

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

OR

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

For Quarter Ended May 30, 1998 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 (612) 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 June 30, 1998
-----	-----
Common Stock, \$.33 1/3 Par Value	27,583,435

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FORM 10-Q
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and February 28, 1998

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APOGEE ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)

	May 30, 1998	February 28, 1998
	-----	-----
ASSETS		
Current assets		
Cash and cash equivalents (including restricted funds of \$-0- and \$208, respectively)	\$ 11,701	\$ 7,853
Receivables, net of allowance for doubtful accounts	148,823	145,121
Inventories	63,908	64,183
Costs and earnings in excess of billings on uncompleted contracts	8,939	6,796
Refundable income taxes	6,573	16,533
Deferred tax assets	12,955	14,218
Other current assets	5,968	7,540
	-----	-----
Total current assets	258,867	262,244
	-----	-----
Property, plant and equipment, net	132,954	129,937
Marketable securities - available for sale	26,738	18,706
Investments	609	709
Intangible assets, at cost less accumulated amortization	57,061	50,500
Other assets	2,026	2,025
	-----	-----
Total assets	\$ 478,255	\$ 464,121
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 59,573	\$ 44,055
Accrued expenses	101,033	108,893
Billings in excess of costs and earnings on uncompleted contracts	24,572	23,141
Current installments of long-term debt	1,279	1,679
	-----	-----
Total current liabilities	186,457	177,768
	-----	-----
Long-term debt	153,838	151,967
Other long-term liabilities	24,481	24,785
Shareholders' equity		
Common stock, \$.33 1/3 par value; authorized 50,000,000 shares; issued and outstanding 27,621,000 and 27,453,000 shares, respectively	9,207	9,151
Additional paid-in capital	40,969	38,983
Retained earnings	64,294	61,899

Unearned compensation	(1,188)	(686)
Net unrealized gain on marketable securities	197	254
	-----	-----
Total shareholders' equity	113,479	109,601
	-----	-----
Total liabilities and shareholders' equity	\$ 478,255	\$ 464,121
	=====	=====

See accompanying notes to consolidated financial statements.

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APOGEE ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED RESULTS OF OPERATIONS
FOR THE QUARTERS ENDED MAY 30, 1998 AND MAY 31, 1997
(Thousands of Dollars Except Share and Per Share Amounts)

	Quarter Ended May 30, 1998	May 31, 1997
	-----	-----
Net sales	\$233,127	\$223,851
Cost of sales	187,804	176,962
	-----	-----
Gross profit	45,323	46,889
Selling, general and administrative expenses	36,045	32,353
Provision for restructuring and other unusual items	--	1,208
	-----	-----
Operating income	9,278	13,328
Interest expense, net	2,646	2,304
	-----	-----
Earnings before income taxes and other items below	6,632	11,024
Income taxes	2,454	4,000
Equity in net loss of affiliated companies	300	250
	-----	-----
Net earnings	\$ 3,878	\$ 6,774
	=====	=====
Earnings per share-Basic	\$ 0.14	\$ 0.24
	=====	=====
Earnings per share-Diluted	\$ 0.14	\$ 0.24
	=====	=====
Cash dividends per common share	\$ 0.050	\$ 0.045
	=====	=====

See accompanying notes to consolidated financial statements.

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APOGEE ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTERS ENDED MAY 30, 1998 AND MAY 31, 1997
(Thousands of Dollars)

