UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

# FORM 10-Q

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

For the quarterly period ended September 1, 2001

OR

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

For the transition period from ___________to ____________

Commission File Number 0-6365

APOGEE ENTERPRISES, INC.
(Exact Name of Registrant as Specified in Charter)

| Minnesota | 41-0919654 |
|---|---|
| (State of Incorporation) | (IRS Employer ID No.) |

7900 Xerxes Avenue South, Suite 1800, Minneapolis, Minnesota 55431
(Address of Principal Executive Offices)

Registrant's Telephone Number (952) 835-1874

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the latest practicable date.

| Class | Outstanding at September 30, 2001 |
|---|---|
| Common Stock, $.33-1/3 Par Value | 28,260,602 |

APOGEE ENTERPRISES, INC. AND SUBSIDIARIES
FORM 10-Q
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FOR THE QUARTER ENDED SEPTEMBER 1, 2001

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

APOGEE ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 1, 2001 AND MARCH 3, 2001
(Thousands)

| | September 1, 2001 | March 3, 2001 |
|---|---|---|
| ASSETS | (unaudited) | |
| Current assets | | |
| Cash and cash equivalents | $ 9,479 | $ 4,689 |
| Receivables, net of allowance for doubtful accounts | 124,114 | 121,461 |
| Inventories | 38,972 | 40,434 |
| Deferred tax assets | 4,891 | 4,854 |
| Other current assets | 2,330 | 3,753 |
| Total current assets | 179,786 | 175,191 |
| Property, plant and equipment, net | 140,663 | 147,593 |
| Marketable securities available for sale | 20,433 | 24,451 |
| Investments in affiliated companies | 32,405 | 32,530 |
| Intangible assets, at cost less accumulated amortization of $13,669 and $12,520, respectively | 50,687 | 50,145 |
| Other assets | 2,693 | 2,769 |
| Total assets | $ 426,667 | $ 432,679 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | $ 54,443 | $ 59,537 |
| Accrued expenses | 55,785 | 57,571 |
| Current liabilities of discontinued operations, net | 2,465 | 2,578 |
| Billings in excess of costs and earnings on uncompleted contracts | 8,039 | 10,330 |
| Accrued income taxes | 11,928 | 7,093 |
| Current installments of long-term debt | 661 | 328 |
| Total current liabilities | 133,321 | 137,437 |
| Long-term debt, less current installments | 86,456 | 104,206 |
| Other long-term liabilities | 26,187 | 24,466 |
| Liabilities of discontinued operations, net | 19,068 | 18,278 |
| Commitments and contingent liabilities (Note 6) | | |
| Shareholders' equity | | |
| Common stock, $.33 1/3 par value; authorized 50,000,000 shares; issued and outstanding 28,261,000 and 27,825,000 shares, respectively | 9,420 | 9,275 |
| Additional paid-in capital | 49,461 | 45,773 |
| Retained earnings | 106,295 | 93,543 |
| Unearned compensation | (1,939) | (757) |
| Accumulated other comprehensive (loss) income | (1,602) | 458 |
| Total shareholders' equity | 161,635 | 148,292 |
| Total liabilities and shareholders' equity | $ 426,667 | $ 432,679 |

See accompanying notes to consolidated financial statements.

APOGEE ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED RESULTS OF OPERATIONS
FOR THE THREE MONTHS AND SIX MONTHS ENDED
SEPTEMBER 1, 2001 and SEPTEMBER 2, 2000
(Thousands except Per Share Amounts)
(unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | September 1, 2001 | September 2, 2000 | September 1, 2001 | September 2, 2000 |
| Net sales | $ 210,233 | $ 236,364 | $ 413,839 | $ 473,617 |
| Cost of sales | 158,833 | 189,308 | 317,135 | 378,647 |
| Gross profit | 51,400 | 47,056 | 96,704 | 94,970 |
| Selling, general and administrative expenses | 35,476 | 36,391 | 72,807 | 77,351 |
| Operating income | 15,924 | 10,665 | 23,897 | 17,619 |
| Interest expense, net | 1,234 | 3,180 | 3,156 | 5,962 |
| Equity in income (loss) of affiliated companies | 297 | (665) | 2,365 | (1,356) |
| Earnings from continuing operations before income taxes | 14,987 | 6,820 | 23,106 | 10,301 |
| Income taxes | 4,646 | 2,620 | 7,163 | 4,080 |
| Earnings from continuing operations | 10,341 | 4,200 | 15,943 | 6,221 |
| Earnings from discontinued operations, net of income taxes | - | - | - | - |
| Net earnings | $ 10,341 | $ 4,200 | $ 15,943 | $ 6,221 |
| Earnings per share - basic | | | | |
| Continuing operations | $ 0.37 | $ 0.15 | $ 0.57 | $ 0.22 |
| Discontinued operations | - | - | - | - |
| Net earnings | $ 0.37 | $ 0.15 | $ 0.57 | $ 0.22 |
| Earnings per share - diluted | | | | |
| Continuing operations | $ 0.36 | $ 0.15 | $ 0.56 | $ 0.22 |
| Discontinued operations | - | - | - | - |
| Net earnings | $ 0.36 | $ 0.15 | $ 0.56 | $ 0.22 |
| Weighted average basic shares outstanding | 28,267 | 27,852 | 28,126 | 27,827 |
| Weighted average diluted shares outstanding | 28,889 | 27,853 | 28,604 | 27,827 |

See accompanying notes to consolidated financial statements.

