QuickLinks −− Click here to rapidly navigate through this document

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10−Q

(Mark One)

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

For the quarterly period ended: December 31, 2002

OR

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

For the transition period from

Commission file number 1−10233

MAGNETEK, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95−3917584** (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 ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b−2 of the Exchange Act). Yes ☒ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, as of February 3, 2003 was 23,527,619 shares.

TABLE OF CONTENTS FOR THE QUARTERLY REPORT ON FORM 10Q
FOR THE FISCAL QUARTER ENDED DECEMBER 31, 2002

MAGNETEK, INC.

PART I. FINANCIAL INFORMATION

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 accounting principles for complete financial statements.

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to fairly present the financial position as of December 31, 2002 and the results of operations and cash flows for the three−month and six−month periods ended December 31, 2002 and 2001. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in the Company's latest Annual Report on Form 10−K. Results for the three−months and six−months ended December 31, 2002 are not necessarily indicative of results that may be experienced for the full fiscal year.

This document contains "forward−looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward−looking statements are inherently subject to risks and uncertainties which in many cases are beyond the control of the Company 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. Such risks and uncertainties include but are not limited to economic conditions in general, sensitivity to industry conditions, competitive factors such as technology and pricing pressures, business conditions in the telecommunications and electronic equipment markets, international sales and operations, dependence on significant customers, increased material costs, risks and costs associated with acquisitions and divestitures, environmental matters and the risk that the Company's ultimate costs of doing business exceed present estimates. Further information on factors that could affect Magnetek's financial results can be found in the Company's filings with the Securities and Exchange Commission.

ITEM 1

MAGNETEK, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE THREE MONTHS ENDED
December 31, 2002 and 2001

(amounts in thousands, except per share data)
(unaudited)

	2002	2001
Net sales	$ 51,268	$ 47,087
Cost of sales	45,026	36,156
Gross profit	6,242	10,931
Research and development	2,945	2,326
Selling, general and administrative	9,951	7,947
Goodwill and fixed asset impairment	34,019	—
Income (loss) from operations	(40,673)	658
Interest and other (income) expense	233	(90)
Income (loss) before provision for income taxes	(40,906)	748
Provision (benefit) for income taxes	(721)	284
Net income (loss)	$ (40,185)	$ 464
Earnings (loss) per common share		
Basic and diluted:		
Net income (loss)	$ (1.71)	$ 0.02

See accompanying notes

MAGNETEK, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE SIX MONTHS ENDED
December 31, 2002 and 2001

(amounts in thousands, except per share data)
(unaudited)

	2002	2001
Net sales	$ 94,094	$ 99,543
Cost of sales	78,068	76,772
Gross profit	16,026	22,771
Research and development	5,458	4,765
Selling, general and administrative	19,415	15,738
Gain from termination of retiree medical plan	(27,771)	—
Goodwill and fixed asset impairment	34,019	—
Income (loss) from operations	(15,095)	2,268
Interest and other (income) expense	419	(226)
Income (loss) before provision for income taxes	(15,514)	2,494
Provision for income taxes	8,928	948
Net income (loss)	$ (24,442)	$ 1,546
Earnings (loss) per common share		
Basic and diluted:		
Net income (loss)	$ (1.04)	$ 0.07

See accompanying notes

MAGNETEK, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

December 31, 2002 and JUNE 30, 2002

(amounts in thousands)

	December 31 (unaudited)	June 30
ASSETS		
Current assets:		
Cash	$ 2,989	$ 4,816
Accounts receivable, net	39,595	41,532
Inventories	40,056	45,338
Prepaid expenses and other	8,804	8,767
Total current assets	91,444	100,453
Property, plant and equipment	99,074	93,167
Less−accumulated depreciation and amortization	68,536	61,194
	30,538	31,973
Goodwill	59,729	95,533
Prepaid pension and other assets	73,179	76,932
Total Assets	$ 254,890	$ 304,891
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 27,104	$ 25,386
Accrued liabilities	15,450	18,559
Current portion of long−term debt	436	407
Total current liabilities	42,990	44,352
Long−term debt, net of current portion	3,382	3,717
Other long−term obligations	80,716	114,003
Deferred income taxes	7,507	—
Stockholders' equity		
Common stock	236	236
Paid in capital in excess of par value	106,385	106,216
Retained earnings	91,361	115,803
Accumulated other comprehensive loss	(77,687)	(79,436)
Total stockholders' equity	120,295	142,819
Total Liabilities and Stockholders' Equity	$ 254,890	$ 304,891

See accompanying notes

MAGNETEK, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE SIX MONTHS ENDED
December 31, 2002 and 2001

(amounts in thousands)
(unaudited)

	2002	2001
Cash flows from operating activities:		
Net income (loss)	$ (24,442)	$ 1,546
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,581	4,497
Gain from termination of retiree medical, net of tax	(17,218)	—
Goodwill and fixed asset impairment	34,019	—
Changes in operating assets and liabilities	4,116	(13,872)
Total adjustments	25,498	(9,375)
Net cash provided by (used in) operating activities	1,056	(7,829)
Cash flows from investing activities:		
Proceeds from sale of discontinued businesses and other assets	—	24,264
Capital expenditures	(2,704)	(4,314)
Net cash provided by (used in) investing activities	(2,704)	19,950
Cash flow from financing activities:		
Proceeds from issuance of common stock	169	648
Stock repurchases	—	(3,916)
Repayment of bank and other long term obligations	(306)	(5,943)
Increase in deferred financing costs	(42)	—
Net cash used in financing activities	(179)	(9,211)
Net increase (decrease) in cash	$ (1,827)	$ 2,910
Cash at the beginning of the period	4,816	5,310
Cash at the end of the period	$ 2,989	$ 8,220
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 279	$ —
Income taxes	$ 520	$ (42)

See accompanying notes

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 reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for fiscal year end 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 30, 2002 filed with the Securities and Exchange Commission.

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. For clarity of presentation, all periods are presented as if they ended on the last day of the calendar period. The three−month and six−month periods ended December 31, 2002 and 2001 each contained thirteen and twenty−six weeks respectively.

2. Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of Magnetek, Inc. and its subsidiaries (the "Company"). All significant inter−company accounts and transactions have been eliminated.

