 was $23.1 million compared to a net loss of $7.5 million for the first nine months of fiscal 2004. On a per share basis, our net loss was $0.81 per share for the nine months ended April 3, 2005, compared to a net loss of $0.28 per share for the nine months ended March 28, 2004. We recorded a tax provision of $0.5 million in the first nine months of fiscal 2005, associated with our foreign operations. We did not record a tax benefit on our pretax loss in the first nine months of fiscal 2004.

Liquidity and Capital Resources

Our cash balances increased $1.0 million in the first nine months of fiscal 2005, from $2.3 million at June 27, 2004 to $3.3 million at April 3, 2005. Our primary sources of cash in the first nine months of fiscal 2005 were increased borrowings of $6.0 million under line-of-credit agreements, a reduction of $3.6 million in our accounts receivable balances, a $3.3 million net tax refund received from the Internal Revenue Service, and a $1.3 million payment received from the one-time sale and license of rights and patents, partially offset by a decrease of $12.0 million in our accounts payable and accrued liabilities balances compared to June 27, 2004. Capital expenditures for the third quarter of fiscal 2005 were $2.2 million and for the nine months ended April 3, 2005 were $6.1 million, less than depreciation and amortization expense of $2.4 million for the third quarter of fiscal 2005 and $7.3 million for the same period. We anticipate that our capital expenditures for the fiscal year will be less than depreciation and amortization expense for the fiscal year, which is estimated at approximately $10.0 million.

On May 3, 2005, an arbitrator awarded damages against us of $23.4 million in a patent dispute with Ole K. Nilssen. Based on the terms of the binding arbitration, we are required to pay this amount, net of amounts previously paid of $0.8 million, to Mr. Nilssen within ten days of the award. We currently do not have the ability to meet this obligation within the ten-day timeframe. We have entered into discussions with our advisors, and with Mr. Nilssen and his advisors regarding various available options to resolve this matter, including the possibility of extending the payment period while investigating financing alternatives. Among the alternatives we are exploring are debt financing, equity financing, or a sale of part of the business, or all of the Company.

As of April 3, 2005, our long-term borrowings (including current portion) were $22.9 million, an increase of $4.8 million from borrowings of $18.1 million as of June 27, 2004. The aggregate lending commitment under our North American credit agreement (Credit Agreement) is $19.0 million with available borrowings determined by a borrowing base as defined in the agreement, supported by eligible domestic accounts receivable and inventory. Borrowings under the Credit Agreement bear interest at the bank s prime lending rate plus one percent or, at our option, the London Interbank Offering Rate (LIBOR) plus three and one-quarter percent. Borrowings under the Credit Agreement are secured by substantially all of our North American assets. At the end of the second quarter of fiscal 2005, we were in violation of certain covenants and received a waiver of all covenant violations from our bank in exchange for a temporary reduction in available credit of $7.0 million. As a result, we had $5.7 million of available borrowing capacity as of April 3, 2005, with $2.9 million of borrowings outstanding under the facility. The patent award described above places us in default of our Credit Agreement, resulting in a reclassification of borrowings outstanding from long-term debt to a current liability. While our bank has indicated to us that it does not currently intend to discontinue the extension of credit or accelerate the loans, it reserves the right to do so at its discretion.

Our European subsidiary maintains revolving borrowing arrangements with local banks, primarily to support working capital needs. Available borrowings under these arrangements aggregate approximately Euro 20.0 million depending in part upon levels of accounts receivable, and bear interest at various rates ranging from 2% to 8%. During the first quarter of fiscal 2004, our European subsidiary entered into an agreement with a European bank to provide borrowings secured by the subsidiary s land and building over a ten-year period. Borrowings under this agreement bear interest at EURIBOR plus one and one-half percent. The initial commitment to lend under this agreement is Euro 7.0 million, with the commitment reduced ratably on a quarterly basis beginning March 31, 2004 and ending December 31, 2013. Amounts outstanding at April 3, 2005 under all of our European lending agreements were $20.0 million.

As a result of the decline in interest rates and stock market equity values over the past two years, the accumulated benefit obligation of our defined benefit pension plan exceeds plan assets as of the end of April 3, 2005. The amount and timing of future contributions to the plan are dependent upon values in equity and fixed income markets, and to a lesser extent, the level of interest rates. Actuarial projections indicate no mandatory contributions to the plan would be required through fiscal year 2008, although we may elect to make contributions prior to that time. No contributions were made in the first nine months of fiscal 2005.