APOGEE ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED SEPTEMBER 1, 2001 AND SEPTEMBER 2, 2000
(Thousands)
(unaudited)

| | September 1, 2001 | September 2, 2000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net earnings | $ 15,943 | $ 6,221 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,482 | 19,027 |
| Deferred income tax benefit | (170) | (621) |
| Equity in net income of affiliated companies less than dividends received | 214 | 17 |
| Other, net | (376) | (100) |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | |
| Receivables | (2,653) | (14,831) |
| Inventories | 1,589 | 7,530 |
| Accounts payable and accrued expenses | (6,946) | 8,639 |
| Accrued and refundable income taxes | 4,835 | (2,352) |
| Other, net | (2,033) | 6,883 |
| Net cash provided by operating activities | 23,885 | 30,413 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (5,488) | (9,714) |
| Acquisition of businesses, net of cash acquired | (247) | (1,383) |
| Purchases of marketable securities | - | (5,872) |
| Sales/maturities of marketable securities | 4,399 | 5,673 |
| Net cash used in investing activities | (1,336) | (11,296) |
| FINANCING ACTIVITIES | | |
| Decrease in net borrowings under revolving credit agreement | (18,200) | (18,000) |
| Proceeds from issuance of other long-term debt | 2,000 | - |
| Payments on other long-term debt | (2,717) | (147) |
| Increase in deferred debt expenses | (161) | (521) |
| Proceeds from issuance of common stock | 3,891 | 517 |
| Repurchase and retirement of common stock | (284) | (319) |
| Dividends paid | (2,965) | (2,912) |
| Net cash used for financing activities | (18,436) | (21,382) |
| Cash provided by discontinued operations | 677 | 1,333 |
| Increase (decrease) in cash and cash equivalents | 4,790 | (932) |
| Cash and cash equivalents at beginning of period | 4,689 | 7,192 |
| Cash and cash equivalents at end of period | $ 9,479 | $ 6,260 |
| Supplemental schedule of non-cash investing activities: | | |
| Net assets contributed to PPG Auto Glass, LLC (see Note 3) | - | $30,844 |

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 1, 2001 and September 2, 2000, the results of operations for the three months and six months ended September 1, 2001 and September 2, 2000, and cash flows for the six months ended September 1, 2001 and September 2, 2000. Certain prior-year amounts have been reclassified to conform to the current period presentation.

The financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and notes. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in the Company's Form 10-K for the year ended March 3, 2001. The results of operations for the three months and six months ended September 1, 2001 and September 2, 2000 are not necessarily indicative of the results to be expected for the full year.

The Company's fiscal year ends on the Saturday closest to February 28. Each interim quarter ends on the Saturday closest to the end of the months of May, August and November. The fiscal 2002 six-month period, ended September 1, 2001, contains 26 weeks whereas the fiscal 2001 six-month period contains 27 weeks.

2. Inventories

| (Thousands) | September 1, 2001 | March 3, 2001 |
|---|---|---|
| Raw materials | $19,350 | $20,124 |
| Work-in process | 6,135 | 6,259 |
| Finished goods | 11,774 | 12,406 |
| Cost and earnings in excess of billings on uncompleted contracts | 1,713 | 1,645 |
| Total inventories | $38,972 | $40,434 |

3. Investments

The Company has acquired, through joint ventures, investments that are accounted for by the equity method. The nature and extent of these investments change over time.

In July 2000, the Company and PPG Industries combined their U.S. automotive replacement glass distribution businesses into the joint venture, PPG Auto Glass, LLC (PPG Auto Glass), of which the Company has a 34% interest. On September 1, 2002, the Company's investment in PPG Auto Glass was $32.0 million, of which $7.4 million represents the unamortized excess of the cost of the investment over the value of the underlying net tangible assets when the joint venture was formed. This excess is being amortized over a life of 20 years. In connection with the formation of PPG Auto Glass, the Company agreed to supply the joint venture, through PPG Industries, with most of its windshield fabrication capacity on market-based terms and conditions. During the second quarter of fiscal 2002, the Company, PPG Industries and PPG Auto Glass amended the windshield supply agreements to permanently adjust pricing for the windshields manufactured and sold to more accurately reflect market pricing. As a result of these amendments, a portion of earnings that may have previously been reported in equity in income from affiliated companies were reported in operating income in the Auto Glass segment for the current quarter. The impact on the current quarter results was an increase to operating income of $3.0 million with an offset to income from affiliated companies. Additionally, $1.8 million was recorded as a one-time net increase to operating income in the quarter as a result of these changes. In addition, the Company's automobile windshield repair and replacement business agreed to purchase most of its windshield needs from PPG Auto Glass on market-based terms and conditions.

The Company's investment in TerraSun LLC relates to a research and development joint venture of which the Company has a 50 percent interest. As of late September, the Company has decided to discontinue funding TerraSun operations. TerraSun has commenced winding down its operations and intends to sell its tangible and intangible assets.

The Company's share of earnings for its affiliated companies is before income taxes and includes amortization of the excess cost over the value of the underlying net tangible assets and expenses retained by the Company.

4. Discontinued Operations

During fiscal 2001, the Company completed the sale of substantially all of the assets of VIS'N Service Corporation (VIS'N), a non-auto glass focused, third-party administered claims processor, in two separate transactions. This transaction effectively removed the Company from the third-party administered claims processing business. This business is presented as discontinued operations in the consolidated financial statements and notes.

In fiscal 2000, the Company completed the sale of 100% of the stock of its large-scale domestic curtainwall business, Harmon, Ltd. In fiscal 1999, the Company executed the sale of its detention/security business. Combined with the fiscal 1998 exit from international curtainwall operations, these transactions effectively removed the Company from the large-scale construction business. These businesses are presented as discontinued operations in the consolidated financial statements and notes.

