
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended August 30, 2003

Commission File Number 0-6365

APOGEE ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of incorporation
or organization)

41-0919654
(I.R.S. Employer
Identification No.)

7900 Xerxes Ave S. – Suite 1800, Minneapolis, MN
(Address of principal executive offices)

55431
(Zip Code)

Title of each class
Common stock \$0.33 1/3 Par Value

Name of each exchange on which registered
NASDAQ National Market

(952) 835-1874
(Registrant's telephone number, including area code)

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

As of September 30, 2003, 27,517,094 shares of the Registrant's common stock, par value \$0.33 1/3 per share, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

| <i>(In thousands, except per share data)</i> | August 30, 2003 (unaudited) | March 1, 2003 |
|--|-----------------------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 9,030 | \$ 10,166 |
| Receivables, net of allowance for doubtful accounts | 95,778 | 103,286 |
| Inventories | 32,764 | 35,868 |
| Current assets of discontinued operations | 16,550 | 14,013 |
| Deferred tax assets | 5,575 | 5,549 |
| Other current assets | 3,066 | 2,581 |
| Total current assets | 162,763 | 171,463 |
| Property, plant and equipment, net | 102,013 | 108,966 |
| Marketable securities available for sale | 14,458 | 16,373 |
| Investments in affiliated companies | 19,789 | 19,752 |
| Assets of discontinued operations | 10,023 | 18,901 |
| Goodwill | 42,960 | 42,960 |
| Intangible assets, at cost less accumulated amortization of \$607 and \$501, respectively | 1,603 | 1,797 |
| Other assets | 2,358 | 2,629 |
| Total assets | \$ 355,967 | \$ 382,841 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 37,361 | \$ 46,873 |
| Accrued expenses | 33,795 | 44,076 |
| Current liabilities of discontinued operations | 20,639 | 17,186 |
| Billings in excess of costs and earnings on uncompleted contracts | 6,028 | 4,401 |
| Accrued income taxes | 5,883 | 7,352 |
| Current installments of long-term debt | 308 | 540 |
| Total current liabilities | 104,014 | 120,428 |
| Long-term debt, less current installments | 40,400 | 47,258 |
| Long-term self-insurance reserves | 13,696 | 13,696 |
| Other long-term liabilities | 12,861 | 14,040 |
| Liabilities of discontinued operations | 9,551 | 9,209 |
| Commitments and contingent liabilities (Note 10) | | |
| Shareholders' equity | | |
| Common stock of \$0.33-1/3 par value; authorized 50,000,000 shares; issued and outstanding 27,460,000 and 27,203,000, respectively | 9,153 | 9,068 |
| Additional paid-in capital | 55,147 | 52,623 |
| Retained earnings | 115,725 | 120,859 |
| Common stock held in trust | (6,685) | (5,179) |
| Deferred compensation obligations | 6,685 | 5,179 |
| Unearned compensation | (2,994) | (2,482) |
| Accumulated other comprehensive loss | (1,586) | (1,858) |
| Total shareholders' equity | 175,445 | 178,210 |
| Total liabilities and shareholders' equity | \$ 355,967 | \$ 382,841 |

See accompanying notes to consolidated financial statements.

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(unaudited)

| | Three months ended | | Six months ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | August 30, 2003 | August 31, 2002 | August 30, 2003 | August 31, 2002 |
| <i>(In thousands, except per share data)</i> | | | | |
| Net sales | \$ 135,844 | \$ 147,789 | \$ 257,311 | \$ 284,588 |
| Cost of sales | 111,468 | 110,366 | 210,460 | 213,337 |
| Gross profit | 24,376 | 37,423 | 46,851 | 71,251 |
| Selling, general and administrative expenses | 21,172 | 26,494 | 41,719 | 52,026 |
| Operating income | 3,204 | 10,929 | 5,132 | 19,225 |
| Interest income | 123 | 263 | 241 | 555 |
| Interest expense | 887 | 1,054 | 1,812 | 2,318 |
| Other (expense) income, net | (6) | 7 | (6) | 41 |
| Equity in income (loss) of affiliated companies | 555 | (112) | (6) | (1,230) |
| Earnings from continuing operations before income taxes | 2,989 | 10,033 | 3,549 | 16,273 |
| Provision for income taxes | 488 | 2,941 | 639 | 4,767 |
| Earnings from continuing operations | 2,501 | 7,092 | 2,910 | 11,506 |
| (Loss) earnings from discontinued operations, net of income taxes | (4,352) | 1,476 | (4,454) | 2,301 |
| Net (loss) earnings | \$ (1,851) | \$ 8,568 | \$ (1,544) | \$ 13,807 |
| (Loss) earnings per share – basic | | | | |
| Continuing operations | \$ 0.09 | \$ 0.26 | \$ 0.10 | \$ 0.41 |
| Discontinued operations | (0.16) | 0.05 | (0.16) | 0.08 |
| (Loss) earnings per share – basic | \$ (0.07) | \$ 0.31 | \$ (0.06) | \$ 0.49 |
| (Loss) earnings per share – diluted | | | | |
| Continuing operations | \$ 0.09 | \$ 0.25 | \$ 0.10 | \$ 0.40 |
| Discontinued operations | (0.16) | 0.05 | (0.16) | 0.08 |
| (Loss) earnings per share – diluted | \$ (0.07) | \$ 0.30 | \$ (0.06) | \$ 0.48 |
| Weighted average basic shares outstanding | 27,057 | 27,740 | 27,002 | 27,900 |
| Weighted average diluted shares outstanding | 27,829 | 28,637 | 27,738 | 28,863 |
| Cash dividends declared per common share | \$ 0.0575 | \$ 0.0550 | \$ 0.1150 | \$ 0.1100 |

See accompanying notes to consolidated financial statements.