Use of Estimates—The preparation of financial statements in conformity 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 the accompanying notes. Management estimates are used in, but not limited to, accounting for accounts receivable allowances, inventory allowances, depreciation and amortization, asset impairment, pension benefits, contingencies and taxes. Due to inherent uncertainties in making estimates, actual circumstances could differ from our estimates resulting in a material adverse effect on the Company's financial position or results of operations.

Revenue Recognition—The Company's policy is to record and recognize sales only upon shipment.

Inventories—Inventories are stated at the lower of cost (first−in, first−out method) or market.

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 for over the estimated useful lives of the respective assets (ranging from three to forty years) principally using the straight−line method.

Goodwill—In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets".

SFAS No. 141 supercedes APB Opinion No. 16, "Business Combinations", and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises". SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method. The Company's acquisition in May 2002 of LAB Communications, Inc. was accounted for under the purchase method in accordance with SFAS No. 141.

Under SFAS No. 142, goodwill is no longer amortized but is subject to annual impairment tests, or interim impairment tests if certain indicators arise. Intangible assets with indefinite lives are also no longer subject to amortization. Other intangible assets continue to be amortized over their useful lives.

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets", effective July 1, 2001. Under the transitional provisions of SFAS No. 142, the Company completed the required impairment tests by December 2001 and found no indication of impairment. The Company also completed the required annual impairment test during the fourth quarter of fiscal 2002 and found no indication of impairment as of the April 2002 measurement date. During the second quarter of fiscal 2003, the Company performed interim tests for impairment of goodwill (see Note 7 of "Notes to Condensed Consolidated Financial Statements").

Stock Compensation—The Company has elected 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.

Pension Benefits—The valuation of the Company's pension plan requires the use of assumptions and estimates that are used to develop actuarial valuations of expenses, assets and liabilities. These assumptions include discount rates, investment returns, projected salary increases and mortality rates. Changes in assumptions and future interest rates and investment returns could potentially have a material impact on the Company's expenses and related funding requirements.

Derivative Financial Instruments—The Company uses 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 accounting policies for these instruments are based on the Company's designation of such instruments as hedging transactions. The criteria the Company uses for designating an instrument as a hedge include the instrument's effectiveness in risk reduction and the matching of the derivative to the underlying transaction. The resulting gains or losses are accounted for as part of the transactions being hedged, except for losses not expected to be recovered upon the completion of the hedge transaction, which are expensed.

Recent Accounting Pronouncements—In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long−Lived Assets", was issued, which supercedes SFAS No. 121, "Accounting for the Impairment of Long−Lived Assets and for Long−Lived Assets to be Disposed Of" and the accounting and reporting provision of APB Opinion No. 30, "Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions". SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and removes goodwill from its scope and clarified other implementation issues related to SFAS No. 121. SFAS No. 144 also provides a single framework for evaluating long−lived assets to be disposed of by sale. The adoption of SFAS No. 144 did not have a material impact on the Company's results of operations or financial position.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which nullified Emerging Issues Task Force (EITF) Issue 94−3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94−3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 to have a material impact on its results of operations or financial position.

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock−Based Compensation — Transition and Disclosure" (SFAS 148) which amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock−Based Compensation." SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock−based employee compensation and requires more prominent and more frequent disclosures in the financial statements of the effects of stock−based compensation. The provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002 and the interim disclosure provisions are effective for interim periods beginning after December 15, 2002. The Company will provide the required interim and annual disclosures beginning in the quarter ended March 31, 2003.

3. Inventories

Inventories at December 31, 2002 and June 30, 2002 consist of the following:

	December 31	June 30
Raw materials and stock parts	$ 22,505	$ 29,201
Work−in−process	13,078	10,747
Finished goods	4,473	5,390
	$ 40,056	$ 45,338

The above figures as of December 31, 2002 reflect a charge of $4.7 million to write down the value of excess telecom−related inventory.

4. Commitments and Contingencies

The Company is a party to a number of product liability lawsuits, many of which involve fires allegedly caused by defective lighting ballasts. All of these cases are being defended by the Company, and management believes that its insurers will bear all liability, except for applicable deductibles, and that none of these proceedings individually or in the aggregate will have a material effect on the Company. In June 2001 the Company sold its Lighting business.

The Company is frequently named, along with numerous other defendants, in asbestos−related lawsuits. While the outcome of these cases cannot be predicted with certainty, the Company is aggressively seeking to be dismissed from them and does not believe the proceedings, individually or in the aggregate, will have a material adverse effect on its finances or operations. The Company has never produced asbestos−containing products and is either contractually indemnified against liability for asbestos−related claims or believes that it has no liability for such claims, all of which arise from business operations the Company acquired but no longer owns.

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. Mr. Nilssen seeks unspecified damages and injunctive relief to preclude the Company from making, using or selling products allegedly infringing his patents. The Company denies that any of its products infringe any valid patent and has filed a response asserting its affirmative defenses, as well as a counterclaim for a judicial declaration that its products do not infringe the patents asserted by Nilssen and also that the asserted patents are invalid. The Company intends to vigorously defend against Nilssen's claims and believes it has strong defenses. Although it cannot predict the outcome of the lawsuit, an unfavorable judgement could have a material adverse effect on the Company's financial position or results of operations.

The Company has from time to time discovered the existence of hazardous substances at certain of its facilities. In response, the Company conducts remediation activities to bring its facilities into compliance with applicable laws and regulations. The Company's remediation activities for fiscal 2002 did not involve material expenditures, and the Company does not expect its expenditures for fiscal 2003 to be material. 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 facilities and offsite locations. Its remediation activities as a potentially responsible party were not material for fiscal 2002 and are not expected to be material for fiscal 2003. 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 is not expected to be material.

In connection with certain divestitures, the Company has agreed, from time to time, to indemnify buyers with respect to environmental liabilities associated with the divested operations, subject to various conditions and limitations. Expenditures related to the Company's indemnification obligations were not material in fiscal 2002 and are not expected to be material in fiscal 2003. Although future expenditures pursuant to such indemnification obligations could be material, depending upon the extent and nature of subsequently discovered contamination, the Company does not expect its obligations to require material expenditures.

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. In connection with this acquisition, 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").