	1998	1997
	-----	-----
OPERATING ACTIVITIES		

Net earnings	\$ 3,878	\$ 6,774
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	6,958	5,766
Provision for losses on accounts receivable	639	408
Deferred income tax (benefit) expense	1,263	(1,738)
Equity in net earnings of affiliated companies	300	250
Other, net	(1)	1,742
Changes in operating assets and liabilities, net of effect of acquisitions		
Receivables	(4,263)	(1,342)
Inventories	308	(3,970)
Costs and earnings in excess of billings on uncompleted contracts	(2,143)	8,443
Other current assets	2,648	933
Accounts payable and accrued expenses	6,929	(10,145)
Billings in excess of costs and earnings on uncompleted contracts	1,431	(151)
Refundable income taxes and accrued income taxes	9,991	9,967
Other long-term liabilities	(806)	(4,297)
	-----	-----
Net cash provided by operating activities	27,132	12,640
	-----	-----
INVESTING ACTIVITIES		
Capital expenditures	(9,483)	(8,356)
Acquisition of businesses, net of cash acquired	(4,701)	(500)
Increase in marketable securities	(8,120)	(6,821)
Investments in and advances to affiliated companies	(200)	(350)
Proceeds from sale of property and equipment	68	77
Other, net	(41)	(62)
	-----	-----
Net cash used in investing activities	(22,477)	(16,012)
	-----	-----
FINANCING ACTIVITIES		
Payments on long-term debt	(526)	(518)
Proceeds from issuance of long-term debt	1,997	13,257
Repurchase and retirement of common stock	(115)	(5,289)
Proceeds from issuance of common stock	2,056	2,825
Dividends paid	(1,382)	(1,246)
Increase in deferred debt expense	(2,837)	--
	-----	-----
Net cash (used in) provided by financing activities	(807)	9,029
	-----	-----
Increase in cash	3,848	5,657
Cash at beginning of period	7,853	4,065
	-----	-----
Cash at end of period	\$ 11,701	\$ 9,722
	=====	=====

See accompanying notes to consolidated financial statements.

APOGEE ENTERPRISES, INC. AND SUBSIDIARIES
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 May 30, 1998 and May 31, 1997, and the results of operations and cash flows for each of the thirteen week periods ended May 30, 1998 and May 31, 1997. 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 financial statements and notes. The results of operations for the thirteen week periods ended May 30, 1998 and May 31, 1997 are not necessarily indicative of the results to be expected for the full year.

During the first quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 130 (FAS 130), "Reporting Comprehensive Income." The adoption of FAS 130 had no effect on the consolidated financial statements.

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. Earnings per share

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

	May 30, 1998	May 31, 1997
	-----	-----
Basic earnings per share-weighted common shares outstanding		
	27,536,441	27,903,938
Weighted common share assumed upon exercise of stock options		
	246,077	605,469
	-----	-----
Diluted earnings per share-weighted common shares and common shares equivalent outstanding		
	27,782,518	28,509,407
	=====	=====

3. Inventories

Inventories consist of the following:

	May 30, 1998	February 28, 1998
	-----	-----
Raw materials and supplies	\$19,835	\$20,017
In process	4,452	4,749
Finished goods	39,621	39,417
	-----	-----
	\$63,908	\$64,183
	=====	=====

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

SALES AND EARNINGS

Net sales were \$233.1 million, a 4% increase over the \$223.9 million reported a year ago. First quarter earnings fell 43% to \$3.9 million, or 14 cents per share, from \$6.8 million, or 24 cents per share, a year ago. Last year's net sales have been restated to reflect the deconsolidation of the Company's European curtainwall operations, reflecting our ceding of control over those entities.

The following table presents sales and operating income data for the Company's three segments and on a consolidated basis for the first quarter, when compared to the corresponding period a year ago. Operating results are discussed below.

	QUARTER ENDED		
	-----	-----	-----
	MAY 30, 1997	MAY 30, 1998	PERCENTAGE CHANGE
	=====	=====	=====
NET SALES			
Glass technologies	\$ 52,045	\$ 54,539	5
Auto glass	90,257	96,756	7
Building products & services	\$ 83,792	84,184	-
Eliminations	(2,243)	(2,352)	5
	-----	-----	
Total	\$223,851	\$ 233,127	4
	=====	=====	

OPERATING INCOME (LOSS)			
Glass technologies	\$ 5,277	\$ 3,093	(41)
Auto glass	6,345	4,913	(23)
Building products & services	\$ 1,734	1,091	(37)
Corporate and other	(28)	181	NM
	-----	-----	
Total	\$ 13,328	\$ 9,278	(30)
	=====	=====	

Glass Technologies (GT)

First quarter earnings decreased to \$3.1 million compared to \$5.3 million in the year-ago quarter. Net sales continued to improve increasing 5% over the prior period. Earnings dipped due to the temporary suspension of Viratec's Optium(TM) cathode ray tube (CRT) coating line in conjunction with its relocation from Minnesota to the West Coast, the effect of production expansion and softening in selected products due to the Asian Crisis.

Viracon, the segment's largest operating unit, produced another quarter of improved results, with earnings rising 26% on a sales gain of 13%. Customer demand for Viracon's high-performance architectural glass products remained strong. Despite its seasonally soft first quarter, the segment's Tru Vue unit recorded a net sales improvement.