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(unaudited)

| | Six months ended | |
|---|--------------------|--------------------|
| | August 30, 2003 | August 31, 2002 |
| <i>(In thousands)</i> | | |
| Operating Activities | | |
| Net (loss) earnings | \$ (1,544) | \$ 13,807 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Net loss (earnings) from discontinued operations | 4,454 | (2,301) |
| Depreciation and amortization | 10,173 | 10,269 |
| Deferred income taxes | 328 | (119) |
| Loss from equity-method investments | 6 | 1,230 |
| Gain on disposal of assets | (402) | (886) |
| Other, net | (342) | 1,331 |
| Changes in operating assets and liabilities: | | |
| Receivables | 7,508 | 3,067 |
| Inventories | 3,104 | 1,757 |
| Accounts payable and accrued expenses | (19,934) | (10,121) |
| Billings in excess of costs and earnings on uncompleted contracts | 1,627 | (34) |
| Accrued income taxes | (1,469) | 5,554 |
| Net cash provided by continuing operating activities | 3,509 | 23,554 |
| Investing Activities | | |
| Capital expenditures | (3,046) | (5,051) |
| Proceeds from sales of property, plant and equipment | 15 | 1,295 |
| Acquisition of businesses, net of cash acquired | — | (300) |
| Investments in equity investments | (43) | (77) |
| Purchases of marketable securities | (550) | (3,648) |
| Sales/maturities of marketable securities | 2,212 | 10,367 |
| Net cash (used in) provided by investing activities | (1,412) | 2,586 |
| Financing Activities | | |
| Payments on net borrowings under revolving credit agreement | (6,700) | (18,100) |
| Proceeds from issuance of long-term debt | — | 1,000 |
| Payments on long-term debt | (390) | (362) |
| Payments on deferred debt expense | — | (835) |
| Proceeds from issuance of common stock, net of cancellations | 1,679 | 3,858 |
| Repurchase and retirement of common stock | (347) | (14,071) |
| Dividends paid | (3,157) | (3,099) |
| Net cash used in financing activities | (8,915) | (31,609) |
| Cash provided by (used in) discontinued operations | 5,682 | (1,335) |
| Decrease in cash and cash equivalents | (1,136) | (6,804) |
| Cash and cash equivalents at beginning of year | 10,166 | 15,361 |
| Cash and cash equivalents at end of period | \$ 9,030 | \$ 8,557 |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Summary of Significant Accounting Policies

The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual 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 1, 2003. The results of operations for the six-month periods ended August 30, 2003 and August 31, 2002 are not necessarily indicative of the results to be expected for the full year.

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of August 30, 2003 and March 1, 2003, and the results of operations and cash flows for the three-month and six-month periods ended August 30, 2003 and August 31, 2002. As explained in Note 9, the Company announced its intention to sell its retail auto glass business during the second quarter of fiscal 2004, accordingly it is now reported as a discontinued operation, along with the Company's previously discontinued curtainwall business and detention/security business. Accordingly, certain prior-year amounts have been reclassified to conform to the current period presentation.

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.

2. New Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, *Consolidation of Variable Interest Entities (VIE), an interpretation of ARB No. 51*, which requires all VIEs to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE. In addition, the interpretation expands disclosure requirements for both VIEs that are consolidated as well as VIEs from which the entity is the holder of a significant amount of the beneficial interests, but not the majority. The disclosure requirements of this interpretation are effective for all financial statements issued after January 31, 2003. The consolidation requirements of this interpretation are effective for all periods beginning after June 15, 2003. Because we have no variable interest entities, we do not expect that the adoption of this new standard will have an effect on our consolidated financial position or results of operations.

3. Stock-Based Compensation

Pursuant to SFAS No. 123, *Accounting for Stock-Based Compensation*, we account for activity within our stock-based employee compensation plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, we do not recognize compensation expense in connection with employee stock option grants because we grant stock options at exercise prices not less than the fair value of our common stock on the date of grant.

The following table shows the effect of net (loss) earnings and per share data had we applied the fair value expense recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

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| | Three months ended | | Six months ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | Aug. 30, 2003 | Aug. 31, 2002 | Aug. 30, 2003 | Aug. 31, 2002 |
| <i>(In thousands, except per share data)</i> | | | | |
| Net (loss) earnings | | | | |
| As reported | \$ (1,851) | \$ 8,568 | \$ (1,544) | \$13,807 |
| Compensation expense, net of income taxes | 501 | 320 | 806 | 518 |
| Pro forma | \$ (2,352) | \$ 8,248 | \$ (2,350) | \$13,289 |
| (Loss) earnings per share – basic | | | | |
| As reported | \$ (0.07) | \$ 0.31 | \$ (0.06) | \$ 0.49 |
| Pro forma | (0.09) | 0.30 | (0.09) | 0.48 |
| (Loss) earnings per share – diluted | | | | |
| As reported | \$ (0.07) | \$ 0.30 | \$ (0.06) | \$ 0.48 |
| Pro forma | (0.08) | 0.29 | (0.08) | 0.46 |
| Weighted average common shares outstanding | | | | |
| Basic | 27,057 | 27,740 | 27,002 | 27,900 |
| Diluted | 27,829 | 28,637 | 27,738 | 28,863 |

4. 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 | |
|--|--------------------|-----------------|------------------|-----------------|
| | August 30, 2003 | August 31, 2002 | August 30, 2003 | August 31, 2002 |
| <i>(In thousands)</i> | | | | |
| Basic earnings per share – weighted common shares outstanding | 27,057 | 27,740 | 27,002 | 27,900 |
| Weighted common shares assumed upon exercise of stock options | 331 | 508 | 295 | 574 |
| Unvested shares held in trust for deferred compensation plans | 441 | 389 | 441 | 389 |
| Diluted earnings per share – weighted common shares and potential common shares outstanding | 27,829 | 28,637 | 27,738 | 28,863 |

There were approximately 1,590,000 and 1,357,000 stock options excluded in the second quarter of fiscal 2004 and 2003, respectively, from the computation of diluted earnings per share due to their anti-dilutive effect.

5. Inventories

| | August 30, 2003 | March 1, 2003 |
|---|------------------|-----------------|
| <i>(In thousands)</i> | | |
| Raw materials | \$ 14,356 | \$14,016 |
| Work-in-process | 4,191 | 5,129 |
| Finished goods | 7,625 | 7,395 |
| Costs and earnings in excess of billings on uncompleted contracts | 6,592 | 9,328 |
| Total inventories | \$ 32,764 | \$35,868 |

6. Investments

In fiscal 2001, the Company and PPG Industries, Inc. (PPG) combined their U.S. automotive replacement glass distribution businesses into a joint venture, PPG Auto Glass, LLC (PPG Auto Glass), of which the Company has a 34 percent interest. On August 30, 2003, the Company's investment in PPG Auto Glass was \$19.5 million. At August 30, 2003, the excess of the cost of the investment over the value of the underlying net tangible assets when the joint venture was formed was \$7.3 million. This excess is reported as goodwill. In connection with the formation of PPG Auto Glass, the Company agreed to supply the joint venture, through PPG, with most of the Company's windshield fabrication capacity on market-based terms and conditions. This agreement expires any time after June 2005 with a one-year notification, which may be delivered by either party at any time from and after June 2004. In addition, the Company's automobile windshield repair and replacement business, reported as a discontinued operation, agreed to purchase at least 75 percent of its windshield needs from PPG Auto Glass on market-based terms and conditions. This agreement expires anytime after June 2005 with a two-year notification, which may be delivered by either party at any time from and after June 2003. Neither party has delivered a termination notice with respect to this agreement. Purchases from PPG Auto Glass were \$13.3 million and \$10.1 million for second quarter of fiscal 2004 and 2003, respectively. For the six months of fiscal 2004 and 2003, respectively, purchases from PPG Auto Glass were \$25.9

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and \$21.3 million. Amounts owed to PPG Auto Glass were \$7.8 million and \$7.4 million at the end of the second quarter of fiscal 2004 and 2003, respectively, and are recorded within current liabilities of discontinued operations.