At September 1, 2001, accruals totaling $21.5 million represented the remaining estimated (net) future cash outflows associated with the exit from discontinued operations. The majority of these cash expenditures are expected to be made within the next two to three years. The primary components of the accruals relate to the finalization of certain international construction projects, legal costs and other costs associated with the proceedings noted above.

5. Earnings Per Share

The following table presents a reconciliation of the denominators used in the computation of basic and diluted earnings per share.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (Thousands) | September 1, 2001 | September 2, 2000 | September 1, 2001 | September 2, 2000 |
| Basic earnings per share-weighted common shares outstanding | 28,267 | 27,852 | 28,126 | 27,827 |
| Weighted common shares assumed upon exercise of stock options | 622 | 1 | 478 | - |
| Diluted earnings per share-weighted common shares and common shares equivalent outstanding | 28,889 | 27,853 | 28,604 | 27,827 |

6. Commitments and Contingent Liabilities

At September 1, 2001, the Company had ongoing letters of credit related to its risk management programs, construction contracts and certain industrial development bonds. The total value of letters of credit under which the Company was obligated as of September 1, 2001 was approximately $13.9 million.

The Company has also entered into a number of noncompete agreements for the benefit of the Company. As of September 1, 2001, we were committed to make future payments of $1.0 million under such agreements.

The Company has been party to various legal proceedings incidental to its normal operating activities. In particular, like others in the construction industry, the Company's construction businesses are routinely involved in various disputes and claims arising out of construction projects, sometimes involving significant monetary damages. Although it is impossible to predict the outcome of such proceedings, the Company believes, based on facts currently available, that none of such claims will result in losses that would have a material adverse effect on its financial condition.

7. Comprehensive Earnings

| (Thousands) | Three Months Ended September 1, 2001 | Three Months Ended September 2, 2000 | Six Months Ended September 1, 2001 | Six Months Ended September 2, 2000 |
|---|---|---|---|---|
| Net earnings | $10,341 | $4,200 | $15,943 | $6,221 |
| Transition adjustment related to change in accounting for derivative instruments and hedging activities | - | - | (1,780) | - |
| Unrealized loss on qualifying cash flow hedges | (415) | - | (528) | - |
| Unrealized gains on marketable securities, net of $111, $226, $133 and $211, tax expense | 206 | 420 | 248 | 393 |
| Comprehensive earnings | $10,132 | $4,620 | $13,883 | $6,614 |

8. New Accounting Standards

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133 regarding accounting for derivative instruments and hedging activities. SFAS No. 133, as amended by SFAS No. 137 and No. 138, establishes accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet either as an asset or liability measured at fair value. SFAS No. 133 requires changes in the derivative's fair value to be recognized in earnings or, for derivatives that hedge market risk related to future cash flows, in accumulated other comprehensive loss/income, unless specific hedge accounting criteria are met. The Company adopted SFAS No. 133 on March 4, 2001 and determined its derivative instruments, consisting of interest rate swap agreements, qualify for hedge accounting treatment. The adoption resulted in the Company recording the fair value of their interest rate swap agreements as a liability with an offsetting adjustment to other comprehensive earnings of $1.8 million. The net present liability associated with these interest rate swap agreements was $2.3 million at September 1, 2001.

In June 2001, FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. Under SFAS No. 142, amortization of goodwill and indefinite-lived intangible assets will cease and instead the carrying value of these assets will be evaluated for impairment by applying a fair-value based test on at least an annual basis. The Company must adopt SFAS No. 142 on March 3, 2002. The

Company is evaluating the impact of these standards and has not yet determined the effect of adoption on its financial position and results of operations

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following selected financial data should be read in conjunction with the Company's Form 10-K for the year ended March 3, 2001 and the consolidated financial statements, including the notes to consolidated financial statements, included therein.

### Sales and Earnings

Consolidated net sales for the second quarter ended September 1, 2001 were $210.2 million, compared to $236.4 million in the same period last year. Revenues were down 3% compared to the second quarter of last year after being adjusted for the formation of the PPG Auto Glass, LLC joint venture in July 2000. Second quarter earnings were $0.36 diluted earnings per share, or $10.3 million, versus $0.15 diluted earnings per share, or $4.2 million, in the fiscal 2001 period.

Fiscal 2002 year-to-date figures include one less week compared to the year-to-date period a year ago. Fiscal 2002 year-to-date net sales decreased 13%, to $413.8 million, compared to $473.6 million a year ago, while net earnings increased 156% to $15.9 million, or $0.56 per share diluted, from $6.2 million, or $0.22 per share diluted, in the prior year. Fiscal 2002 year-to-date net sales decreased 2%, compared to a year ago, after being adjusted for the formation of the PPG Auto Glass, LLC joint venture.

### Second Quarter Fiscal 2002 Compared to Second Quarter Fiscal 2001

The following table compares three and six month results with corresponding periods a year ago, as a percentage of sales, for each period.

| | Percentage of Net Sales | | | |
|---|---|---|---|---|
| | Three Months Ended | | Six Months Ended | |
| | Sept. 1, 2001 | Sept. 2, 2000 | Sept. 1, 2001 | Sept. 2, 2000 |
| Net sales | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of sales | 75.6 | 80.1 | 76.6 | 79.9 |
| Gross profit | 24.4 | 19.9 | 23.4 | 20.1 |
| Selling, general and administrative expenses | 16.8 | 15.4 | 17.6 | 16.4 |
| Operating income | 7.6 | 4.5 | 5.8 | 3.7 |
| Interest expense, net | 0.6 | 1.3 | 0.8 | 1.2 |
| Equity in income (loss) of affiliated companies | 0.1 | (0.3) | 0.6 | (0.3) |
| Earnings from continuing operations before income taxes | 7.1 | 2.9 | 5.6 | 2.2 |
| Income taxes | 2.2 | 1.1 | 1.7 | 0.9 |
| Earnings from continuing operations | 4.9 | 1.8 | 3.9 | 1.3 |
| Earnings from discontinued operations | - | - | - | - |
| Net earnings | 4.9 | 1.8 | 3.9 | 1.3 |
| Effective tax rate | 31.0% | 38.4% | 31.0% | 39.6% |