Our current borrowing capacity under our revolving loan facilities and our internally generated cash flows will not be sufficient to fund the patent award, anticipated working capital needs, capital expenditures, and other near-term commitments during the next twelve months. Our ability to fund such items is dependent on our ability to successfully negotiate a settlement with or satisfy our obligation to Mr. Nilssen, by raising funds from equity financing, debt financing, asset sales, or some combination thereof.

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 , cou 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, the recovery in the electronic power industry, our goals and strategies, new product introductions, penetration of new markets, projections of sales revenues, 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, 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.

In addition to the risk factors discussed above, a number of other 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. The following list of risk factors is not all-inclusive. Other factors and unanticipated events could adversely affect our financial position or results of operations. We believe that the most significant potential risk factors that could adversely impact us are the following:

Inability to Satisfy Patent Award Obligation

On May 3, 2005, an arbitrator awarded damages against us in the Ole K. Nilssen patent infringement case in the amount of $23.4 million. Based on the terms of the arbitration, we are required to pay this amount to Mr. Nilssen within ten days after issuance of the award. We currently do not have the ability to meet this obligation within the ten-day timeframe. Our current borrowing capacity under our revolving loan facilities and our internally generated cash flows will not be sufficient to fund payment of the award. We have entered into discussions with our advisors, and with Mr. Nilssen and his advisors regarding various available options to resolve this matter, including the possibility of extending the payment period while investigating financing alternatives. If we are unable to raise sufficient funds to satisfy our payment obligation or cannot reach agreement with Mr. Nilssen regarding an appropriate payment method or timetable, we may be forced to pursue a reorganization of the Company via Chapter 11 bankruptcy proceedings.

Economic Conditions and Demand for our Products

Demand for our products, which impacts our revenue and gross profit, is affected by general business and economic conditions, and more specifically by conditions in the electronic power industry. A low level of demand for power products in the telecommunications and information technologies industries had an adverse effect on our operating results in fiscal 2003 and to a lesser extent in fiscal 2004, and we incurred significant losses in those years. Demand for our products is also impacted by changes in customer order patterns, such as changes in inventory levels maintained by customers and the timing of customer purchases. If demand in certain of our served markets deteriorates in subsequent periods, our operating results could be adversely affected and losses could recur.

Competitive Industry

We operate in an intensely competitive industry characterized by rapid changes in technology, product demand, prices and lead times. Our future profitability depends on our ability to successfully identify and react to these changing trends. Specifically, achievement of our sales and profit goals is dependent in part upon our ability to successfully anticipate product demand, to introduce new products to meet that demand in a timely manner at competitive prices, to gain acceptance of our products in the marketplace, and to adapt our existing product platforms in the event of changes in technology. Failure to do so could result in low returns on investment in new products and technologies, a loss of competitive position relative to our peers, obsolete products and technologies, and adverse impact on our operating results. In addition, price erosion in our served markets could have a material impact on our financial position or results of operations.

Dependence on Customers and Credit Risk

We rely on several large customers for a significant portion of our sales. While we have taken actions to diversify our customer base, sales to our top five customers represented approximately 27% of our net sales in fiscal 2004. The loss of any such customers or significant decreases in any such customers levels of purchases could have an adverse effect on our business. In addition, we are exposed to the credit risk of our customers, including risk of bankruptcy, and are subject to losses from uncollectible accounts receivable. If the financial conditions of any of our customers deteriorates and impairs their ability to make payments, we could incur future write-offs of accounts receivable that could have a material impact on our financial position, results of operations or cash flows.

Reliance on Suppliers

We purchase raw materials and subassemblies used in our products from third-party suppliers, and also purchase finished goods for resale to customers from third party subcontractors. If our suppliers or subcontractors cannot meet their commitments to us in terms of price, delivery, or quality, it may negatively impact our ability to meet our commitments to our customers. This could result in disruption of production, delay in shipments to customers, higher material costs, quality issues with our products and damage to customer relationships. In addition, increases in the cost of raw materials purchased from third party suppliers could negatively impact our gross profit and results of operations.

Competitive Size

We believe the power supplies industry includes more than 1,000 enterprises, according to various industry research organizations. Of these enterprises, we compete directly only with manufacturers of complex, non-commodity power products, which we estimate constitute less than 5% of the industry. However, certain of our competitors are significantly larger and have substantially greater resources than us. Further, given excess capacity and the decline in valuations of companies within the industry since 2000, the risk of consolidation in the industry could result in larger competitors than those that exist today.