7. Goodwill and Other Identifiable Intangible Assets

The Company's goodwill represents the excess of the cost over the net tangible and identified intangible assets of acquired businesses. We adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, March 3, 2002. Under SFAS No. 142, goodwill and intangible assets with indefinite useful lives are not amortized, but are tested at least annually for impairment.

The change in the carrying amount of goodwill, net of accumulated amortization, attributable to each business segment for the three months ended August 30, 2003 was as follows.

| <i>(In thousands)</i> | Architectural | Large-Scale Optical | Auto Glass | Corporate and Other | Total |
|----------------------------|---------------|------------------------|---------------|---------------------------|----------|
| Balance at March 1, 2003 | \$ 24,178 | \$ 10,607 | \$ — | \$ 8,175 | \$42,960 |
| Additions (deletions) | — | — | — | — | — |
| Balance at August 30, 2003 | \$ 24,178 | \$ 10,607 | \$ — | \$ 8,175 | \$42,960 |

All previously recorded goodwill for the Auto Glass segment has been reclassified to assets of discontinued operations.

The Company's identifiable intangible assets with finite lives are being amortized over their estimated useful lives and are detailed below.

| <i>(In thousands)</i> | As of August 30, 2003 | | | March 1, 2003 | | |
|-----------------------|-----------------------------|-----------------------------|---------|-----------------------------|-----------------------------|---------|
| | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Debt issue costs | \$ 1,710 | \$ (513) | \$1,197 | \$ 1,798 | \$ (419) | \$1,379 |
| Other | 500 | (94) | 406 | 500 | (82) | 418 |
| Total | \$ 2,210 | \$ (607) | \$1,603 | \$ 2,298 | \$ (501) | \$ 1797 |

Amortization expense on these identifiable intangible assets was \$0.2 million and \$0.2 million for the six months ended August 30, 2003 and August 31, 2002, respectively. At August 30, 2003, the estimated future amortization expense for identifiable intangible assets for the remainder of fiscal 2004 and all of the following four fiscal years is as follows:

| <i>(In thousands)</i> | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------------------|-------|-------|-------|-------|------|
| Estimated amortization expense | \$238 | \$476 | \$476 | \$187 | \$25 |

8. Long-Term Debt

During fiscal 2003, the Company entered into a four-year, unsecured, revolving credit facility in the amount of \$125.0 million. This credit facility requires us to maintain levels of net worth and certain financial ratios. These ratios include maintaining an interest coverage ratio of more than 3.0 and a debt-to-cash flow ratio of less than 3.0. At August 30, 2003, these ratios were 12.2 and 0.9, respectively. If the Company is not in compliance with these ratios at the end of any quarter (with respect to interest coverage) or at the end of any day (with respect to the debt-to-cash flow ratio), the lender may terminate the commitment and/or declare any loan then outstanding to be due. At August 30, 2003, the Company was in compliance with all of the financial covenants of the credit facility.

9. Discontinued Operations

The Company announced on September 10, 2003, that it is in discussions to sell Harmon AutoGlass as part of its long-term strategic realignment to focus on opportunities in the Company's architectural glass products and services and picture framing glass businesses. During the second quarter of fiscal 2004, the Company recorded an \$8.0 million, pre-tax charge, representing a reduction in the carrying value of this business unit to its estimated fair value, less cost to sell. This charge was recorded as a reduction of goodwill. The Company anticipates a transaction to close before the end of fiscal 2004. Net assets totaling \$8.3 million and \$18.3 million represented the estimated carrying value of Harmon AutoGlass at August 30, 2003 and March 1, 2003, respectively.

In several transactions in fiscal years 1998 through 2000, the Company completed the sale of its large-scale domestic curtainwall business, the sale of the Company's detention/security business and its exit from international curtainwall operations. Related to these discontinued operations, accruals totaling \$12.0 million (\$9.5 million classified as long-

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term liabilities) and \$11.8 million (\$9.2 million classified as long-term liabilities) represented the remaining estimated future cash outflows associated with the exit from discontinued operations at August 30, 2003 and March 1, 2003, respectively. The majority of these cash expenditures are expected to be made within the next three years. The primary components of the reserve relate to the remaining exit costs from previously discontinued businesses. The long-term elements within the reserve relate to the international curtainwall operations, including bonds outstanding, of which the precise degree of liability related to these matters will not be known until they are settled within the U.K. and French courts. Additionally, the reserve covers certain potential long-term product liability issues, consisting of warranty and rework issues, relating to these international construction projects.

| <i>(In thousands)</i> | Three months ended | | Six months ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | August 30, 2003 | August 31, 2002 | August 30, 2003 | August 31, 2002 |
| (Loss) Earnings from Operations of Discontinued Businesses | | | | |
| Net sales | \$ 51,576 | \$ 52,493 | \$ 101,428 | \$ 100,402 |
| Earnings before income taxes (prior to carrying value reduction) | 1,020 | 2,385 | 880 | 3,738 |
| Income tax expense | 364 | 909 | 326 | 1,437 |
| Earnings from operations, net of income taxes | 656 | 1,476 | 554 | 2,301 |
| Carrying value reduction, net of income taxes | (5,008) | — | (5,008) | — |
| Net (loss) income | (4,352) | 1,476 | (4,454) | 2,301 |

| <i>(In thousands)</i> | August 30, 2003 | March 1, 2003 |
|---|-----------------|---------------|
| Summary Balance Sheet of Discontinued Operations | | |
| Receivables, net of allowance for doubtful accounts | \$ 15,395 | \$ 12,758 |
| Other current assets | 1,155 | 1,255 |
| Property, plant and equipment, net | 4,726 | 5,560 |
| Goodwill | 5,005 | 12,955 |
| Other non-current assets | 292 | 386 |
| Accounts payable and accrued liabilities | 20,639 | 17,186 |
| Long-term liabilities | 9,551 | 9,209 |