GT's Viratec unit reported an operating loss for the quarter compared to operating income a year earlier. In addition to the suspension of the Optium coating line, GT's Viratec unit also was adversely affected by lower demand for its anti-glare filter and front-surface mirror products due to the economic slowdown in Asia.

GT continued to proceed with its announced capital expenditure program. The most significant projects were the construction of a new Viracon facility in Statesboro, Georgia, and the relocation of the Optium CRT coating line to a West Coast location, as noted above. The Optium coating line is expected to be operating by calendar year-end, while the Statesboro facility is anticipated to begin generating significant sales in the next fiscal year.

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Auto Glass (AG)

AG continued its revenue improvements generating a net sales gain of 7% over the prior period. Earnings decreased from \$6.3 million to \$4.9 million due to increases in selling and administrative expenses. Such increases resulted from investments in information systems technology and an aggressive advertising campaign. These investments are expected to contribute to future earnings.

On May 29, 1998, the segment acquired an 80% interest in VIS'N Service Corporation (VIS'N), an insurance claims and policy processing outsource company headquartered in Red Wing, Minnesota. This acquisition will expand the segment's capabilities to outsource insurance claims and policy processing beyond its traditional auto glass market.

During the quarter, AG began to see additional sales as insurance companies adjusted their allocations of business in response to a merger of two industry participants. The segment also continued to proceed with efforts to improve productivity for its auto glass repair and replacement operations.

At the close of the first quarter, AG had 346 retail locations, 73 wholesale depots and 8 Midas Muffler franchises.

Building Products & Services (BPS)

The Building Products & Services segment (BPS) earned \$1.1 million in the first quarter of fiscal 1999 compared to an operating profit of \$1.7 million in the comparable period a year ago. Net sales were flat compared to last year, which have been restated to reflect the deconsolidation of European curtainwall operations. Last year's results benefited from the completion of one significant curtainwall project in the first quarter.

For the quarter, domestic curtainwall operations reported breakeven results on an anticipated net sales decline of 28%. The Detention/Security group reported

flat net sales and breakeven results for the period due to losses from a start-up operation. The segment's Architectural Products and Full Service units reported solid profits on improved net sales.

The exit from European curtainwall operations remained on track, and the Asian curtainwall unit had nearly completed the remaining projects in its backlog. All of the segment's Asian projects are expected to be substantially complete by the end of the second quarter.

Backlog

At May 30, 1998, Apogee's consolidated backlog was \$312 million, up slightly from February 28, 1998. The backlogs of BPS's operations represented over 80% of Apogee's consolidated backlog. The domestic curtainwall backlog stood at \$96 million. The Asian curtainwall backlog declined to \$5 million as the remaining projects neared completion. GT's Viracon operation reported a solid backlog of orders for its architectural glass products and Viratec Thin Films' backlog more than doubled from last fiscal year-end, primarily due to orders of Optium coated products.

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Consolidated

The following table compares first quarter results with year-ago results, as a percentage of sales, for each caption.

	Percentage of Net Sales	
	1998	1999
Net sales	100.0	100.0
Cost of sales	79.1	80.6
Gross profit	20.9	19.4
Selling, general and administrative expenses	14.5	15.5
Provision for restructuring and other unusual items	0.5	-
Operating income	6.0	4.0
Interest expense, net	1.0	1.1
Earnings before taxes	4.9	2.8
Income taxes	1.8	1.1
Equity in net loss of affiliated companies	0.1	0.1
Net earnings	3.0	1.7
Effective tax rate	37.0%	36.3%

On a consolidated basis, cost of sales, as a percentage of net sales, rose slightly. The primary factors underlying this increase were the effect of the planned suspension of the Optium cathode ray tube (CRT) coating line and the absence of significant margin recognized upon the completion of one large curtainwall project included in last year's first quarter results. These items were partly offset by productivity gains at AG, Viracon and BPS's Architectural Products unit, and a continuation of a change in sales mix reflecting higher GT and AG revenues and lower curtainwall revenues.

Selling, general and administrative (SG&A) expenses rose by \$3.7 million, or 11%. The rise included increased investment in information systems technology, and higher employee and advertising costs. Interest expense rose over last year primarily due to higher borrowing levels. The effective income tax rate of 37.0% was up slightly from 36.3% a year ago.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating activities produced \$27.1 million in cash flow for the quarter. That figure reflected the combination of net earnings, noncash charges and a \$15.9 million reduction in working capital, excluding cash. At quarter end, the Company's working capital stood at \$72.4 million. The primary factors underlying

the reduction in working capital were the receipt of approximately \$9.6 million in refundable income taxes and an increase in accounts payable. Offsetting these items were increases in accounts receivable and in costs in excess of billings on uncompleted contracts.