Investigation has revealed 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. Century Electric notified the Tennessee Department of Environment and Conservation, Division of Superfund, of the test results from its investigation and the McMinnville plant is listed as a Tennessee Inactive Hazardous Waste Substance Site. A report on the site was presented to the Tennessee legislature and community officials and plant employees were notified of the presence of contaminants at the McMinnville facility. In 1995, Gould completed an interim remedial excavation and disposal of onsite soil containing PCBs. Gould also conducted a preliminary investigation and cleanup of certain onsite and offsite contamination. The cost of any further investigation and cleanup of onsite and offsite contamination cannot presently be determined, but the Company believes such costs (including ancillary costs) are covered by the 1983 Indemnity. The Company sold its leasehold interest in the McMinnville plant 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 or results of operations.

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 Universal's pre−acquisition activities. Environmental liabilities covered by the indemnification agreement include completion of additional cleanup activities, if any, at the Bridgeport, Connecticut facility (recently sold in connection with the sale of the transformer business) and defense and indemnification against liability related to offsite disposal locations where Magnetek may have a share of potential response costs. In 1999 FOL filed a petition for Reorganization under Chapter 11 of the Bankruptcy Code and the Company filed a proof of claim in the proceeding for obligations related to the environmental indemnification agreement. The Company believes that FOL has substantially completed the clean−up obligations required by the indemnification agreement. In November 2001, the Company and FOL entered into an agreement involving the allocation of certain potential tax credits and Magnetek withdrew its claims in the bankruptcy proceeding. FOL's ability to set aside any remaining obligations to the states of Connecticut and New Jersey through bankruptcy, 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.

Beginning in 1997, the Company entered into a number of swap transactions with Bank of America ("B of A") to reduce its exposure to fluctuations in interest rates on its outstanding debt. One swap transaction included a provision that allowed B of A, at its sole option, to extend the transaction for a five−year period upon expiration. Prior to August 1999, the Company paid off all of its outstanding debt and the hedging strategy put in place with B of A was no longer necessary or desirable. Beginning in August 1999, the Company, with B of A's assistance, began unwinding the swap transactions and in December 1999, it unwound the last remaining swap, which was subject to the extension. On June 26, 2002, the Company received notice that B of A intended to exercise the extension of the underlying swap, which at that point had been terminated for two and a half years. Prior to this date, and subsequent to December 1999 the Company had no contact from B of A (which was also the agent bank under its credit agreement) regarding the alleged survival of this extension. As a result of the significant decline in interest rates since December 1999, the present value of such a swap, given current interest rates, would be approximately $3.0 million in favor of B of A. A dispute has arisen between the Company and B of A regarding whether the right to extend the swap was also terminated in December 1999 along with the underlying swap and whether a right to extend a terminated contractual agreement exists.

In December 2002, the Company filed a lawsuit in Los Angeles Superior Court against Bank of America. Bank of America has removed the case to the U.S. District Court for the Central District of California and the Company is seeking to have the case remanded back to State court. The Company intends to vigorously prosecute this lawsuit.

5. Comprehensive Income (Loss)

For the fiscal quarters and six months to date ended December 31, 2002 and 2001, comprehensive income (loss) consisted of the following:

Fiscal Quarter

	2002	2001
Net income (loss)	$ (40,185)	$ 464
Currency translation adjustment	2,176	(2,357)
Comprehensive loss	$ (38,009)	$ (1,893)

Six Months to Date

	2002	2001
Net income (loss)	$ (24,442)	$ 1,546
Currency translation adjustment	1,749	1,722
Comprehensive income (loss)	$ (22,693)	$ 3,268

6. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share.

	Three Months Ended December 31		Six Months Ended December 31	
	2002	2001	2002	2001
Basic earnings (loss) per share:				
Net income (loss)	$ (40,185)	$ 464	$ (24,442)	$ 1,546
Weighted average shares for basic earnings per share	23,518	22,519	23,515	22,531
Basic earnings (loss) per share	$ (1.71)	$ 0.02	$ (1.04)	$ 0.07
Diluted earnings (loss) per share:				
Net income (loss)	$ (40,185)	$ 464	$ (24,442)	$ 1,546
Weighted average shares for basic earnings per share	23,518	22,519	23,515	22,531
Effect of dilutive stock options	—	81	—	262
Weighted average shares for diluted earnings per share	23,518	22,600	23,515	22,793
Diluted earnings (loss) per share	$ (1.71)	$ 0.02	$ (1.04)	$ 0.07

7. Goodwill

The changes in the carrying value of goodwill by reporting unit, net of accumulated amortization of $9,720, are as follows:

	Telecom Power	Power Electronics	Total

			Industrial Controls	
Balance at June 30, 2002	$ 36,301	$ 33,509	$ 25,723	$ 95,533
Purchase price adjustments and reclassifications	(2,859)	—	—	(2,859)
Currency translation	—	514	(17)	497
Impairment of goodwill	(33,442)	—	—	(33,442)
Balance at December 31, 2002	$ —	$ 34,023	$ 25,706	$ 59,729

As a result of the decline in the Company's market capitalization in the first quarter of fiscal 2003, the continuing decline in the telecommunications (telecom) market, and anticipated reduced demand of telecom power system spending in the future, the Company determined that there were indicators of impairment in the carrying value of goodwill related to acquisitions made within the past two fiscal years in the telecom industry. Accordingly, during the second quarter of fiscal 2003, the Company performed an interim test for goodwill impairment in accordance with SFAS No. 142. At the end of the first quarter of fiscal 2003, the Company had goodwill of $95.5 million resulting from acquisitions.

Upon completing the interim impairment tests, the Company recorded a goodwill impairment charge of $33.4 million related to the telecom acquisitions.

8. Subsequent Events

Subsequent to the end of the fiscal second quarter, the Company acquired Telemotive Industrial Controls for approximately $4.7 million. The purchase was funded with proceeds from the Company's domestic revolving loan facility. Telemotive is a manufacturer of wireless remote controls and anti−collision systems for overhead cranes, hoists, monorail systems, conveyors, locomotives and other material handling applications, and reported revenue of approximately $10.0 million in its last fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements. In preparing financial statements in conformity with accounting principles generally accepted in the United States, we must make estimates and assumptions that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results could differ from those estimates. For additional information regarding our critical accounting policies and significant assumptions, refer to Note 2 of Notes to Condensed Consolidated Financial Statements, or to the footnotes included in our Form 10−K for the year ended June 30, 2002 filed with the Securities and Exchange Commission.