10. Commitments and Contingent Liabilities

Operating lease commitments

As of August 30, 2003, the Company was obligated under noncancelable operating leases for buildings and equipment. Certain leases provide for increased rentals based upon increases in real estate taxes or operating costs. Future minimum rental payments under noncancelable operating leases are:

| <i>(In thousands)</i> | Remainder of 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 | Thereafter | Total |
|-------------------------------|-------------------|------------------|------------------|-----------------|-----------------|---------------|------------------|
| Total minimum payments | | | | | | | |
| Continuing operations | \$ 4,170 | \$ 7,455 | \$ 6,780 | \$ 6,242 | \$ 5,605 | \$ 625 | \$ 30,877 |
| Discontinued operations | 3,835 | 6,025 | 3,310 | 2,370 | 1,908 | 212 | 17,660 |
| Total minimum payments | \$ 8,005 | \$ 13,480 | \$ 10,090 | \$ 8,612 | \$ 7,513 | \$ 837 | \$ 48,537 |

Bond commitments

In the ordinary course of business, predominantly in our installation business, we are required to commit to bonds that require payments to our customers for any non-performance. The outstanding face value of the bonds fluctuates with the value of installation projects that are in process and in our backlog. At August 30, 2003, these bonds totaled \$86.0 million. Our installation business has never been required to pay on these performance-based bonds. However, past experience is not necessarily indicative of future results.

Purchase commitments

The Company has purchase commitments relating to its discontinued operation, Harmon AutoGlass, of \$0.8 million for the remainder of fiscal 2004, \$1.2 million for fiscal 2005, and \$1.0 million in fiscal 2006. These purchase commitments relate to contractual obligations that expire on December 31, 2005, with a third-party that provides call center operations for our Auto Glass retail business. The contract is structured such that there is a minimum number of units that must be processed through the third-party's facility. The contract includes a buy-out provision of \$7.8 million, \$4.5 million and \$2.5 million for calendar years 2003, 2004 and 2005, respectively.

Guarantees and warranties

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires liability to be recognized at the time a company issues a guarantee for the fair value of the obligations assumed under certain guarantee agreements. Additional disclosures or liabilities associated with guarantee agreements are also required in the interim and annual financial statements. The disclosure requirements of FIN 45 are effective for the years ending after December 15, 2002. The liability recognition requirements are effective for guarantees entered into after January 1, 2003. The adoption of this new standard did not have an effect on our consolidated financial position or results of operations for the period ended August 30, 2003.

The Company accrues for warranty and claim costs as a percentage of sales based on historical trends. Actual warranty and claim costs are deducted from the accrual when incurred. At the beginning of fiscal 2004, warranty and claim accruals were \$2.4 million, with additional accruals incurred of \$0.9 million, offset by warranty claims paid of \$0.6 million for the six-month period ended August 30, 2003. The accrual related to warranties and claims at the end of the second quarter was \$2.7 million.

Letters of credit

At August 30, 2003, 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 is obligated as of August 30, 2003 was approximately \$14.4 million, of which \$8.4 million is issued and has reduced our total availability of funds under our \$125.0 million credit facility.

Non-compete agreements

The Company has entered into a number of non-compete and consulting agreements associated with former employees. As of August 30, 2003, future payments of \$0.1 million were committed under such agreements.

Litigation

The Company has been a party to various legal proceedings incidental to its normal operating activities. In particular, like others in the construction supply industry, the Company's construction supply businesses are routinely involved in various disputes and claims arising out of construction projects, sometimes involving significant monetary damages or product replacement. The Company has also been subject to litigation arising out of employment practice, workers compensation, general liability and automobile claims. Although it is very difficult to accurately predict the outcome of such proceedings, facts currently available indicate that no such claims will result in losses that would have a material adverse effect on the financial condition of the Company.

11. Comprehensive Earnings

| <i>(In thousands)</i> | Three months ended | | Six months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | August 30, 2003 | August 31, 2002 | August 30, 2003 | August 31, 2002 |
| Net (loss) earnings | \$ (1,851) | \$ 8,568 | \$ (1,544) | \$ 13,807 |
| Unrealized gain (loss) on derivatives, net of \$314, \$(256), \$265 and \$(248) tax expense (benefit), respectively | 517 | (422) | 436 | (407) |
| Unrealized (loss) gain on marketable securities, net of \$(150), \$104, \$(89) and \$44, tax (benefit) expense, respectively | (278) | 192 | (164) | 81 |
| Comprehensive (loss) earnings | \$ (1,612) | \$ 8,338 | \$ (1,272) | \$ 13,481 |

12. Segment Information

The following table presents sales and operating income data for our three segments, and consolidated, for the three and six months, when compared to the corresponding period a year ago. As previously noted, the Auto Glass segment excludes results of the Company's retail autoglass business, which has been reclassified as a discontinued operation.

| <i>(In thousands)</i> | Three months ended | | Six months ended | |
|--------------------------------|--------------------|-------------------|-------------------|-------------------|
| | August 30, 2003 | August 31, 2002 | August 30, 2003 | August 31, 2002 |
| Net Sales | | | | |
| Architectural | \$ 103,508 | \$ 115,739 | \$ 198,452 | \$ 223,732 |
| Large-Scale Optical | 21,220 | 20,105 | 36,957 | 36,460 |
| Auto Glass | 11,131 | 11,946 | 21,922 | 24,398 |
| Intersegment Eliminations | (15) | (1) | (20) | (2) |
| Net Sales | \$ 135,844 | \$ 147,789 | \$ 257,311 | \$ 284,588 |
| Operating Income (Loss) | | | | |
| Architectural | \$ 855 | \$ 8,409 | \$ 1,801 | \$ 14,835 |
| Large-Scale Optical | 1,307 | 424 | 956 | (494) |
| Auto Glass | 1,632 | 2,718 | 3,575 | 5,995 |
| Corporate and Other | (590) | (622) | (1,200) | (1,111) |
| Operating Income | \$ 3,204 | \$ 10,929 | \$ 5,132 | \$ 19,225 |

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 1, 2003 and the consolidated financial statements, including the notes to consolidated financial statements, included therein.

The Company's retail auto glass business is reported as a discontinued operation, along with the Company's previously discontinued curtainwall and detention/security businesses. Accordingly, certain prior-year amounts have been reclassified to conform to the current period presentation.