NET CASH PROVIDED BY FINANCING ACTIVITIES

Bank borrowings stood at \$152.5 million at May 30, 1998, slightly higher than the \$150.5 million outstanding at February 28, 1998. The nominal additional borrowings reflected normal working capital variations. Cash provided by operating activities was sufficient to finance the period's investing activities and cash dividend requirements. At May 30, 1998, long-term debt stood at 58% of total capitalization.

In May 1998, the Company obtained a five-year, committed secured credit facility in the amount of \$275 million. This new credit facility requires Apogee to maintain minimum levels of net worth and certain financial ratios, and is collateralized by the Company's receivables, inventory, equipment and intangibles. This facility replaced a \$150 million five-year, multi-currency committed credit facility which had been obtained in May 1996.

The Company anticipates bank borrowings to increase over the next few quarters as capital spending for productive capacity increases and working capital requirements are expected to exceed the Company's cash flow from operating activities.

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NET CASH USED IN INVESTING ACTIVITIES

Additions to property, plant and equipment during the quarter totaled approximately \$9.5 million. Major items included expenditures for the GT expansion activities noted above as well as expenditures on information systems projects throughout the Company. Capital expenditures are expected to increase primarily due to capacity additions at the Company's new Statesboro, Georgia facility and other capacity expansions in GT. The AG segment completed the VIS'N Service Corporation acquisition and one acquisition of retail auto glass replacement stores for a total of \$4.7 million.

Cash increased \$3.8 million for the quarter.

Shareholders' Equity

- - - - -

At May 30, 1998, Apogee's shareholders' equity stood at \$113.5 million. Book value per share was \$4.11, up from \$3.99 per share at February 28, 1998, with outstanding common shares increasing nominally during the period. Net earnings and proceeds from common stock issued in connection with our stock-based compensation plans accounted for the increase, slightly offset by dividends paid.

Impact of Year 2000

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We are reviewing the potential impact of the "Year 2000" date change which involves the inability of certain software and systems to properly recognize and process date information relating to the Year 2000. We have assigned a team to evaluate the nature and extent of the work required to make our systems, products and infrastructure Year 2000 compliant. A number of existing systems projects are either underway or under review within our various business units to incorporate Year 2000 compliance, the cost of which has not been determined. We continue to evaluate the estimated costs associated with our efforts to ensure that our systems, products and infrastructure are Year 2000 compliant. While these on-going efforts will involve additional costs, we believe, based on available information, that we are and will continue to effectively manage our Year 2000 transition without any material adverse effect on our business, results of operations or financial condition.

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CAUTIONARY STATEMENT

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A number of factors should be considered in conjunction with 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 factors are set forth in the cautionary statements filed as Exhibit 99 to the Company's 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 or restructuring of business units, expected cost savings from restructurings cannot be fully realized or realized within the expected timeframe, net sales following restructurings are lower than expected, costs or difficulties related to the operation of the businesses or execution of restructurings or exit activities are greater than expected, the impact of foreign currency markets, the integration of acquisitions, and the realization of expected economies gained through expansion and information systems technology. The Company wishes to caution investors and others to review the statements set forth in Exhibit 99 and that other factors may prove to be important in affecting the Company's business or results of operations. These cautionary statements should be considered in connection with this Form 10-Q, including the forward looking statements contained in the Management's discussion and analysis of the Company's three business segments. These cautionary statements are intended to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

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PART II

OTHER INFORMATION

ITEM 5. - Other Information

Pursuant to the Company's By-laws, as amended to date, shareholders desiring to nominate candidates for election as directors or to make proposals for consideration by the shareholders at the Company's regularly scheduled annual meeting of shareholders must notify the Company in the manner set forth in the Company's By-laws at least 120 days prior to the date that is one year after the prior year's regular meeting. Therefore, shareholders would be required to submit any such nominations or proposals to the Company on or before February 23, 1999 to be considered at the Company's 1999 Annual Meeting of Shareholders.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit (3B). Amended and Restated By-Laws of Apogee Enterprises, Inc.
Exhibit (27). Financial Data Schedule (EDGAR filing only)
Exhibit (27.1). Restated Financial Data Schedule (EDGAR filing only)

(b) Registrant filed a Current Report on Form 8-K, dated April 9, 1998, providing information on fourth quarter and full-year results for the Company's fiscal year ended February 28, 1998.