Three Months Ended December 31, 2002 and 2001

Net Sales and Gross Profit

Net sales for the second quarter of fiscal 2003 were $51.3 million, an increase of 8.9% from the second quarter of fiscal 2002 sales of $47.1 million. The revenue increase is due to higher sales of industrial control and consumer products, partially offset by lower revenues in telecommunications. We expect continued weakness in telecommunications and information technology markets, and we believe the slowdown in telecommunications may continue at least through fiscal 2003. Accordingly we have focused on gaining share in all addressed markets and on new product introductions in industrial and consumer markets. We expect our third quarter revenue to remain relatively flat with the second quarter, as continuing softness in the general economy and telecommunications are expected to offset higher revenues in markets other than telecommunications.

Our current year second quarter gross profit was $6.2 million, or 12.2% of sales, versus $10.9 million, or 23.2% of sales in the second quarter of fiscal 2002. The current year gross profit reflects a charge of $4.7 million to write down the value of telecom−related inventory based upon past and expected future demand. Excluding this charge gross profit would have been 21.3% of sales. Lower sales and margins in telecom power and related service revenue also negatively impacted gross profit. Also, the strength in the Euro relative to the U.S. dollar compressed gross profits on sales from our European subsidiary denominated in U.S. dollars, negatively impacting power supply gross profits.

Research and Development, Selling, General and Administrative

We continued to increase our investment in research and development (R&D). R&D expense was $2.9 million, or 5.7% of sales, in the second quarter of fiscal 2003 compared to $2.3 million, or 4.9% of sales, in fiscal 2002. We increased spending in new product development aimed at diverse consumer markets, our fastest growing product line. We continue to invest in new power−electronic platforms and applications and expand the breadth of existing product lines.

Selling, general and administrative (SG&A) expense was $10.0 million (19.4% of sales) in the second quarter of fiscal 2003 versus $7.9 million (16.9% of sales) in the second quarter of fiscal 2002. This increase was due to volume−related selling expenses, increased headcount in sales and marketing, an increase in our provision for uncollectible accounts receivable, and increased pension, insurance and advertising expenses. Our second quarter fiscal 2003 selling expenses were $4.2 million versus $3.5 million in the second quarter of fiscal 2002, due to higher spending to improve our sales capabilities, increase brand awareness and develop our domestic OEM and distribution sales channels. Our second quarter fiscal 2003 pension expense was $0.4 million compared to a prior year second quarter income amount of $0.1 million. We expect this higher level of pension expense to occur throughout fiscal 2003. We also recorded a $0.3 million charge to write down the value of accounts receivable due from telecom customers.

Goodwill and Fixed Asset Impairment

During the second quarter of fiscal 2003, we determined that there were indicators of impairment in the carrying value of goodwill, based on the decline in our market capitalization and the continuing decline in the telecommunications industry. We performed an interim impairment test in accordance with SFAS 142 based on updated forecasts of operating results and cash flows, and we recorded a $33.4 million goodwill impairment charge. The charge relates exclusively to our telecommunications business and effectively reduces the carrying value of goodwill for that business to zero.

We also performed an impairment review of our long−lived assets in accordance with SFAS 144. Based upon utilization and current market values of certain fixed assets, notably in our telecommunications business, we recorded a $0.6 million impairment charge to reduce the carrying value of those assets.

Interest and Other Expense (Income)

Net interest expense was $0.2 million in the second quarter of fiscal 2003 compared to net interest income of $0.1 million in the second quarter of fiscal 2002. The increase in net interest expense is attributable to reductions in our cash and cash equivalents balances from the prior year.

Net Income (Loss)

We recorded an after−tax loss of $40.2 million, including the impact of the impairment charges, in the second quarter of fiscal 2003, compared to an after−tax profit of $0.5 million in the second quarter of fiscal 2002. Excluding all telecom−related asset write downs and impairment charges, we would have recorded an after−tax loss of $1.1 million. The tax benefit in the second quarter of fiscal 2003 was $0.7 million (2% effective rate) versus $0.3 million (38% effective rate) in the second quarter of fiscal 2002. The difference in the effective income tax rate is due mainly to the fact that there was no tax benefit associated with the $33.4 million goodwill impairment charge recorded in the current period, as the goodwill is not deductible for income tax purposes.

Six Months Ended December 31, 2002 and 2001

Net Sales and Gross Profit

Our net sales for the first six months of fiscal 2003 were $94.1 million, a 5.4% decrease from sales of $99.5 million for the first six months of fiscal 2002. Current year revenue was negatively impacted by weakness in the general economy as well as continued weakness in certain served markets, notably telecommunications and information technology.

Our fiscal 2003 gross profit for the first six months was $16.0 million, or 17.0% of sales, versus $22.8 million, or 22.9% of sales in the first six months of fiscal 2002. The fiscal 2003 gross profit reflects a charge of $4.7 million to write down the value of telecom−related inventory based upon past and expected future demand. Excluding this charge gross profit would have been $20.7 million, or 22.0% of sales. Lower sales and margins in telecom power and related service revenue also negatively impacted gross profit. Also, the strength in the Euro relative to the U.S. dollar compressed gross profits on sales from our European subsidiary denominated in U.S. dollars, negatively impacting power supply gross profits.

Research and Development, Selling, General and Administrative

Research and development (R&D) expense was $5.5 million, or 5.8% of sales, in the first six months of fiscal 2003 compared to $4.8 million, or 4.8% of sales, in the first six months of fiscal 2002.

We increased spending in new product development aimed at diverse consumer markets, our fastest growing product line. We continue to invest in new power−electronic platforms and applications and expand the breadth of existing product lines.

Selling, general and administrative (SG&A) expense was $19.4 million (20.6% of sales) for the first six months of fiscal 2003 versus $15.7 million (15.8% of sales) for the first six months of fiscal 2002. This increase was due to increased headcount in sales and marketing, and increased pension, insurance and advertising expenses. Fiscal 2003 selling expenses were $8.3 million for the first six months versus $7.0 million in the first six months of fiscal 2002, due to higher spending to improve our sales capabilities, increase brand awareness and develop our domestic OEM and distribution sales channels. Pension expense was $0.8 million for the first six months of fiscal 2003 compared to pension income of $0.5 million for the same period in fiscal 2002. We expect this higher level of pension expense to occur throughout fiscal 2003.