Sales and Earnings

The relationship between various components of operations, stated as a percent of net sales, is illustrated below for the three and six months of the current and past fiscal year.

| <i>(Percent of net sales)</i> | Three months ended | | Six months ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | August 30, 2003 | August 31, 2002 | August 30, 2003 | August 31, 2002 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 82.1 | 74.7 | 81.8 | 75.0 |
| Gross profit | 17.9 | 25.3 | 18.2 | 25.0 |
| Selling, general and administrative expenses | 15.5 | 17.9 | 16.2 | 18.2 |
| Operating income | 2.4 | 7.4 | 2.0 | 6.8 |
| Interest income | 0.1 | 0.2 | 0.1 | 0.1 |
| Interest expense | 0.7 | 0.7 | 0.7 | 0.8 |
| Equity in income (loss) of affiliated companies | 0.4 | (0.1) | — | (0.4) |
| Earnings from continuing operations before income taxes | 2.2 | 6.8 | 1.4 | 5.7 |
| Income taxes | 0.4 | 2.0 | 0.3 | 1.7 |
| Earnings from continuing operations | 1.8 | 4.8 | 1.1 | 4.0 |
| (Loss) earnings from discontinued operations | (3.2) | 1.0 | (1.7) | 0.9 |
| Net (loss) earnings | (1.4)% | 5.8% | (0.6)% | 4.9% |
| Effective tax rate for continuing operations | 16.3% | 29.3% | 18.0% | 29.3% |

Second Quarter and Year-to-Date Fiscal 2004 Compared to Second Quarter and Year-to-Date Fiscal 2003

Consolidated net sales for the second quarter ended August 30, 2003 were \$135.8 million, an 8.1 percent decrease from net sales of \$147.8 million reported for the prior-year quarter. Consolidated net sales for the six months ended August 30, 2003 were \$257.3 million, down 9.6 percent, as compared to \$284.6 million for the six months ended

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August 31, 2002. This decrease in net sales for the quarter, as well as for the six-months, is primarily due to the decline in the commercial construction industry affecting the Architectural segment.

On a consolidated basis, cost of sales, as a percentage of net sales, increased to 81.8 percent for the six months of fiscal 2004 ended August 30, 2003, from 75.0 percent in the six-month period of the prior year. The primary factors underlying the resulting decrease in gross profit percentage were pricing pressures within the Architectural segment, isolated project management issues within the installation business of the Architectural segment, and reduced volume and the lower margins experienced on short-term, fill-in work within the Architectural segment.

Selling, general and administrative (SG&A) expenses for the second quarter of fiscal 2004 decreased \$5.3 million, or 20 percent from fiscal 2003, and decreased as a percentage of net sales to 15.5 percent from 17.9 percent. SG&A expenses decreased \$10.3 million, or 20 percent, for the six-month period ended August 30, 2003, as compared to the prior period. The decrease in SG&A expenses for the quarter and six-month period relates primarily to decreased incentive compensation accruals. Also contributing to the decline in SG&A expenses were decreased salaries and related benefit expenses resulting from headcount and cost reductions.

Interest expense decreased by 16 percent to \$0.9 million for the second quarter of fiscal 2004 from \$1.1 million in the prior-year quarter. Interest expense decreased by 22 percent to \$1.8 million for the six months ended August 30, 2003 from \$2.3 million in the prior-year period. These decreases reflect reduced average borrowing levels and a lower weighted average interest rate under the Company's revolving credit agreement.

We own a 34 percent interest in an automotive replacement glass distribution business, PPG Auto Glass LLC, that is reported in equity in affiliated companies. Our equity in income from affiliated companies was \$0.6 million in the second quarter of fiscal 2004 versus a loss of \$0.1 million in the prior-year quarter. For the six-month period, we reported breakeven levels for fiscal 2004, as compared to a loss of \$1.2 million in the prior period. These increases in income reflect improved operating performance at PPG Auto Glass LLC, despite challenging market conditions.

The effective income tax rate of 18.0 percent for the first six months of fiscal 2004 decreased from the 29.3 percent level in the comparable period in fiscal 2003. The reduction in the annual effective tax rate is a result of favorable impacts of our tax-exempt investment income and other tax credits being larger relative to a declining base of pretax income.

The company reported second quarter diluted earnings per share from continuing operations of \$0.09, or \$2.5 million, which includes a charge of \$0.01 per share resulting from the closure of a small satellite architectural paint finishing facility in Atlanta. This compares to diluted earnings from continuing operations of \$0.25 per share, or \$7.1 million, in the prior-year period. For the first six months of fiscal 2004, earnings from continuing operations were \$2.9 million, or \$0.10 diluted earnings per share, as compared to \$11.5 million, or \$0.40 diluted earnings per share, in the comparable period in fiscal 2003.

Second quarter discontinued operations results, which reflect the planned sale of Harmon AutoGlass, reflected a loss of \$0.16 per share, or \$4.4 million, compared with earnings of \$0.05 per share, or \$1.5 million, in the fiscal 2003 period. Second quarter fiscal 2004 results include a charge of \$0.18 per share, or \$5.0 million to reduce the carrying value of Harmon Auto Glass to its estimated fair value, less cost to sell.

In the second quarter of fiscal 2004, we reported a loss of \$1.9 million, or \$0.07 diluted loss per share, compared to earnings of \$8.6 million, or \$0.30 diluted earnings per share, in the second quarter of fiscal 2003. For the six months of fiscal 2004, we reported a loss of \$1.5 million, or \$0.06 diluted loss per share, compared to earnings of \$13.8 million, or \$0.48 diluted earnings per share a year ago.

Segment Analysis

The following table presents sales and operating income data for our three segments and on a consolidated basis for the second quarter and the first six months, when compared to the corresponding period a year ago. As previously noted, the Auto Glass segment excludes results of the Company's retail autoglass business, which has been reclassified as a discontinued operation.

| (In thousands) | Three months ended | | | Six months ended | | |
|--------------------------------|--------------------|-----------------|----------|------------------|-----------------|----------|
| | August 30, 2003 | August 31, 2002 | % Change | August 30, 2003 | August 31, 2002 | % Change |
| Net Sales | | | | | | |
| Architectural | \$ 103,508 | \$ 115,739 | (10.6)% | \$ 198,452 | \$ 223,732 | (11.3)% |
| Large-Scale Optical | 21,220 | 20,105 | 5.5 | 36,957 | 36,460 | 1.4 |
| Auto Glass | 11,131 | 11,946 | (6.8) | 21,922 | 24,398 | (10.1) |
| Intersegment Eliminations | (15) | (1) | N/M | (20) | (2) | N/M |
| Net Sales | \$ 135,844 | \$ 147,789 | (8.1)% | \$ 257,311 | \$ 284,588 | (9.6)% |
| Operating Income (Loss) | | | | | | |
| Architectural | \$ 855 | \$ 8,409 | (89.8)% | \$ 1,801 | \$ 14,835 | (87.9)% |
| Large-Scale Optical | 1,307 | 424 | 208.3 | 956 | (494) | N/M |
| Auto Glass | 1,632 | 2,718 | (40.0) | 3,575 | 5,995 | (40.4) |
| Corporate and Other | (590) | (622) | 5.1 | (1,200) | (1,111) | (8.0) |
| Operating Income | \$ 3,204 | \$ 10,929 | (70.7)% | \$ 5,132 | \$ 19,225 | (73.3)% |

Architectural Products and Services (Architectural)

Second quarter revenues for the Architectural segment continued to decrease as a result of the ongoing construction industry decline and were down 10.6 percent to \$103.5 million compared to \$115.7 million the same quarter a year ago. For the first six months, revenues are at \$198.5 million, down 11.3 percent compared to \$223.7 million for the prior year period.