Second quarter consolidated gross profit, as a percentage of net sales was 24.4%, up from 19.9% in the prior year second quarter. The primary factors underlying the resulting increase in gross profit percentage were improved manufacturing performance and improved volume and mix within the Architectural segment, as well as cost reduction initiatives within the Automotive Replacement Glass segment, offset by decreased margins at the Large-Scale Optical segment.

Second quarter selling, general and administrative (SG&A) expenses fell slightly compared to the prior year quarter, but increased as a percent of net sales to 16.8% from 15.4%. Key components within the decrease in SG&A expenses are decreased depreciation expense, offset by increased incentive accruals.

Net interest expense decreased 61%, compared to the prior-year quarter, as a result of significantly lower borrowing levels and interest rates.

The Company's equity in income from affiliated companies was $0.3 million in the second quarter of fiscal 2002 versus an equity in loss of $0.7 million in the prior-year quarter. The current year results include the Company's portion of the results of the PPG Auto Glass joint venture formed in July 2000, offset by continued funding of the TerraSun joint venture (see note 3 above). In late September, the Company decided to discontinue funding TerraSun operations. TerraSun has commenced winding down its operations and intends to sell its tangible and intangible assets. The discontinuance of TerraSun operations is not anticipated to have an adverse impact on the Company's operations or outlook for the balance of fiscal 2002 or fiscal 2003.

The effective income tax rate of 31.0% decreased from the effective rate of 38.4% a year ago. The reduction is due to the relationship of book and tax differences as a percentage of pre-tax income.

In the second quarter of fiscal 2002, as expected, the Company made various payments totaling $0.9 million toward discontinued operation items. These payments, offset by minimal cash receipts, reduced the reserves for the quarter. The Company believes its reserves for discontinued operations are adequate.

In the second quarter of fiscal 2002, the Company reported earnings from continuing operations of $10.3 million, or $0.36 diluted earnings per share. This compared to earnings from continuing operations of $4.2 million, or $0.15 diluted earnings per share, in the second quarter of fiscal 2001. The return on average shareholders' equity was 6.6% in the second quarter of fiscal 2002 and 3.0% in the second quarter of fiscal 2001.

## Segment Analysis

During fiscal 2001, the Company realigned its operating business units into three reporting segments. The following table presents sales and operating income for the Company's three segments and on a consolidated basis for three and six months compared to the corresponding periods a year ago. Operating results are discussed below.

| (Thousands) | Three Months Ended Sept. 1, 2001 | Three Months Ended Sept. 2, 2000 | % Chg | Six Months Ended Sept. 1, 2001 | Six Months Ended Sept. 2, 2000 | % Chg |
|---|---|---|---|---|---|---|
| Net Sales | | | | | | |
| Architectural | $120,059 | $113,110 | 6% | $236,285 | $224,117 | 5% |
| Large-scale optical | 14,980 | 21,638 | (31) | 35,487 | 41,280 | (14) |
| Auto Glass | 75,197 | 101,713 | (26) | 142,073 | 208,492 | (32) |
| Intersegment elimination | (3) | (97) | 97 | (6) | (272) | 98 |
| Net sales | $210,233 | $236,364 | (11)% | $413,839 | $473,617 | (13)% |
| Operating Income | | | | | | |
| Architectural | $9,000 | $5,993 | 50% | $16,021 | $12,327 | 30% |
| Large-scale optical | (1,475) | 1,376 | N/M | (1,491) | 319 | N/M |
| Auto Glass | 8,919 | 3,427 | 160 | 10,381 | 6,217 | 67 |
| Corporate and other | (520) | (131) | (297) | (1,014) | (1,244) | 18 |
| Operating income | $15,924 | $10,665 | 49% | $23,897 | $17,619 | 36% |

N/M=Not meaningful

### Architectural Products and Services (Architectural)

Net sales for the Architectural segment grew 6 percent to $120.0 million, compared to $113.1 million in the prior-year quarter. Operating income increased 50 percent to $9.0 million, from $6.0 million a year ago. The majority of the improvement in operating income was driven by strong sales mix changes to higher margin products and efficiencies in manufacturing in the glass fabricating group, partially offset by slightly lower margins in the installation side of the business due to the timing of completion of jobs.

The Architectural segment backlog, at September 1, 2001, remained at record levels of $190.4 million. This is an increase of 7% compared to the second quarter of fiscal 2001.

### Large-Scale Optical Technologies (LSO)

Second quarter net sales for LSO were $15.0 million, compared to $21.6 million in the prior-year period. The segment reported an operating loss of $1.5 million, compared to operating income of $1.4 million in the same period last year. The segment's performance has been significantly impacted by the severe downturn in the PC industry and a slowdown in retail markets.

### Automotive Replacement Glass and Services (Auto Glass)

Net sales at the Auto Glass segment declined 26% to $75.2 million from $101.7 million a year ago. Segment revenues, which decreased 9 percent compared to the second quarter of last year after being adjusted for the PPG Auto Glass joint venture, continue to be impacted by strategies initiated last year to reduce low-margin business.