Gain from Termination of Retiree Medical Plan

Fiscal 2003 results for the first six months include a nonrecurring pre−tax gain of $27.8 million related to the termination in the first quarter of our retiree medical plan. The financial impact in future fiscal quarters subsequent to the first quarter of fiscal 2003 will be a reduction of income from operations of approximately $0.4 million, due to elimination of the amortization credit associated with the related liability. However, we will realize a positive quarterly cash impact of approximately the same amount.

Goodwill and Fixed Asset Impairment

During the second quarter of fiscal 2003, we determined that there were indicators of impairment in the carrying value of goodwill, based on the decline in our market capitalization and the continuing decline in the telecommunications industry. We performed an interim impairment test in accordance with SFAS 142 based on updated forecasts of operating results and cash flows, and we recorded a $33.4 million goodwill impairment charge. The charge relates exclusively to our telecommunications business and effectively reduces the carrying value of goodwill for that business to zero.

We also performed an impairment review of our long−lived assets in accordance with SFAS 144. Based upon utilization and current market values of certain fixed assets, notably in our telecommunications business, we recorded a $0.6 million impairment charge to reduce the carrying value of those assets.

Interest and Other Expense (Income)

Net interest expense was $0.4 million for the first six months of fiscal 2003 compared to net interest income of $0.2 million for the same period in fiscal 2002. The increase in net interest expense is attributable to reductions in our cash and cash equivalents balances from the prior year.

Net Income (Loss)

We recorded an after−tax loss of $24.4 million, including the impact of both the nonrecurring gain and the impairment charges, for the first six months of fiscal 2003, compared to an after−tax profit of $1.5 million for the first six months of fiscal 2002. Excluding the impact of the nonrecurring gain and all telecom−related asset write downs and impairment charges, we would have recorded an after−tax loss of $2.6 million. The tax provision for the first six months of fiscal 2003 was $8.9 million versus $0.9 million for the same period of fiscal 2002. While we recorded a pretax operating loss of $15.5 million for the first six months of fiscal 2003, we also recorded a tax provision during the same period, associated mainly with the $27.8 million nonrecurring gain recorded in the first quarter of fiscal 2003. There was no tax benefit associated with the $33.4 million goodwill impairment charge recorded in the second quarter of fiscal 2003, as the goodwill is not deductible for income tax purposes.

Liquidity and Capital Resources

As of December 31, 2002, long−term borrowings (including current portion and representing primarily capital leases and notes payable in Europe) were $3.8 million compared to $4.1 million as of June 30, 2002. We have an agreement (the "Agreement") with a group of banks to provide up to $40.0 million under a revolving loan facility. Available borrowings are based upon specific levels of domestic accounts receivable and inventories measured on a quarterly basis. The facility also supports the issuance of letters of credit. Our European subsidiary also maintains borrowing arrangements with local banks, primarily to support working capital needs. As of December 31, 2002, no borrowings were outstanding under any bank lending facility. Subsequent to the end of the second fiscal quarter, the Company acquired Telemotive Industrial Controls for a cash purchase price of approximately $4.7 million (see Note 8 of "Notes to Condensed Consolidated Financial Statements"). The purchase was funded with proceeds from the domestic revolving loan facility and as of February 12, 2003, borrowings of approximately $4.7 million were outstanding under the Agreement. Primarily as a result of the non−cash charges recorded during the second fiscal quarter in accordance with SFAS Nos. 142 and 144, the banks have taken the position that the Company is in violation of certain financial covenants contained in the Agreement. We are negotiating with the banks for an amendment to resolve the issue. Such amendment will likely include a reduction in the lending commitment under the Agreement and restrictions on disbursements for, among other things, dividend payments, stock repurchases and acquisitions. We also have available borrowings under our European bank lines, which provide additional liquidity for the Company. While management believes that it will be able to reach agreement with the banks regarding an amendment, the inability to do so could have an adverse impact on the Company's liquidity.

Capital expenditures in the second quarter of fiscal 2003 were $1.6 million, with $2.7 million in capital expenditures for the first six months of fiscal 2003. We anticipate that our capital expenditures for the fiscal year will be less than $6.0 million.

We did not repurchase any shares of our common stock during the first six months of fiscal 2003.

As a result of the decline in stock market equity values over the past six months, the accumulated benefit obligation of our defined benefit pension plan exceeds plan assets as of the end of December 31, 2002. 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. While no contributions are mandated, we may elect to make contributions to the plan during fiscal 2003.

Based upon current plans and business conditions, management believes that, subject to negotiating a satisfactory amendment to the Agreement, borrowing capacity under our revolving loan facilities and internally generated cash flows will be sufficient to fund anticipated working capital needs, capital expenditures, and other near−term commitments during the next twelve months.

ITEM 3 QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to market risks in the areas of foreign exchange and interest rates. To mitigate the effect of such risks, the Company selectively utilizes specific financial instruments. Company 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 30, 2002.

ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures was performed by management within 90 days of the filing of this report, with the participation of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO believe the Company's disclosure controls and procedures are effective as of December 31, 2002.

Changes in Internal Controls

In the quarter ended December 31, 2002, there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II   OTHER INFORMATION

ITEM 1.   Legal Proceedings

See Part I, Item 1, Note 4.

ITEM 6.   Exhibits and Reports on Form 8−K

(a) Index to Exhibits

10.1	Change of Control Agreement dated December 11, 2002 between Pete McCormick and MagneTek, Inc.
99.1	Certification pursuant to 18 U.S.C. Section 1350.
99.2	Certification pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8−K

Form 8−K dated January 27, 2003, Press release announcing revaluation of assets based on impairment tests.

Form 8−K dated February 6, 2003, Press release announcing results for the second quarter and the first half of fiscal year 2003.