Operating income for the Architectural segment was \$0.9 million for the second quarter, compared to \$8.4 million for the second quarter a year ago. For the first six months of fiscal 2004, operating income was \$1.8 million, compared to \$14.8 million for the first six months of fiscal 2003. The decrease in operating income for the quarter is due to lower sales, pricing pressures, margin pressures resulting from isolated project management issues in the glass installation business and lower capacity utilization. Architectural results also were impacted by the charge from closing a small finishing facility in the second quarter of fiscal 2004. Revenues and earnings for the first six months of fiscal 2004 were impacted by the reasons mentioned above, delays in construction projects leading to lower production levels at all businesses, as well as an increase in lower margin short-term, fill-in work. These factors were only slightly offset by ongoing productivity improvements in our architectural manufacturing businesses.

The Architectural segment backlog, at August 30, 2003, increased to \$181.2 million, from \$150.9 million at the end of the first quarter and \$147.3 million at year-end. The backlog also increased from the prior-year period level of \$163.2 million. The majority of the backlog increase was from the installation business, with the other architectural businesses holding flat.

Large-Scale Optical Technologies (LSO)

Second quarter LSO segment revenues were \$21.2 million, up 5.5 percent compared to revenues of \$20.1 million in the prior-year period as a result of growth in picture framing glass sales as the conversion to value-added products continues, and increased sales of anti-reflective acrylic products. For the first six months of fiscal 2004, LSO revenues were relatively flat compared to the prior-year period.

The segment had operating income of \$1.3 million for the second quarter, up significantly from \$0.4 million in the same period last year, due to the continued impact of conversion to value-added picture framing glass and operational improvements. For the six months ended August 30, 2003, the LSO segment had operating income of \$1.0 million, as compared to a \$0.5 million operating loss for the six months ended August 31, 2002 as a result of the aforementioned reasons.

Automotive Replacement Glass and Services (Auto Glass)

Auto Glass segment revenues for the second quarter, which now reflect only our manufacturing business, were \$11.1 million, down slightly from \$11.9 million in the prior-year period. For the year, the segment had revenues of \$21.9 million, down 10.1 percent from the prior year period.

The segment reported operating income of \$1.6 million for the second quarter, down from \$2.7 million in the prior-year period. For the first six months of fiscal 2004, the segment reported operating income of \$3.6 million, as compared to \$6.0 million reported through the second quarter of fiscal 2003. Revenues and earnings for both periods reflect manufacturing pricing that has declined approximately 15 percent compared to a year ago principally due to declining selling prices for replacement windshields.

The segment's operating income includes results from manufacturing and the market-based pricing amendments to the supply agreements related to the PPG Auto Glass joint venture that were effective in fiscal 2002.

Consolidated Backlog

At August 30, 2003, Apogee's consolidated backlog was \$187.6 million, up 22 percent from the \$153.3 million reported at March 1, 2003, and up 10 percent from the prior-year period. The backlog of the Architectural segment represented 97 percent of the Company's consolidated backlog.

Liquidity and Capital Resources

| <i>(Cash effect, in thousands)</i> | Six months ended | |
|--|--------------------|--------------------|
| | August 30, 2003 | August 31, 2002 |
| Net cash provided by continuing operating activities | \$ 3,509 | \$ 23,554 |
| Capital expenditures | (3,046) | (5,051) |
| Proceeds from dispositions of property | 15 | 1,295 |
| Borrowing activities, net | (7,090) | (18,297) |
| Purchases of Company common stock | (347) | (14,071) |

Operating activities. Cash provided by operating activities of continuing operations was \$3.5 million through the second quarter of fiscal 2004, compared to \$23.6 million through the second quarter of fiscal 2003. The decline over the prior-year period is attributable to the decline in earnings and net increases in non-cash working capital, current assets excluding cash and cash equivalents less current liabilities. During fiscal 2004, non-cash working capital increased \$8.8 million from fiscal 2003 year-end due to decreases in compensation-related accruals.

Investing Activities. Through the second quarter of fiscal 2004, investing activities used cash of \$1.4 million, compared to \$2.6 million of cash provided in the same period last year, primarily as a result of the decrease in sales/maturities of marketable securities, offset by purchases. New capital investment through the second quarter of fiscal 2004 totaled \$3.0 million, versus \$5.1 million in the prior-year period. For full-year fiscal 2004, we expect to incur capital expenditures as necessary to maintain existing facilities and safety initiatives as well as some capacity improvements within the LSO segment. Fiscal 2004 capital expenditures are forecasted to be \$16 million compared to fiscal 2003 actual capital expenditures of \$11.2 million. The targeted expenditures do not take into account potential focused investments to support growth initiatives including opportunistic acquisitions, startups or investments.

Financing Activities. Total outstanding borrowings stood at \$40.7 million at August 30, 2003, down 15 percent from the \$47.8 million outstanding at March 1, 2003. The majority of our long-term debt, \$31.7 million, consisted of bank borrowings under our \$125.0 million syndicated revolving credit facility. The borrowings were sufficient to finance the period's investing activities and cash dividend requirements. We paid \$3.2 million in dividends for the six-month period, compared to \$3.1 million in the prior year period. Our debt-to-total-capital ratio was 19 percent at August 30, 2003, down from 23 percent at the end of last year's second quarter.

In April 2003, the Board of Directors authorized the repurchase of an additional 1.5 million shares of Company stock. Stock purchases may be made from time to time in the open market at prevailing market prices. It is our present intention to use the program solely to offset the dilutive impact of employee stock option exercises and to fund our equity-based compensation plans. We did not repurchase any shares during the first or second quarters of fiscal 2004 and do not anticipate repurchasing stock under this program until we have closed on the sale of our retail auto glass transaction.