The Auto Glass segment reported operating income of $8.9 million, compared to $3.4 million in the same period last year. Approximately 70 percent of the improvement resulted from the amendments made to the supply agreements related to the PPG Auto Glass joint venture, owned 34 percent by the Company and 66 percent by PPG Industries, and approximately one-third was a one-time net increase. These amendments permanently adjusted pricing for the Company's windshield manufacturing business, resulting in higher operating income for the segment in the current quarter and in future quarters. These amendments led to lower earnings during the current quarter and into the future for PPG Auto Glass, which is reported in equity in income of affiliated companies. The remainder of the increase was the result of operational improvements and cost reductions implemented at our retail facilities beginning late last year.

### Consolidated Backlog

On September 1, 2001, the Company's consolidated backlog was $196.4 million, which remained steady from the same period a year ago. The backlog of the Architectural segment, which remained constant from year-end, represented 97 percent of the Company's consolidated backlog. Backlog at the LSO segment fell $4.6 million from year-end, mainly as a result of closing the Viratec San Diego facility in the first quarter of fiscal 2002.

## Liquidity and Capital Resources

### Financial Condition

Net cash provided by operating activities
Cash provided by operating activities for the six months ended September 1, 2001 totaled $23.9 million compared to $30.4 million in the same prior-year period. The decrease is due to the timing of collections of receivables and payments on expenditures, offset by higher net earnings and timing of tax payments.

Net cash used in investing activities
New capital investment through the first six months of fiscal 2002 totaled $5.5 million, versus $9.7 million in the same period a year ago. For fiscal 2002, the Company expects to incur capital expenditures as necessary to maintain existing facilities. Fiscal 2002 capital expenditures are expected to be approximately $20 million.

Net cash provided by financing activities
Bank borrowings were $87.1 million at September 1, 2001, down from the $104.5 million outstanding at March 3, 2001. The majority of the Company's long-term debt consisted of bank borrowings under a revolving credit agreement. Cash provided by operating activities was sufficient to finance the period's investing activities and cash dividend requirements. At September 1, 2001, the Company's debt-to-total capital ratio declined to 35 percent, a significant improvement from 51 percent at the end of last year's second quarter.

Effective June 1, 2000, the Company amended its revolving credit agreement in conjunction with the pending joint venture with PPG that subsequently closed in July 2000. The amendment resulted in a decrease in borrowing capacity from $253 million to $200 million.

The Company anticipates outstanding borrowings to decline over the course of the year. The Company believes that cash from operating activities and the available credit facility will provide adequate liquidity for the remainder of the fiscal year.

## Shareholders' Equity

At September 1, 2001, Apogee's shareholders' equity was $161.6 million. Book value per share was $5.72, up from $5.33 per share at March 3, 2001, with outstanding common shares increasing nominally during the period. Net earnings and proceeds from common stock issued in connection with the Company's stock-based compensation plans accounted for the increase, slightly reduced by dividends paid.

## Outlook

Despite the softness in the LSO segment markets and minor project delays in the Architectural segment, the Company anticipates earnings from continuing operations to be significantly better than last year's earnings. Fiscal 2001 diluted net earnings per share were $0.54, of which $0.48 was from continuing operations.

## Item 3: Quantitative and Qualitative Disclosures About Market Risk

The Company's principal market risk is sensitivity to interest rates, which is the risk that changes in interest rates will reduce net earnings of the Company. To manage the Company's direct risk from changes in market interest rates, management actively monitors the interest sensitive components of the Company's balance sheet, primarily debt obligations, as well as market interest rates in order to minimize the impact of changes in interest rates on net earnings and cash flow.

The primary measure of interest rate risk is the simulation of net income under different interest rate environments. The approach used to quantify interest rate risk is a sensitivity analysis. This approach calculates the impact on net earnings, relative to a base case scenario, of rates increasing or decreasing gradually over the next 12 months by 200 basis points. The aforementioned changes in interest rates affecting the Company's financial instruments would result in approximately a $300,000 impact to net earnings. As interest rates increase, net earnings decrease; as interest rates decrease, net earnings increase.

The Company uses interest swaps to fix a portion of its variable rate borrowings from fluctuations in interest rates. As of September 1, 2001, the Company has interest swaps covering $35 million of variable rate debt. The net present liability associated with these swaps is $2.3 million at September 1, 2001.

The Company has a policy of using forward exchange contracts to hedge its net exposures, by currency, related to the foreign currency-denominated monetary assets and liabilities, and future firm commitments of its operations. Forward exchange contracts are also used from time to time to manage near-term foreign currency cash requirements. The primary objective of these hedging activities is to maintain an approximately balanced position in foreign currencies so that exchange gains and losses resulting from exchange rate changes, net of related tax effects, are minimized.

Given the Company's balanced foreign exchange position described above, a 10% adverse change in foreign exchange rates upon which these contracts are based would result in exchange losses from these contracts that would, in all material respects, be fully offset by exchange gains on the underlying net monetary exposures for which the contracts are designated as hedges. As of September 1, 2001, the Company did not have any forward contracts outstanding.

## Cautionary Statement

This discussion contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect the Company's current views with respect to future events and financial performance. The words "believe," "expect," "anticipate," "intends," "estimate," "forecast," "project," "should" and similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All forecasts and projections in this document are "forward-looking statements," and are based on management's current expectations or beliefs of the Company's near-term results, based on current information available pertaining to the Company, including the risk factors noted below.