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: February 14, 2003	By:	/s/ DAVID P. REILAND
		David P. Reiland *Executive Vice President and Chief Financial Officer* (Duly authorized officer of the registrant and principal financial officer)

Certifications Pursuant to Section 302 of the Sarbanes−Oxley Act of 2002

CERTIFICATIONS

I, Andrew G. Galef, certify that:

1. I have reviewed this quarterly report on Form 10−Q of Magnetek, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−14 and 15d−14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ ANDREW G. GALEF

Andrew G. Galef
Chairman of the Board, President and Chief Executive Officer

CERTIFICATIONS

I, David P. Reiland, certify that:

1. I have reviewed this quarterly report on Form 10−Q of Magnetek, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−14 and 15d−14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ DAVID P. REILAND

David P. Reiland
Executive Vice President and Chief Financial Officer

QuickLinks

EXHIBIT 10.1

CHANGE OF CONTROL AGREEMENT

This Change of Control Agreement ("Agreement") is entered into on December 11, 2002 by and between Pete McCormick, an individual (the "Officer"), and MagneTek, Inc., a Delaware corporation (the "Company").

RECITALS

WHEREAS, the Board of Directors of the Company (the "Board") recognizes that the possibility of a Change of Control (as hereinafter defined) exists and that the threat or the occurrence of a Change of Control can result in significant distractions of its key management personnel because of the uncertainties inherent in such a situation;

WHEREAS, the Board has determined that it is essential and in the best interest of the Company and its stockholders to retain the services of the Officer in the event of a threat or occurrence of a Change of Control and to ensure the Officer's continued dedication and efforts in such event without undue concern for personal financial and employment security; and

WHEREAS, in order to induce the Officer to remain in the employ of the Company, particularly in the event of a threat or the occurrence of a Change of Control, the Company desires to enter into this Agreement with the Officer to provide the Officer with certain benefits in the event his or her employment is terminated as a result of, or in connection with, a Change of Control.

AGREEMENT

NOW THEREFORE, in consideration of the mutual covenants set forth herein, and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties do hereby agree as follows:

1. *Term of Agreement.* This Agreement shall commence as of the date hereof and shall continue in effect until December 31, 2003; *provided*, *however*, that on December 31, 2003 and on each anniversary thereof, the term of this Agreement shall automatically be extended for one year unless either the Company or the Officer shall have given written notice to the other prior thereto that the term of this Agreement shall not be so extended; *provided*, *further*, *however*, that notwithstanding any such notice by the Company or the Officer not to extend, the term of this Agreement shall not expire prior to the second anniversary of a Change of Control Date. The benefits payable pursuant to Section 2 hereof shall be due in all events if a Change of Control occurs during the term of this Agreement, and a Change of Control will be deemed to have occurred during the term hereof if an agreement for a transaction resulting in a Change of Control is entered into during the term hereof, notwithstanding that the Change of Control Date occurs after the expiration of the term of this Agreement.

2. *Benefits Upon Change of Control.*

(a) *Events Giving Rise to Benefits.* The Company agrees to pay or cause to be paid to the Executive the benefits specified in this Section 2 if (i) there is a Change of Control, and (ii) within the Change of Control Period, (a) the Company or the Successor terminates the employment of the Executive for any reason other than Cause, death or Disability or (b) the Executive voluntarily terminates employment for Good Reason.

(b) *Benefits Upon Termination of Employment.* If the Executive is entitled to benefits pursuant to this Section 2, the Company agrees to pay or provide to the Executive as severance payment, the following:

(i) A single lump sum payment, payable in cash within five days of the Termination Date (or if later, the Change of Control Date), equal to the sum of:

(A) the accrued portion of any of the Executive's unpaid base salary and vacation through the Termination Date and any unpaid portion of the Executive's bonus for the prior fiscal year; plus

(B) a portion of the Executive's bonus for the fiscal year in progress, prorated based upon the number of days elapsed since the commencement of the fiscal year and calculated assuming that 100% of the target under the bonus plan is achieved; plus

(C) an amount equal to the Executive's Base Compensation times the Compensation Multiplier.

(ii) Continuation, on the same basis as if the Executive continued to be employed by the Company, of Benefits for the Benefit Period commencing on the Termination Date. The Company's obligation hereunder with respect to the foregoing Benefits shall be limited to the extent that the Executive obtains any such benefits pursuant to a subsequent employer's benefit plans, in which case the Company may reduce the coverage of any Benefits it is required to provide the Executive hereunder as long as the aggregate coverage and benefits of the combined benefit plans is no less favorable to the Executive than the Benefits required to be provided hereunder.

(iii) Outplacement services to be provided by an outplacement organization of national repute, which shall include the provision of office space and equipment (including telephone and personal computer) but in no event shall the Company be required to provide such services for a value exceeding 17% of the Executive's Base Compensation.

(iv) Accelerated vesting of all outstanding stock options and of all previously granted restricted stock awards.

3. *Definitions.* When used in this Agreement, the following terms have the meanings set forth below:

"*Base Compensation*" means the sum of (i) the Executive's annual salary in effect on the earlier of the Change of Control Date and the Termination Date and (ii) 100% of the target under the bonus plan for the fiscal year during which the Change of Control Date occurs.

"*Benefits*" means benefits that would be available under any health and welfare plan of the Company on the Termination Date.

"*Benefit Period*" means 18 months.

"*Cause*" means: (A) conviction of a felony or misdemeanor involving moral turpitude, or (B) willful gross neglect or willful gross misconduct in carrying out the Executive's duties, resulting in material economic harm to the Company or any Successor.

"*Change of Control*" means (i) any event described in Section 11.2 of the 1999 Stock Incentive Plan of the Company or any event so defined in any stock incentive or similar plan adopted by the Company in the future unless, in either case, such event occurs in connection with a Distress Sale and (ii) any event which results in the Board ceasing to have at least a majority of its members be "continuing directors." For this purpose, a "continuing director" means a director of the Company who held such position on June 1, 2000 or who thereafter was appointed or nominated to the Board by a majority of continuing directors.

"*Change of Control Date*" means the date on which a Change of Control is consummated.

"*Change of Control Period*" means the period commencing on the earlier of (i) 180 days prior to the Change of Control Date and (ii) the announcement of a transaction expected to result in a Change of Control, and ending on the second anniversary of the Change of Control Date.

"*Code*" means the Internal Revenue Code of 1986, as amended. References herein to a specific section of the Code shall be deemed to include comparable or analogous provisions of state, local and foreign law.

"*Compensation Multiplier*" means 1.5.

"*Disability*" means the inability of the Executive due to illness (mental or physical), accident, or otherwise, to perform his or her duties for any period of 180 consecutive days, as determined by a qualified physician.