Other Financing Activities. The following summarized our significant contractual obligations that impact our liquidity:

| <i>(In thousands)</i> | Future Cash Payments Due by Period | | | | | | |
|---|------------------------------------|-----------------|-----------------|-----------------|----------------|-----------------|-----------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total |
| Continuing Operations | | | | | | | |
| Borrowings under credit facility | \$ — | \$ — | \$ — | \$31,700 | \$ — | \$ — | \$31,700 |
| Industrial revenue bonds | — | — | — | — | — | 8,400 | 8,400 |
| Other long-term debt | 150 | 308 | 150 | — | — | — | 608 |
| Operating leases (undiscounted) | 4,170 | 7,455 | 6,780 | 6,242 | 5,605 | 625 | 30,877 |
| Other obligations | 113 | 25 | — | — | — | — | 138 |
| Total cash obligations – continuing operations | 4,433 | 7,788 | 6,930 | 37,942 | 5,605 | 9,025 | 71,723 |
| Discontinued Operations | | | | | | | |
| Operating leases (undiscounted) | 3,835 | 6,025 | 3,310 | 2,370 | 1,908 | 212 | 17,660 |
| Purchase commitments | 815 | 1,225 | 1,021 | — | — | — | 3,061 |
| Total cash obligations – discontinued operations | 4,650 | 7,250 | 4,331 | 2,370 | 1,908 | 212 | 20,721 |
| Total cash obligations | \$9,083 | \$15,038 | \$11,261 | \$40,312 | \$7,513 | \$ 9,237 | \$92,444 |

During fiscal 2003, the Company entered into a four-year, unsecured, revolving credit facility in the amount of \$125.0 million. This credit facility requires us to maintain levels of net worth and certain financial ratios. These ratios include maintaining an interest coverage ratio of more than 3.0 and a debt-to-cash flow ratio of less than 3.0. At August 30, 2003, these ratios were 12.2 and 0.9, respectively. If the Company is not in compliance with these ratios at the end of any quarter (with respect to interest coverage) or at the end of any day (with respect to the debt-to-cash flow ratio), the lender may terminate the commitment and/or declare any loan then outstanding to be due. This credit facility replaced the Company's previously existing \$125.0 million secured credit facility. The industrial revenue bonds in the total above are supported by \$8.4 million of letters of credit that reduce our availability of funds under the \$125.0 million credit facility. At August 30, 2003, the Company was in compliance with all of the financial covenants of the credit facility.

From time to time, we acquire the use of certain assets, such as warehouses, automobiles, forklifts, vehicles, office equipment and some manufacturing equipment through operating leases. Many of these operating leases have termination penalties. However, because the assets are used in the conduct of our business operations, it is unlikely that any significant portion of these operating leases would be terminated prior to the normal expiration of their lease terms. Therefore, we consider the risk related to termination penalties to be minimal.

The purchase commitments set forth in the table above relate to contractual obligations that expire on December 31, 2005, with a third party that provides call center operations for our retail auto glass business, which is reported in discontinued operations. The contract is structured such that there is a minimum number of units that must be processed through the third party's facility. The amounts listed in the above table are equivalent to the minimum number of units required during the year at the minimum contractual price. The contract includes a buy-out provision of \$7.8 million, \$4.5 million and \$2.5 million for calendar years 2003, 2004 and 2005, respectively. The other obligations relate to non-compete and consulting agreements with former employees.

| <i>(In thousands)</i> | Amount of Commitment Expiration Per Period | | | | | | |
|---------------------------|--|------|------|-------|------|------------|---------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total |
| Standby letters of credit | \$ — | \$ — | \$95 | \$117 | \$ — | \$ 5,837 | \$6,049 |

In the ordinary course of business, predominantly in our installation business, we are required to commit to bonds that require payments to our customers for any non-performance. The outstanding face value of the bonds fluctuates with the value of installation projects that are in process and in our backlog. At August 30, 2003, these bonds totaled \$86.0 million. Our installation business has never been required to pay on these performance-based bonds.

The Company maintains interest rate swap agreements that effectively convert \$25.0 million and \$10.0 million of variable rate borrowings into fixed rate borrowings at 5.8 percent and 4.5 percent, respectively. The swap agreements expire in fiscal 2006 and 2005, respectively.

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We experienced a material increase in our premiums and risk retention for our third-party product liability coverages in fiscal 2003, and were able to continue these coverages with increased premiums and retention for fiscal 2004. A material construction project rework event would have a material adverse effect on our operating results.

For fiscal 2004, we believe that current cash on hand, cash generated from operating activities, and the available credit facility should be adequate to fund our working capital requirements and planned capital expenditures. If we are unable to generate enough cash through operations to satisfy our working capital requirements and planned capital expenditures, we have available funds from our committed revolving credit facility.

Outlook

Overall revenue for continuing operations for fiscal 2004 versus fiscal 2003 is anticipated to be down by mid-single digits. We anticipate a mid-single digit decline in third quarter revenues, driven by the commercial construction market softness, but continue to expect overall growth in the second half. This assumes the commercial construction market has passed through its lowest period of activity, which we believe to be the case.

- Architectural segment revenues are expected to be down by high-single digits compared to the fiscal 2003 period, with growth in the fourth quarter driven by our installation backlog.
- LSO segment revenues for the year are expected to grow in the mid-single digits, with strong third-quarter growth followed by flat fourth-quarter revenues.
- Auto Glass manufacturing revenues for the year are expected to be slightly lower than fiscal 2003 due to competitive pricing pressures in the first half.

Annual gross margins are expected to improve in the second half of the year, assuming we achieve normalized architectural gross margins and improved project management processes.

- Expected annual operating margins by segment are: Architectural, approximately 2 percent; LSO, 6 to 7 percent; and Auto Glass, 14 to 16 percent.

Sales, general and administrative expenses, as well as SG&A expenses as a percent of sales, are expected to be down slightly for the year. Equity in affiliates is expected to be slightly below fiscal 2003 results for the year, due to competitive pricing.

The effective tax rate for the full year is anticipated to be between 10 percent and 18 percent. The rate reduction from the fiscal 2003 year-end rate of 28 percent is the result of favorable impacts of constant tax credits relative to a declining base of pretax income.

Earnings per share from continuing operations are expected to be \$0.11 to \$0.15 for the third quarter, and \$0.38 to \$0.50 for the full year.

Discontinued operations will reflect an after-tax charge of \$7 to \$9 million, or \$0.25 to \$0.32 per share, including the \$5.0 million charge taken in the second quarter and the transaction and transition costs of exiting the retail auto glass business. Harmon AutoGlass' operational performance is expected to be approximately breakeven for the year. At this time, we do not anticipate any income or loss from resolution of liabilities associated with discontinued European curtainwall operations.