The Company wishes to caution investors that any forward-looking statements made by or on behalf of the Company are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other risk factors include, but are not limited to, those noted below. There can be no assurances given that the ongoing reorganization and realignment of Harmon AutoGlass will lead to successful operating results now or in the future. There can be no assurances that PPG Auto Glass, Apogee's automotive replacement glass distribution joint venture with PPG Industries, will achieve favorable long-term operating results. In addition, there can be no assurances that Apogee's expected Architectural segment growth due to its strength serving high-end markets with value-added products will not be impacted by the slowing economy. There also can be no assurances that there will not be further erosion in the Large-Scale Optical segment revenues due to the dramatic slump in the PC industry and a slowdown in the picture-framing and pre-framed art retail markets.

A number of other factors should be considered in conjunction with this report's forward-looking statements, any discussion of operations or results by the Company or its representatives and any forward-looking discussion, as well as comments contained in press releases, presentations to securities analysts or investors, or other communications by the Company. These other factors are set forth in the cautionary statement filed as Exhibit 99 to the Company's Annual Report on Form 10-K, and include, without limitation, cautionary statements regarding changes in economic and market conditions, factors related to competitive pricing, commercial building market conditions, management of growth of business units, greater than expected costs or difficulties related to the operation of the businesses, the impact of foreign currency markets, the integration of acquisitions, the realization of expected economies gained through expansion and information systems technology updates. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART II  OTHER INFORMATION

## ITEM 4.  Submission of Matters to a Vote of Security Holders

Apogee Enterprises, Inc. Annual Meeting of Shareholders was held on June 19, 2001. The number of outstanding shares on the record date for the Annual Meeting was 27,809,606. Eighty-eight percent of the outstanding shares were represented in person or by proxy at the meeting.

The four candidates for election as Class III Directors listed in the proxy statement were elected to serve three-year terms, expiring at the 2004 Annual Meeting of Shareholders. The proposal to amend the 1987 Apogee Enterprises, Inc. Partnership Plan, an incentive compensation plan, was approved. The proposal to ratify the appointment of Arthur Andersen LLP as independent auditors for the Company for the 2002 fiscal year was also approved. The results of these matters voted upon by the shareholders are listed below.

| | Number of Shares | | |
|---|---|---|---|
| | In Favor | Withheld/Against | Abstained/Unvoted |
| Election of Class III Directors | | | |
| Donald W. Goldfus | 24,274,942 | 184,630 | |
| James L. Martineau | 24,291,223 | 168,349 | |
| Ray C. Richelsen | 24,261,814 | 197,758 | |
| Michael E. Shannon | 24,252,208 | 207,364 | |
| Amendment of 1987 Apogee Enterprises, Inc. Partnership Plan | 23,365,872 | 982,660 | 111,040 |
| Ratification of the appointment of Arthur Andersen LLP as independent auditors | 24,150,462 | 225,166 | 83,944 |

## ITEM 6.  Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 10.1 Conditional Waiver, Amendment No. 5 to Credit Agreement and Amendment No. 1 to Security Agreement

(b) Reports on Form 8-K:

The Company's Current Report on Form 8-K filed July 27, 2001, related to Rights Agreement, dated as of October 19, 1990, and amended as of June 28, 1995, February 22, 1999, December 7, 1999, and July 2, 2001 between the Company and The Bank of New York.

CONFORMED COPY

## 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.

APOGEE ENTERPRISES, INC.

Date: October 10, 2001

/s/Russell Huffer
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Russell Huffer
Chairman, President and
Chief Executive Officer

Date: October 10, 2001

/s/Michael B. Clauer
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Michael B. Clauer
Executive Vice President and Chief
Financial Officer

EXHIBIT INDEX

| Exhibit | |
| --- | --- |
| Exhibit 10.1 | Conditional Waiver, Amendment No. 5 to Credit Agreement and Amendment No. 1 to Security Agreement |

Exhibit 10.1

# CONDITIONAL WAIVER, AMENDMENT NO. 5 TO CREDIT AGREEMENT AND AMENDMENT NO. 1 TO SECURITY AGREEMENT

CONDITIONAL WAIVER AND AMENDMENT NO. 5, dated as of August 22, 2001 (this "Waiver and Amendment"), to the CREDIT AGREEMENT, dated as of May 21, 1998, among Apogee Enterprises, Inc., a Minnesota corporation (the "Borrower"), each of the lenders from time to time parties thereto (collectively, the "Lenders"), and The Bank of New York, as L/C Issuer, Administrative Agent for the Lenders and Swing Line Lender, as such Credit Agreement has been amended from time to time (the "Credit Agreement").

AMENDMENT NO. 1, dated as of August 22, 2001 to the SECURITY AGREEMENT, dated as of June 13, 2000, among the Borrower, the Debtors parties thereto, and The Bank of New York, as Administrative Agent and Collateral Agent (the "Security Agreement").

## RECITALS

A. The Borrower has requested an amendment of the Credit Agreement and Security Agreement to clarify provisions related to the release of collateral and has requested a waiver under certain provisions of the Credit Agreement in order to undertake certain transactions described in this Waiver and Amendment.

B. The Lenders desire to clarify the provisions related to the release of collateral and to grant a conditional waiver for the transactions described in this Waiver and Amendment.

NOW, THEREFORE, the parties hereto hereby agree as follows:

Section 1. Amendment to Credit Agreement.