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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: July 14, 1998

Russell Huffer

Russell Huffer
Chief Executive Officer and President

Date: July 14, 1998

Robert G. Barbieri

Robert G. Barbieri
Vice President Finance and
Chief Financial Officer

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EXHIBITS INDEX

Exhibit

- -----

Exhibit 3B	Amended and Restated By-Laws of Apogee Enterprises, Inc.
Exhibit 27	Financial Data Schedule (EDGAR filing only)
Exhibit 27.1	Restated Financial Data Schedule (EDGAR filing only)

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AMENDED AND RESTATED BY-LAWS
OF
APOGEE ENTERPRISES, INC., A MINNESOTA CORPORATION

ARTICLE I

SHAREHOLDERS

Section 1.01. Places of Meetings. Meetings of shareholders entitled to vote shall be held (a) at any place within or without the State of Minnesota which may be designated by resolution of the Board of Directors, or (b) at any place within Hennepin County, Minnesota, when the meeting is called by or at the demand of the corporation's shareholders.

Section 1.02. Regular Meetings. A regular meeting of shareholders entitled to vote shall be held on such date as the Board of Directors shall by resolution establish. At the regular meeting, members of the Board of Directors shall be elected as provided in these By-Laws and the Articles of Incorporation, and such other business may be transacted as shall be properly brought before the meeting.

Section 1.03. Special Meetings. Special meetings of the shareholders may be held at any time and for any purpose and may be called by the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, two or more directors or by a shareholder or shareholders holding 10% or more of the voting power of all shares entitled to vote, except that a special meeting for the purpose of considering any action to directly or indirectly facilitate or affect a business combination, including any action to change or otherwise effect the composition of the Board of Directors for that purpose, must be called by 25% or more of the voting power of all shares entitled to vote. A shareholder or shareholders holding the requisite percentage of the voting power of all shares entitled to vote may demand a special meeting of the shareholders by written notice of demand given to the Chairman of the Board, the Chief Executive Officer or the Chief Financial Officer of the corporation and containing the purposes of the meeting. Within 30 days after receipt of demand by one of those officers, the Board of Directors shall cause a special meeting of shareholders to be called and held on notice no later than 90 days after receipt of the demand, at the expense of the corporation. Special meetings shall be held on the date and at the time and place fixed by the Chairman of the Board or the Board of Directors, except that a special meeting called by or at demand of a shareholder or shareholders shall be held in the county where the principal executive office is located. The business transacted at a special meeting shall be limited to the purposes as stated in the notice of the meeting.

Section 1.04. Notice of Meetings. Written notice of the time and place of any meeting of the shareholders entitled to vote thereat shall be sent to their addresses as the same appear on the stock ledger or on the records of the corporation, at least five days prior to the meeting, except that notice of a meeting at which a plan of merger or

exchange is to be considered shall be mailed to all shareholders of record, whether entitled to vote or not, at least fourteen days prior thereto. Every notice of any special meeting called pursuant to Section 1.03 hereof shall state the purpose or purposes for which the meeting has been called, and the business transacted at all special meetings shall be confined to the purposes stated in the notice. The written notice of any meeting at which a plan of merger or exchange is to be considered shall so state such as a purpose of the meeting. A copy or short description of the plan of merger or exchange shall be included in or enclosed with such notice.

Section 1.05. Meetings Without Notice. A shareholder may waive notice of any meeting in writing given either before or after the meeting. By attendance at and participation in any meeting of the shareholders, a shareholder shall be deemed to have waived notice thereof, unless the shareholder properly objects pursuant to Minnesota Statutes ss.302A.435, Subdivision 4. Whenever all the shareholders entitled to vote shall be present at and consent to or participate in a meeting without objection, such meeting shall be deemed to be a legal meeting, and all the business transacted shall be valid in all respects the same

as though such meeting had been regularly called pursuant to proper notice.