Related Party Transactions

As a result of our 34 percent interest in PPG Auto Glass (of which PPG Industries, Inc. holds the remaining interest), various transactions the Company enters into with PPG Auto Glass are deemed to be "related party" transactions. Under the terms of a multi-year agreement expiring in June 2005, the Company's retail auto glass business, reported as discontinued operations, is committed to purchasing at least 75 percent of its replacement windshield needs from PPG Auto Glass. The terms are negotiated equivalent to an arm's-length basis. We believe that the amounts paid for such transactions represent the amounts that would normally be paid to unrelated third parties for similar transactions.

Critical Accounting Policies

No material changes have occurred in the disclosure with respect to our critical accounting policies set forth in our Annual Report on Form 10-K for the fiscal year ended March 1, 2003.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

No material changes have occurred in the disclosure of qualitative and quantitative market risk set forth in our Annual Report on Form 10-K for the fiscal year ended March 1, 2003.

Item 4: Controls and Procedures

- a) Evaluation of disclosure controls and procedures. Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14 of the Securities and Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the evaluation date, our disclosure controls and procedures are effective at alerting them on a timely basis of material information required to be included in our periodic filings with the Securities and Exchange Commission.
- b) Changes in internal controls. There have been no significant changes in our internal controls or in other factors that could significantly affect our disclosure controls and procedures subsequent to the date of our evaluation.

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,” “intend,” “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 undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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. 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 uncertainties and other risk factors include, but are not limited to, the following factors: Operational risks within (A) the Architectural segment: i) competitive, price-sensitive and changing market conditions; ii) economic conditions and the cyclical nature of the worldwide commercial construction industry; iii) product performance, reliability or quality problems that could delay payments, increase costs, impact orders or lead to litigation; and iv) the segment’s ability to fully utilize production capacity and project managers; (B) the Auto Glass segment: i) changes in market dynamics; ii) market seasonality; iii) highly competitive, fairly mature industry; iv) performance of the PPG Auto Glass LLC joint venture, and v) possible industry consolidation; and (C) the Large-Scale Optical segment: i) new product introductions and management of product life cycles; ii) intensely competitive markets; iii) highly cyclical markets that are impacted by economic slowdowns; iv) dependence on a relatively small number of customers; and v) ability to utilize manufacturing facilities. Additional factors include: i) quarterly revenue and operating results that are volatile and difficult to predict; ii) the uncertainty of whether we will be able to complete a sale of the Harmon Auto Glass business on terms, or within a time period, acceptable to us; iii) the possibility of a material product liability event; iv) the costs of compliance with governmental regulations relating to hazardous substances; v) management of discontinued operations exiting activities; and vi) foreign currency risk related to discontinued operations. A description of these and other factors are set forth in the cautionary statement filed as Exhibit 99.1 to the Company’s Annual Report on Form 10-K for the fiscal year ended March 1, 2003.

The Company cautions readers that actual future results could differ materially from those described in the forward-looking statements. The Company wishes to caution investors that other factors may in the future prove to be important in affecting the Company’s results of operations. 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 1. Legal Proceedings

The Company has been a party to various legal proceedings incidental to its normal operating activities. In particular, like others in the construction supply industry, the Company’s construction supply businesses are routinely involved in

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various disputes and claims arising out of construction projects, sometimes involving significant monetary damages or product replacement. The Company has been subject to litigation arising out of employment practice, worker's compensation, general liability and automobile claims. Although it is impossible to predict the outcome of such proceedings, facts currently available indicate that no such claims will result in losses that would have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

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

Apogee Enterprises, Inc. Annual Meeting of Shareholders was held on June 17, 2003. The number of outstanding shares on the record date for the Annual Meeting was 27,457,625. Eighty-nine percent of the outstanding shares were represented in person or by proxy at the meeting.

The three candidates for election as Class II Directors listed in the proxy statement were elected to serve three-year terms, expiring at the 2005 Annual Meeting of Shareholders. The proposal to amend the Amended and Restated 1987 Apogee Enterprises, Inc. Partnership Plan was approved. The proposal to ratify the appointment of Deloitte & Touche LLP as independent auditors for the Company for the 2004 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 II Directors | | | |
| Bernard P. Aldrich | 21,993,392 | 2,414,407 | |
| Robert L. Edwards | 22,008,415 | 2,399,384 | |
| Russell Huffer | 21,408,921 | 2,998,878 | |
| Amend the Amended and Restated 1987 Apogee Enterprises, Inc. Partnership Plan | 22,715,254 | 1,546,566 | 145,979 |
| Ratification of the appointment of Deloitte & Touche LLP as independent auditors | 23,921,691 | 352,058 | 134,050 |

Item 6. Exhibits and Reports on Form 8-K

(a)

Exhibit No.

- | | |
|------|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, As Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, As Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

(b) Reports on Form 8-K:

On July 17, 2003, the Company furnished a Current Report on Form 8-K dated July 16, 2003 announcing earnings for the quarter ended May 31, 2003 and attaching a press release related thereto.

On August 4, 2003, the Company furnished a Current Report on Form 8-K dated July 15, 2003 related to the Rule 10b-5 trading plan entered into by the wife of a director of the Company.

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 8, 2003

By: /s/ RUSSELL HUFFER

Russell Huffer
Chairman, President and
Chief Executive Officer

Date: October 8, 2003

By: /s/ MICHAEL B. CLAUER

Michael B. Clauer
Executive Vice President and
Chief Financial Officer

CERTIFICATION

I, Russell Huffer, Chairman, President and Chief Executive Officer of Apogee Enterprises, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apogee Enterprises, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared,
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting,

Date: October 8, 2003

/s/ RUSSELL HUFFER

Russell Huffer
Chairman, President and Chief Executive Officer

CERTIFICATION

I, Michael B. Clauer, Executive Vice President and Chief Financial Officer of Apogee Enterprises, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apogee Enterprises, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared,
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting,

Date: October 8, 2003

/s/ MICHAEL B. CLAUER

Michael B. Clauer
Executive Vice President and Chief Financial Officer

**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 Quarterly Report of Apogee Enterprises, Inc. (the "Company") on Form 10-Q for the period ending August 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Russell Huffer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant § 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 result of operations of the Company.

/s/ RUSSELL HUFFER

Russell Huffer
Chairman, President and Chief Executive Officer

October 8, 2003

**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 Quarterly Report of Apogee Enterprises, Inc. (the "Company") on Form 10-Q for the period ending August 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael B. Clauer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant § 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 result of operations of the Company.

/s/ MICHAEL B. CLAUER

Michael B. Clauer
Executive Vice President and Chief Financial Officer

October 8, 2003