Pursuant to Section 11.05 of the Credit Agreement, Section 11.05(a) of the Credit Agreement shall be amended to read in its entirety as follows:

> "(a) Any provision of this Agreement may be amended, modified, supplemented or waived, but only by a written amendment or supplement, or written waiver, signed by the Borrower and either the Required Lenders (and, if the rights or duties of the Administrative Agent are affected thereby, by the Administrative Agent), or the Administrative Agent with the consent of the Required Lenders; provided, however, that no such amendment, modification, or waiver shall, unless signed by all the Lenders, or by the Administrative Agent with the consent of all the Lenders, (i) increase or decrease (other than a pro rata decrease) the Commitment of any Lender or subject any Lender to any additional obligation, (ii) reduce the principal of or rate of interest on any Loan or any fees hereunder, (iii) postpone any scheduled payment of principal of or interest on any Loan or any fees hereunder, (iv) postpone any reduction or termination of any Commitment or any mandatory prepayment related thereto, (v) release the Subsidiary Guaranties, (vi) change the definition of "Required Lenders" or (vii) amend, modify, supplement or waive the provisions of this Section 11.05."

Section 2. Amendment to Security Agreement.

Pursuant to Sections 14(a) and 14(b) of the Security Agreement, Section 3(f) of the Security Agreement shall be amended to read in its entirety as follows:

> "(f) Subject to Sections 4(b), 5(a), 6(b), 6(c), 7, and 9(c) hereof, and except for the transfer of assets as expressly and specifically permitted under the terms of the Credit Agreement and this Agreement, each Debtor agrees it will not, without the Agent's prior written consent, sell, assign, mortgage, lease or otherwise dispose of the Collateral or any interest therein. For transfers of assets specifically permitted by this Section 3(f), upon reasonable request by the Borrower, the Agent will have the authority to execute and deliver any certificates, amendments to financing statements or other similar documents or instruments necessary or required to release the security interest of the Agent and the Secured Creditors in the assets to be transferred, provided that the Borrower has delivered to the Agent a written communication acceptable to the Agent certifying compliance of such transfer with this Section and the conditions on such transfer imposed by this Agreement or the Credit Agreement."

Section 3. Sale of Assets Release.

The parties understand that the Borrower and/or certain of its Subsidiaries may be in the process of selling certain real property currently owned by them: (1) excess land owned by Tru Vue, Inc., (2) 23 Harmon Glass Company retail shops (the "Retail Shops") and (3) 5 Harmon Autoglass Distribution Depots (the "Distribution Depots"). For the avoidance of doubt, the Secured Creditors under the Security Agreement release any security interest in any equipment or inventory located at, or to be sold with, the Retail Shops or Distribution Depots, provided that such sale is conducted in compliance with Section 3(f) of the Security Agreement and Section 7.02(a) of the Credit Agreement.

Section 4. Conditional Waiver on Mortgage Transactions.

(a) Understandings. The parties understand the following:

(1) The Borrower and certain of its Subsidiaries desire to enter into certain mortgage transactions on real property owned by the Borrower and/or these Subsidiaries and grant mortgage liens in addition to any liens already in existence;

(2) Such proposed transactions may take the form of traditional mortgage liens, sale-leaseback transactions, or sale-leaseback transactions through a special purpose entity (the "Mortgage Transactions"); and

(3) This Waiver and Amendment is being executed and delivered prior to the Mortgage Transactions being negotiated or resulting in definitive documentation.

(b) Waivers. Pursuant to Section 11.05 of the Credit Agreement, the Lenders hereby waive (insofar as necessary to permit the Borrower and its Subsidiaries to negotiate, draft and execute and perform under documents related to, and structure and participate in transactions contemplated by the documents related to, any Mortgage Transaction) the restrictions contained in

(1) Section 7.02(a) of the Credit Agreement on sales, transfers and leases of property;

(2) Section 7.02(b) of the Credit Agreement on liens;

(3) Section 7.02(c) of the Credit Agreement on additional indebtedness; and

(4) Section 7.02(d) of the Credit Agreement on investments and Section 7.02(g) of the Credit Agreement on stock issuances of Subsidiaries, but only insofar as to permit the Borrower or any one of its Subsidiaries to create a special purpose vehicle deemed necessary or advisable by the Borrower to execute a Mortgage Transaction;

in each case subject to the conditions described in Section 4(c) of this Waiver and Amendment. Anything herein or elsewhere to the contrary notwithstanding, such waivers are granted only insofar as necessary to permit the Mortgage Transactions.

(c) Conditions. The waivers in Section 4(b) above will not be effective, and shall become immediately null, void and unenforceable in their entirety, if any of the following conditions are not satisfied:

(1) in the aggregate, the Mortgage Transactions may not relate to real property having a Fair Market Value (as certified under the Credit Agreement) of greater than $60 million and any New Indebtedness from the Mortgage Transactions may not be in an amount greater than $50 million;

(2) notwithstanding Section 7.02(a) of the Credit Agreement and, in particular, its conditions for sale-leaseback transactions, all of the net proceeds (100%) of any Mortgage Transaction shall be deemed to be proceeds of New Indebtedness, not proceeds of a sale, transfer or lease, and must be used by the Borrower and its Subsidiaries to (i) reduce the Total Commitment by an amount equal to such net proceeds in accordance with Section 2.03(c) of the Credit Agreement, and (ii) prepay Loans in an amount equal to such net proceeds in accordance with Section 2.05(b) of the Credit Agreement not later than the close of business on the third Business Day after the receipt of such proceeds;

(3) transfers and leases of real property will be permitted between the Borrower or any of its Subsidiaries and an Affiliate, but only insofar as to permit the execution of a Mortgage Transaction involving a special purpose entity that is an Affiliate or as otherwise permitted under the Credit Agreement;

(4) prior to execution of any documents related to a Mortgage Transaction, the Borrower shall provide a copy of all draft documents (including any

and all schedules or exhibits thereto) to the Administrative Agent and the Agent, in its sole discretion, shall have determined (as Administrative promptly as practicable after receipt of such documents) that (i) the documents and provisions contained therein are consistent with the requirements of the Credit Agreement as modified or waived by this Waiver and Amendment; and (ii) the Mortgage Transaction described by such documents satisfies all of the conditions set forth in this Section 4(c); and

(5) the Borrower or the appropriate Subsidiary executes a Mortgage Transaction that satisfies all of the conditions set forth in this Section 4(c).