Section 1.06. Quorum and Adjourned Meetings. The holders of a majority of the shares of stock entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of shareholders, except as may be otherwise provided by law or by the Articles of Incorporation. In the absence of a quorum, any meeting may be adjourned from time to time or from place to place, and no notice as to such adjourned meeting or the place thereof need be given other than by announcement at the meeting at which the requisite amount of voting stock shall be represented. Any business may be transacted which might have been transacted at the meeting as originally called.

Section 1.07. Voting and Proxies. At each meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote either in person or by proxy. Each shareholder, unless the Articles of Incorporation or applicable law provide otherwise, shall have one vote for each share having voting power registered in such shareholder's name on the books of the corporation. Jointly owned shares may be voted by any joint owner unless the corporation receives written notice from any one of them denying the authority of that person to vote those shares. Upon the demand of any shareholder, the vote upon any question before the meeting shall be by ballot. All questions shall be decided by a majority vote of the number of shares entitled to vote and represented at the meeting in person or by proxy at the time of the vote except if otherwise required by applicable law, the Articles of Incorporation, or these By-Laws.

Section 1.08. Record Date. The Board of Directors may fix a time, not exceeding 60 days preceding the date of any meeting of shareholders, as a record date for the determination of the shareholders entitled to notice of and to vote at such meeting, notwithstanding any transfer of shares on the books of the corporation after any record date so fixed.

Section 1.09. Nomination of Directors. Only persons nominated in accordance with the following procedures shall be eligible for election by shareholders as directors. Nominations of persons for election as directors at a meeting of shareholders called for the purpose of electing directors may be made (a) by or at the direction of the Board of Directors or (b) by any shareholder in the manner herein provided. For a nomination to be properly made by a shareholder, the shareholder must give written notice to the Secretary of the corporation so as to be received at the principal executive offices of the corporation not later than (a) with respect to an annual meeting of shareholders, at least 120 days before the date that is one year after the prior year's regular meeting and (b) with respect to a special meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which the notice of such meeting is first given to shareholders. Each such notice shall set forth (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understanding between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a director of the corporation if so elected.

Section 1.10. Shareholder Proposals. To be properly brought before a regular meeting of shareholders, business must be (a) specified in the notice of the meeting, (b) directed to be brought before the meeting by the Board of Directors or (c) proposed at the meeting by a shareholder who (i) was a shareholder of record at the time of giving of notice provided for in these bylaws, (ii) is entitled to vote at the meeting and (iii) gives prior notice of the matter, which must otherwise be a proper matter for shareholder action, in the manner herein provided. For business to be properly brought before a regular meeting by a shareholder, the shareholder must give written notice to the Secretary of the corporation so as to be received at the principal executive offices of the corporation at least 120 days before the date that is one year after the prior year's regular meeting. Such notice shall set forth (a) the name and record address of the shareholder and of the beneficial owner, if any, on whose behalf the proposal will be made, (b) the class and number of shares of

the corporation owned by the shareholder and beneficially owned by the beneficial owner, if any, on whose behalf the proposal will be made, (c) a brief description of the business desired to be brought before the regular meeting and the reasons for conducting such business and (d) any material interest in such business of the shareholder and the beneficial owner, if any, on whose behalf the proposal is made. The Chair of the meeting may refuse to acknowledge any proposed business not made in compliance with the foregoing procedure.

ARTICLE II

DIRECTORS

Section 2.01. Number and Election. Directors shall be divided into three classes of approximately equal size and, after an initial staggering of director terms, shall be elected to each regular shareholder meeting for three-year terms as provided in the corporation's Articles of Incorporation. The number of directors shall be fixed exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the Board of Directors then in office.

Section 2.02. Vacancies. Any vacancies in the Board of Directors by reason of an increase in the number of directors, death, disability, resignation, removal or otherwise, shall be filled solely by majority vote of the remaining directors then in office, though less than a quorum, and any such director so elected shall hold office for a term expiring at the regular meeting of shareholders at which the term of office of the class to which the director has been elected, expires.

Section 2.03. Removal. Any director may be removed from office as a director (i) by the affirmative vote of the holders of 80% of the combined voting power of the then outstanding shares of stock of the corporation entitled to vote generally in that election of directors, voting together as a single class and only for cause, or (ii) by a majority of the directors then in office with or without cause.

Section 2.04. Place of Meetings. The Board of Directors may meet at such places, in the State of Minnesota or in any State, as the majority may from time to time determine.

Section 2.05. Regular Meetings. The Board of Directors may provide by resolution the date, time and place, either within or without the State of Minnesota, for the holding of meetings of the Board of Directors without other notice than such resolution.