"*Distress Sale*" means a Change of Control occurring within 18 months of any of the following: (i) the Company's independent public accountants shall have made a "going concern" qualification in their audit report (other than by reason of extraordinary occurrences, such as material litigation, not attributable to poor management practices); (ii) the Company shall lack sufficient capital for its operations by reason of termination of its existing credit lines or the Company's inability to secure credit facilities upon acceptable terms; or (iii) the Company shall have voluntarily sought relief under, consented to or acquiesced in the benefit of application to it of the Bankruptcy Code of the United States of America or any other liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, suspension of payments or similar laws, or shall have been the subject of proceedings under such laws (unless the applicable involuntary petition is dismissed within 60 days after its filing).

"*Good Reason*" means (A) without the Executive's prior written consent, assignment to the Executive of duties materially inconsistent in any respect with his or her position immediately prior to the Change of Control Date or any other action by a Successor that results in a material diminution in the Executive's position, authority, duties, responsibilities, annual base salary or target bonus when compared with the same immediately prior to the Change of Control Date; or (B) assignment of the Executive, without his or her prior written consent, to a place of business that is not within the metropolitan area of the Executive's current place of business.

"*Stay and Pay Agreement*" means a "stay and pay" or retention agreement entered into in contemplation of a sale by the Company of a division or business unit.

"*Successor*" means any acquiror of all or substantially all of the stock, assets or business of the Company.

"*Termination Date*" means the last day of the Executive's employment.

4. *Eligibility; Effect on Other Agreements and Plans.*

(a) In the event the Executive is also a party to a Stay and Pay Agreement or severance agreement and becomes entitled to any payment thereunder, this Agreement shall be null and void and the Executive shall not be entitled to any payment or benefit hereunder. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company and for which the Executive may qualify, nor shall anything herein limit or reduce such rights as the Executive may have under any other agreements with the Company. Amounts that are vested benefits or that the Executive is otherwise entitled to receive under any plan or program of the Company shall be payable in accordance with such plan or program, except as explicitly modified by this Agreement.

(b) *Plan Amendments.* The Company shall adopt such amendments to its employee benefit plans and insurance policies, including, without limitation, the Plans, as are necessary to effectuate the provisions of this Agreement. If and to the extent any benefits under Section 2 are not paid or payable or otherwise provided to the Executive or his or her dependents or beneficiaries under any such plan or policy (whether due to the terms of the plan or policy, the termination thereof, applicable law, or otherwise), then the Company itself shall pay or provide for such benefits (including any gross−up needed to account for the less favorable tax treatment if the payments are made from the Company and not from the Plans or other employee benefit plans).

5. *Golden Parachute Tax.*

(a) If the Value (as hereinafter defined) attributable to the payments and benefits provided in Section 2 above, without regard to this Section 5 ("Agreement Payments"), in combination with the Value attributable to other payments or benefits in the nature of compensation to or for the benefit of Executive (including but not limited to the value attributable to accelerated vesting of options and, collectively with Agreement Payments, "Payments") would, but for this Section 5, constitute an "excess parachute payment" under Code Section 280G, then Agreement Payments will be made to the Executive under Section 2 hereof only to the extent provided in this Section 5. If (i) the excess of the Value of all Payments over the sum of all taxes (including but not limited to income and excise taxes under Code Section 4999) that would be payable by the Executive with respect to such Payments, is equal to or greater than 110% of (ii) the excess of the greatest Value of all such Payments that could be paid to or for the benefit of the Executive and not result in an "excess parachute payment" (the "Cap"), over the amount of taxes that would be payable by Executive thereon, then the full amount of Agreement Payments shall be paid to the Executive. Otherwise, Agreement Payments shall be made only to the extent that such payments cause the Value of all Payments to equal the Cap.

(b) For purposes of this Section 5, the Company and the Executive hereby irrevocably appoint the persons who constituted the Compensation Committee of the Board immediately prior to the Change of Control, or a three person panel named by a majority of them, as arbitrators (the "Arbitrators") to make all determinations required under this Section 5, including but not limited to the Value of all Payments (and the components thereof) and the amount and nature of any reduction of Agreement Payments required by this Section 5. For purposes of this Section 5, "Value" shall mean value as determined by the Arbitrators applying the valuation procedures and methodologies established pursuant to Code Section 280G, including any non−binding interpretive guidance as the Arbitrators determine appropriate. The determinations of the Arbitrators shall be final and binding on both the Company and Executive, and their successors, assignees, heirs and beneficiaries, for purposes of determining the amount payable under Section 2. All fees and expenses of the Arbitrators (including attorneys' and accountants' fees) shall be borne by the Company. The arbitrators will be compensated, to the extent they are not then members of the Board's Compensation Committee, at the rates at which they would have been compensated for their work as Committee members in effect immediately prior to the Change of Control Date.

6. *Employment At−Will.* Notwithstanding anything to the contrary contained herein, the Executive's employment with the Company is not for any specified term and may be terminated by the Executive or by the Company at any time, for any reason, with or without cause, without liability except with respect to the payments provided hereunder or as required by law or any other contract or employee benefit plan.

7. *General.*

(a) *Entire Agreement.* This document constitutes the final, complete, and exclusive embodiment of the entire agreement and understanding between the parties related to the subject matter hereof and supersedes and preempts any prior or contemporaneous understandings, agreements, or representations by or between the parties, written or oral.

(b) *Successors and Assigns.* This Agreement is intended to bind and inure to the benefit of and be enforceable by the Executive and the Company, and their respective successors and assigns, except that the Executive may not assign any of his or her duties hereunder and he or she may not assign any of his or her rights hereunder without the prior written consent of the Company.

(c) *Amendments.* No amendments or other modifications to this Agreement may be made except by a writing signed by both parties. No amendment or waiver of this Agreement requires the consent of any individual, partnership, corporation or other entity not a party to this Agreement. Nothing in this Agreement, express or implied, is intended to confer upon any third person any rights or remedies under or by reason of this Agreement.

(d) *No Amounts Due.* The Executive acknowledges that no payments or benefits whatsoever shall become due hereunder in the absence of a Change of Control.

(e) *No Mitigation Obligation.* The parties hereto expressly agree that the payment of the benefits by the Company to the Executive in accordance with the terms of this Agreement will be liquidated damages, and that the Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor shall any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise except as expressly provided in Sections 2(b)(ii) and 4(a).