In power systems, we compete with crane and hoist drive manufacturers and drive system integrators, elevator drive manufactures and control system integrators, mining machinery drive builders, power inverter builders and telecom power systems builders. The total number of such enterprises with whom we compete directly is considered to be fewer than 100. However, certain of our competitors are significantly larger and have substantially greater resources than us, and some are global in scope, whereas we currently compete primarily in the North American market.

International Business

Our international operations are subject to risks associated with changes in local economic and political conditions, laws, codes and standards, currency exchange rates and restrictions, regulatory requirements and taxes.

Since international sales currently account for approximately 55% of our revenue, currency exchange rates impact our results. This is partially a currency translation issue with no economic impact on actual results. However, a fluctuation in exchange rates between a foreign currency and the U.S. dollar can have an economic impact on revenue and profit. During fiscal 2004 and fiscal 2003, we were impacted by such currency fluctuations, primarily the weakening of the U.S. dollar against the Euro. Additional weakening in the value of the dollar against other currencies, primarily the Euro, or changes in any of the other risks listed previously, could have an adverse effect on our financial position or results of operations.

Restructuring and Outsourcing

We have taken actions to relocate some of our production capacity to lower cost countries, primarily to China, and may develop action plans regarding additional relocation or consolidation activities in the future. While we believe that these actions will result in a more competitive position and should also increase our gross profits and reduce our operating expenses, there is no guarantee that these plans will succeed. There is also no assurance that the expected cost savings and improvement in gross profits will be realized, and in addition, these actions may result in quality issues or delays in production or shipment to customers that could have an adverse impact on our results of operations. In addition, there is no assurance that any future activities not yet planned would provide any benefits to our operating results, and any such future plans may result in asset impairment charges.

Intellectual Property

We believe that our intellectual property in the area of digital power-electronics is equal or superior to our competitors and we do not know of any new technologies that could cause a shift away from digital power-electronic solutions. However, as a technology-based company in an industry characterized by short product life cycles, we are highly dependent on both patented and proprietary intellectual property. Therefore, major advancements in digital power-electronic technology by competitors or the advent of technologies obviating digital power-electronic solutions could have an adverse effect on our financial position or results of operations.

Likewise, as evidenced by the Nilssen arbitration award that was entered against us in May 2005, we could be adversely affected financially should we be judged to have infringed upon the intellectual property of others.

Legal and Environmental Issues

Our results of operations could be adversely impacted by pending and future litigation, including claims related to, but not limited to, product liability, patent infringement, contracts, employment and labor issues, personal injury, and property damage, including damage to the environment.

In some cases, we have agreed to provide indemnification against legal and environmental liabilities and potential liabilities associated with operations that we have divested, including certain motor, generator, lighting ballast, transformer and drive manufacturing operations. If we are required to make payments under such indemnification obligations, such payments could have a material adverse impact on our financial position or results of operations. Further, we have been indemnified against potential legal and environmental liabilities and potential liabilities associated with operations that we have acquired, including lighting ballast, transformer, capacitor and crane brake manufacturing operations that were subsequently divested. If not borne by the indemnifiers, such liabilities, if any, could be borne by us and have an adverse effect on our financial position or results of operations.

In connection with our June 2001 sale of our lighting business to Universal Lighting Technologies, Inc. (ULT), we agreed to provide a limited indemnification against certain claims of patent infringement that Ole K. Nilssen might allege against ULT. Mr. Nilssen subsequently filed a lawsuit against ULT alleging infringement by ULT of 29 of his patents pertaining to electronic ballast technology. The lawsuit is currently pending in the U.S. District Court for the Middle District of Tennessee. ULT has made a claim for indemnification against us in respect of this matter, which we accepted. If Mr. Nilssen succeeds in his claim against ULT, our obligation to indemnify ULT for its damages payable to Mr. Nilssen could have a material adverse effect on our financial position and results of operations. Further, if we are unable to raise sufficient funds to satisfy our indemnification obligation to ULT or cannot reach agreement with ULT regarding an appropriate payment method or timetable, we may be forced to pursue a reorganization of the Company via Chapter 11 bankruptcy proceedings.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the areas of foreign exchange and interest rates. To mitigate the effect of such risks, we selectively use specific financial instruments. Hedging transactions can be entered into under Company policies and procedures and are monitored monthly. Our policy clearly prohibits the use of such financial instruments for trading or speculative purposes. There have been no material changes in the reported market risks since that reported in the Company s Annual Report on Form 10-K dated June 27, 2004.