Section 2.06. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, the Chief Executive Officer, the President or by any two directors, by giving at least two days' notice thereof.

Section 2.07. Meetings Without Notice. Any director may in writing either before or after the meeting, waive notice thereof. Without notice, any director by his attendance at any meeting of the Board of Directors, or at any duly constituted committee thereof, shall be deemed to have waived notice thereof, except where the director objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened and does not participate thereafter in the meeting.

Section 2.08. Consent to Action. Any action which might be taken at a meeting of the Board of Directors, or of any duly constituted committee thereof, may be taken

without a meeting if done in writing signed by all of the directors, or members of such committees.

Section 2.09. Conference Communications. Any or all directors may participate in any meeting of the Board of Directors, or of any duly constituted committee thereof, by any means of communication through which the directors may simultaneously hear each other during such meeting. For the purposes of establishing a quorum and taking any action at the meeting, such directors participating pursuant to this Section 2.09 shall be deemed present in person at the meeting; and the place of the meeting shall be the place of origination of the conference telephone conversation or other comparable communication technique.

Section 2.10. Quorum and Adjourned Meetings. At all meetings of the Board

of Directors, a quorum sufficient for the transaction of business shall consist of a majority of the directors. If, however, such quorum shall not be present at any such meeting, those present thereat shall have power to adjourn the meeting from day to day without notice other than announcement at the meeting, until a quorum shall be present.

Section 2.11. Committees. A resolution approved by the affirmative vote of a majority of the Board of Directors may establish committees having the authority of the Board of Directors in the management of the business of the corporation to the extent provided in the resolution. A committee shall consist of one or more persons, who need not be directors, appointed by affirmative vote of a majority of the directors present. Committees are subject to the direction and control of, and vacancies in the membership thereof shall be filled by, the Board of Directors, except as provided in Section 2.12. A majority of the members of the committee holding office immediately prior to a meeting of the committee shall constitute a quorum for the transaction of business, unless a larger or smaller proportion or number is provided in the resolution establishing the committee.

Section 2.12. Committee of Disinterested Persons. Pursuant to the procedure set forth in Section 2.11, the Board of Directors may establish a committee composed of two or more disinterested directors or other disinterested persons to determine whether it is in the best interests of the corporation to pursue a particular legal right or remedy of the corporation and whether to cause the dismissal or discontinuance of a particular proceeding that seeks to assert a right or remedy on behalf of the corporation. The committee, once established, is not subject to the direction or control of, or termination by, the Board of Directors. A vacancy on the committee may be filled by a majority of the remaining committee members. The good faith determinations of the committee are binding upon the corporation and its directors, officers and shareholders. The committee terminates when it issues a written report of its determination to the Board of Directors.

Section 2.13. Compensation. The Board of Directors may fix the compensation, if any, of directors.

ARTICLE III

OFFICERS

Section 3.01. Officers, Qualifications, Authority and Election. Officers shall be chosen by the Board of Directors and shall consist of a Chairman of the Board, a Chief Executive Officer, a President, a Secretary, a Chief Financial Officer, a Treasurer, a Controller and such other officers as the Board of Directors may from time to time deem advisable including one or more Vice Presidents, a Vice Chairman and an Executive Vice President. The Board of Directors may fix the powers, duties and compensation of any of the officers not specifically provided for herein. Officers, other than the Chairman of the Board, the Chief Executive Officer and the President, may or may not be members of the Board of Directors. Any two or more offices may be held by the same person at the same time. Officers shall hold their respective offices at the pleasure of the Board of Directors. Any officer may be removed at any time by the Board of Directors with or without cause. In case of the death, disqualification, absence or inability to act of any officer of the corporation or for any other reason the Board of Directors may deem sufficient, the Board of Directors may delegate the powers and/or duties of such officers to any other officer or to any director. Ownership of stock shall not be a qualification necessary to the holding of office.

Section 3.02. Chairman of the Board. The Chairman of the Board shall preside at all meetings of the shareholders and of the directors. He shall have such other powers and perform such other duties as the Board of Directors may from time to time prescribe.

Section 3.03. Vice Chairman. In the absence of the Chairman of the Board, the Vice Chairman shall preside at meetings of the shareholders and of the directors.