(f) *Changes to Benefits.* In the event that, within 90 days of the execution of this Agreement, the Company enters into an agreement for a Change of Control in connection with a merger to be accounted for as a "pooling of interests," the Board will be entitled to modify or reduce the payments or benefits due hereunder, or to abrogate this Agreement entirely, if and to the extent that Ernst & Young opines to the Board such measures are necessary in order to ensure that the proposed merger will be accounted for as a "pooling of interests." The Board will have no such authority after such 90−day period and, in the event such merger does not eventuate or is ultimately not accounted for as a "pooling of interests," this Agreement, with or without any action by the Board or the Executive, shall be automatically reinstated.

(g) *Choice of Law.* All questions concerning the construction, validity and interpretation of this Agreement will be governed by the laws of the State of Tennessee without giving effect to principles of conflicts of law.

(h) *ERISA.* This Agreement is pursuant to the Company's severance plan for Executives (the "Plan") which is unfunded and maintained by the Company primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. The Plan constitutes an employee welfare benefit plan ("Welfare Plan") within the meaning of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Any payments pursuant to this Agreement which could cause the Plan not to constitute a Welfare Plan shall be deemed instead to be made pursuant to a separate "employee pension benefit plan" within the meaning of Section 3(2) of ERISA as to which the applicable portions of the document constituting the Plan shall be deemed to be incorporated by reference. None of the benefits hereunder may be assigned in any way.

(i) *Representation.* The Executive acknowledges that Gibson, Dunn & Crutcher LLP has not represented the Executive in connection with this Agreement and that she has had the opportunity to consult with counsel before executing this Agreement.

(j) *Mutual Non−Disparagement.* The Company and subsidiaries agree, and the Company shall use its best efforts to cause its respective executive officers and directors to agree, that they will not make or publish any statement critical of the Executive, or in any way adversely affecting or otherwise maligning the Executive's reputation. The Executive agrees that he or she will not make or publish any statement critical of the Company, its affiliates and their respective executive officers and directors, or in any way adversely affecting or otherwise maligning the business or reputation of the Company, its affiliates and subsidiaries and their respective officers, directors and employees.

8. *Arbitration.*

(a) Except as provided in Section 5 hereof, any disputes or claims arising out of or concerning the Executive's employment or termination by the Company, whether arising under theories of liability or damages based upon contract, tort or statute, will be determined exclusively by arbitration before a single arbitrator in accordance with the employment arbitration rules of the American Arbitration Association, except as modified by this Agreement. The arbitrator's decision will be final and binding on both parties. Judgment upon the award rendered by the arbitrator may be entered in any court of competent jurisdiction. In recognition of the fact that resolution of any disputes or claims in the courts is rarely timely or cost effective for either party, the Company and the Executive enter this mutual agreement to arbitrate in order to gain the benefits of a speedy, impartial and cost−effective dispute resolution procedure. The parties further intend that the arbitration hereunder be conducted in as confidential a manner as is practicable under the circumstances, and intend for the award to be confidential unless that confidentiality would frustrate the purpose of the arbitration or render the remedy awarded ineffective.

(b) Any arbitration will be held in Los Angeles, California. The arbitrator must be an attorney with substantial experience in employment matters, selected by the parties alternately striking names from a list of five such persons provided by the American Arbitration Association (AAA) office located nearest to the place of employment, following a request by the party seeking arbitration for a list of five such attorneys with substantial professional experience in employment matters. If either party fails to strike names from the list, the arbitrator will be selected from the list by the other party.

(c) Each party will have the right to take the deposition of one individual and any expert witness designated by the other party. Each party will also have the right to propound requests for production of documents to any party and the right to subpoena documents and witnesses for the arbitration. Additional discovery may be made only where the arbitrator selected so orders upon a showing of substantial need. The arbitrator will have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and will apply the standards governing such motions under the Federal Rules of Civil Procedure.

(d) The Company and the Executive agree that they will attempt, and they intend that they and the arbitrator should use their best efforts in that attempt, to conclude the arbitration proceeding and have a final decision from the arbitrator within 120 days from the date of selection of the arbitrator; *provided, however*, that the arbitrator will be entitled to extend such 120−day period for one additional 120−day period. The arbitrator will deliver a written award with respect to the dispute to each of the parties, who must promptly act in accordance therewith.

(e) The Company will pay any and all reasonable fees and expenses incurred by the Executive in seeking to obtain or enforce any rights or benefits provided by this Agreement, including all reasonable attorneys' and experts' fees and expenses, accountants' fees and expenses, and court costs (if any) that may be incurred by the Executive in pursuing a claim for payment of compensation or benefits or other right or entitlement under this Agreement, *provided* that the Executive is successful as to material issues, resulting in an award of at least $50,000. In addition, the Company will pay without regard to the results of the arbitration all costs and fees not normally associated with a civil proceeding, such as any fees charged by the arbitrator or any room rental charges.

(f) In a contractual claim under this Agreement, the arbitrator must act in accordance with the terms and provisions of this Agreement and applicable legal principles and will have no authority to add, delete or modify any term or provision of this Agreement. In addition, the arbitrator will have no authority to award punitive damages under any circumstances unless repudiating the arbitrator's authority to do so would cause this arbitration clause to be ruled ineffective under applicable law.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date it is last executed below by either party.

Peter M. McCormick

MAGNETEK, INC.

By:

Name: Andrew G. Galef
Title: Chairman and Chief Executive Officer

QuickLinks

QuickLinks −− Click here to rapidly navigate through this document

EXHIBIT 99.1

Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes−Oxley Act of 2002

In connection with the second quarterly report of Magnetek, Inc. (the "Company") on Form 10−Q for the fiscal quarter ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew G. Galef, Chairman of the Board, President and Chief Executive Officer of the Company, certify, pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ANDREW G. GALEF

Andrew G. Galef
Chairman of the Board, President and
Chief Executive Officer

Dated February 14, 2003

EXHIBIT 99.2

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes−Oxley Act of 2002**

In connection with the second quarterly report of Magnetek, Inc. (the "Company") on Form 10−Q for the fiscal quarter ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Reiland, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID P. REILAND

David P. Reiland
Executive Vice President and
Chief Financial Officer

Dated February 14, 2003