Section 5. Miscellaneous.

(a) All capitalized terms not otherwise defined in this Waiver and Amendment shall have the meanings ascribed to them in the Credit Agreement or the Security Agreement.

(b) All provisions in Article XI of the Credit Agreement and Section 14 of the Security Agreement shall apply to this Waiver and Amendment with equal force and effect as if restated completely herein.

(c) Except as set forth in this Waiver and Amendment, the Credit Agreement and the Security Agreement shall remain in full force and effect without amendment, modification or waiver. Execution and delivery hereof by a Lender or the Agent shall not preclude the exercise by such Lender or the Agent of any rights under the Credit Agreement or the Security Agreement (each as amended by this Waiver and Amendment).

(d) This Waiver and Amendment shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such state.

(e) This Waiver and Amendment shall be effective on the first date as of which a counterpart hereof has been executed and delivered to the Administrative Agent by the Borrower and all of the Lenders under the Credit Agreement.

[THE NEXT PAGE IS A SIGNATURE PAGE.]

[CREDIT AGREEMENT SIGNATURE PAGES]

IN WITNESS WHEREOF, the parties to the Credit Agreement have caused this Waiver and Amendment to be duly executed as of the date first above written.

APOGEE ENTERPRISES, INC.

By: /s/ Gary R. Johnson
-------------------------------------
Name: Gary R. Johnson
Title: V.P. - Treasurer

THE BANK OF NEW YORK, as
Administrative Agent, L/C Issuer and Swing Line
Lender in the Credit Agreement

By: /s/ John-Paul Marotta
-------------------------------------
Name: John-Paul Marotta
Title: Vice President

LENDERS (and other Agents)
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THE BANK OF NEW YORK, as a Lender in
the Credit Agreement

By: /s/ John-Paul Marotta
-------------------------------------
Name: John-Paul Marotta
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION, as|
Syndication Agent and a Lender in the Credit
Agreement

By: /s/ Matthew A. Ross
-------------------------------------
Name: Matthew A. Ross
Title: Sr. Vice President

HARRIS TRUST AND SAVINGS BANK, as
Documentation Agent and a Lender in the Credit
Agreement

By: /s/ Andrew T. Claar
-------------------------------------
Name: Andrew T. Claar
Title: Vice President

THE BANK OF NOVA SCOTIA, as Co-Agent
and a Lender in the Credit Agreement

By: /s/ M.A. Thomas
------------------------------------
Name: M.A. Thomas
Title: Senior Manager

COMERICA BANK, as Co-Agent and a Lender
in the Credit Agreement

By: /s/ Timothy O'Rourke
------------------------------------
Name: Timothy O'Rourke
Title: Vice President

SUMITOMO MITSUI BANKING CORPORATION,
as a Lender in the Credit Agreement

By: /s/ John H. Kemper
------------------------------------
Name: John H. Kemper
Title: Senior Vice President

WELLS FARGO BANK, N.A., as a Lender in
the Credit Agreement

By: /s/ Molly S. Van Metre
------------------------------------
Name: Molly S. Van Metre
Title: Vice President and Senior Banker

WELLS FARGO BANK, N.A., as a Lender in
the Credit Agreement

By: /s/ Chad M. Kortgard
------------------------------------
Name: Chad M. Kortgard
Title: Assistant Vice President

REGIONS BANK, as a Lender in the Credit
Agreement

By: /s/ Tammy M. Foschee
------------------------------------
Name: Tammy M. Foschee
Title: Assistant Vice President

[SECURITY AGREEMENT SIGNATURE PAGES]

IN WITNESS WHEREOF, the parties to the Security Agreement have caused this Waiver and Amendment to be duly executed as of the date first above written.

DEBTORS:

APOGEE ENTERPRISES, INC.

By: /s/ Gary R. Johnson
Name: Gary R. Johnson
Title: V.P. - Treasurer

HARMON, INC.

By: /s/ Gary R. Johnson
Name: Gary R. Johnson
Title: V.P. - Treasurer

VIRACON/CURVLITE, INC.

By: /s/ Gary R. Johnson
Name: Gary R. Johnson
Title: V.P. - Treasurer

APOGEE WAUSAU GROUP, INC.

By: /s/ Gary R. Johnson
Name: Gary R. Johnson
Title: V.P. - Treasurer

VIRACON, INC.

By: /s/ Gary R. Johnson
Name: Gary R. Johnson
Title: V.P. - Treasurer

VIRATEC THIN FILMS, INC.

By: /s/ Gary R. Johnson
Name: Gary R. Johnson
Title: V.P. - Treasurer

TRU VUE, INC.

By: /s/ Gary R. Johnson
------------------------------------
Name: Gary R. Johnson
Title: V.P. - Treasurer

HARMON GLASS COMPANY

By: /s/ Gary R. Johnson
------------------------------------
Name: Gary R. Johnson
Title: V.P. - Treasurer

VIRACON GEORGIA, INC.

By: /s/ Gary R. Johnson
------------------------------------
Name: Gary R. Johnson
Title: V.P. - Treasurer

Accepted and Agreed to in New York,
New York as of the date first above written

THE BANK OF NEW YORK,
as Agent for the Secured Creditors

By: /s/ Paul Marotta
------------------------------------
Name: John-Paul Marotta
Title: Vice President