Interest Rates

The fair value of our debt, estimated based on the variable rates on our borrowings, was $22.9 million at April 3, 2005, equal to the carrying value at that date. Prospectively, we do not consider there to be material risk due to changes in the interest rate structure of borrowing rates applicable to such debt. For our debt outstanding at April 3, 2005, a hypothetical 10% adverse change in interest rates would not have had a material impact on the our pre-tax earnings and cash flow due to relatively low variable interest rates.

Foreign Currency Exchange Rates

We may selectively enter into foreign exchange contracts to hedge certain exposures in Europe. A portion of our products are manufactured in Europe and sold in the U.S. Many of these sales to U.S. customers are denominated in U.S. dollars. As a result, our financial results could be impacted by changes in exchange rates, particularly the exchange rate between the U.S. dollar and the Euro. The exposure on sales by our European subsidiaries consists of (1) the exposure related to a weakening U.S. dollar for U.S. dollar denominated sales, as most of the our European subsidiaries costs are in Euro; in the event of a weakening U.S. dollar, locally recorded sales in the functional currency (the Euro) are decreased, (2) the exposure related to a weakening U.S. dollar when payment of U.S. dollar receivables are received from customers, resulting in less local currency than was originally recorded at the date of sale, and (3) the exposure that upon translation of our subsidiaries periodic financial statements, a weakening local currency would result in lower reported sales in U.S. dollars than if the local currency had been stable relative to the U.S. dollar. In the latter case, operating expenses would also be translated at the lower amount and accordingly, the effect on net income would be mitigated. We had no foreign currency contracts outstanding at April 3, 2005.

Item 4 Controls and Procedures

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures and internal control over financial reporting and concluded that (i) our disclosure controls and procedures were effective as of April 3, 2005, and (ii) no change in internal control over financial reporting occurred during the quarter ended April 3, 2005, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

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 the products, which it no longer manufactures, 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 April 2003, Mr. Nilssen s lawsuit and the counterclaims were dismissed with prejudice and both parties agreed to submit limited issues in dispute to final and binding arbitration. The arbitration process commenced on November 8, 2004 and closing arguments were heard on March 15, 2005. As reported by the Company in its press release issued May 4, 2005 and Form 8K filed with the SEC on May 4, 2005, on the afternoon of May 3, 2005, the Company learned of the arbitrator s decision, awarding damages to Nilssen in the amount of $23.4 million. The award has a material adverse effect on the Company s financial position and results of operations for the period ended April 3, 2005, and will have a material adverse effect on the Company s future cash flows and liquidity. The patent award also places the Company in default of its North American credit agreement, resulting in a reclassification of borrowings outstanding from long-term debt to a current liability. While the Company s bank has indicated that it does not currently intend to discontinue the extension of credit or accelerate the loans, the bank reserves the right to do so at its discretion. The Company has entered into discussions with Mr. Nilssen regarding various available options for satisfying the award.

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 Mr. Nilssen might allege against ULT. In February 2003, Mr. Nilssen filed a 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 purchase and sale agreement. The case was successfully removed to the U.S. District Court for the Middle District of Tennessee and is expected to go to trial in February 2006. As in the case against Magnetek, the Company denies that the products for which it has an indemnification obligation to ULT infringe any valid patent and has filed a response on behalf of ULT asserting affirmative defenses, as well as a counterclaim for a judicial declaration that the products do not infringe Mr. Nilssen s patents and that the patents are invalid. The Company will continue to aggressively defend the claims against ULT that are subject to defense and indemnification. The patents and products involved are different than those involved in the May 2005 award, and the Company intends to make different arguments in the U.S. District Court that were not available at the time of arbitration. However, there is a possibility that an adverse decision could be rendered, and such an unfavorable decision could have a material adverse effect on the Company s financial position and results of operations. Discussions with Mr. Nilssen regarding available options for satisfying the arbitrator s recent award will include potential opportunities for concurrently satisfying Mr. Nilssen s claims against ULT.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of equity securities and there were no repurchases of equity securities during our third fiscal quarter ended April 3, 2005.

Item 3 Defaults Upon Senior Securities

None.

Item 4 - Submission of Matters to a Vote of Security Holders

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.

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: May 12, 2005

/s/ David P. Reiland

David P. Reiland
Executive Vice President
and Chief Financial Officer
(Duly authorized officer of the
registrant and principal
financial officer)