Section 3.04. Chief Executive Officer. The Chief Executive Officer shall have general and active management of the business under the supervision and direction of the Board of Directors, and shall be responsible for carrying out all orders and resolutions of the Board of Directors. He shall have the general powers and duties usually vested in the office of chief executive officer of a corporation and shall have such other powers and perform such other duties as

the Board of Directors may from time to time prescribe.

Section 3.05. President. The President shall perform such duties as the Board of Directors or the Chief Executive Officer may from time to time designate.

Section 3.06. Inability of the Chief Executive Officer. In the case of the death, disqualification, absence or incapacity of the Chief Executive Officer, the Chairman of the Board, or, in the event of his death, disqualification, absence or incapacity, the Vice Chairman, shall have all the powers and perform all the duties of the Chief Executive Officer. In case of the death, disqualification, absence or incapacity of the Chief Executive Officer, Chairman of the Board and the Vice Chairman, then the President or, failing such, the Executive Vice President or, failing such, the most senior Vice

President, if any, shall have all of the powers and perform all of the duties of the Chief Executive Officer.

Section 3.07. Secretary. The Secretary shall attend all meetings of the Board of Directors and of the shareholders, and shall record all votes and the minutes of all proceedings thereof. He shall keep the stock books of the corporation and shall have custody of the corporate seal. He shall give or cause to be given notice of all meetings of the shareholders and of the Board of Directors; provided, however, notice given by another shall not be ineffective merely because it was not given by the Secretary. The Secretary shall perform such other duties as may from time to time be prescribed by the Board of Directors or by the Chief Executive Officer.

Section 3.08. Chief Financial Officer. The Chief Financial Officer shall be responsible for all financial operations of the corporation, including, without limitation, raising funds, establishing and maintaining banking relationships, keeping accurate financial records for the corporation, financial administration and maintenance of internal controls. He shall report the financial condition of the corporation at the annual meeting of the shareholders in each year and at all other times when requested by the Board of Directors or the Chief Executive Officer, and shall perform such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer.

Section 3.09. Treasurer. The Treasurer shall have the care and custody of the corporate funds and securities, and shall disburse the funds of the corporation as may be ordered from time to time by the Board of Directors or the Chief Executive Officer. He shall perform such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer.

Section 3.10. Controller. The Controller shall be the chief accounting officer of the corporation. He shall be responsible, under the direction of the Chief Financial Officer, for keeping complete and accurate records of the business, assets, liabilities and transactions of the corporation and for the preparation of such financial statements as may be required by law or are needed for internal management purposes. He shall perform such other duties as may be prescribed by the Board of Directors, the Chief Executive Officer or the Chief Financial Officer.

ARTICLE IV

STOCK

Section 4.01. Certificates. Certificates of stock shall be numbered, shall be entered in the books of the corporation as they are issued, shall show the holder's name and the number of shares, shall be signed by the Chairman of the Board, the Chief Executive Officer or the President and countersigned by the Secretary, and shall have the corporate seal affixed thereto. Such signatures may be by facsimile if authorized by the Board of Directors. Every certificate surrendered to the corporation for exchange or

transfer shall be cancelled and no new certificate shall be issued in exchange for any existing certificate unless such existing certificate shall have been so cancelled.

Section 4.02. Transfers. Transfers of shares shall be made on the books of the corporation only by the order of the person named in the certificate, by an attorney lawfully constituted in writing or by a duly authorized attorney-in-fact and upon surrender of the certificate of stock to be

transferred.

Section 4.03. Ownership. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the owner in fact thereof for all purposes whatsoever and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, save as may be expressly provided by applicable law.

Section 4.04. Lost Certificates. Any person claiming a certificate of stock to be lost or destroyed shall make an affidavit or affirmation of that fact, and shall, unless the Board of Directors waives the requirement, give the corporation a bond of indemnity in form and amount and with one or more sureties satisfactory to the Secretary whereupon a new certificate may be issued of the same tenor and for the same number of shares as the one alleged to be lost or destroyed.

ARTICLE V

EXECUTION OF CORPORATE CONTRACTS

Except as otherwise provided by the Board of Directors, all contracts of the corporation shall be executed on its behalf by the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, the Treasurer, the Controller, an Executive Vice President, a Vice President or such other person or persons as one of these officers may from time to time authorize so to do. Notes given and drafts accepted by the corporation shall be valid only when signed by the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, the Treasurer, the Controller, an Executive Vice President, a Vice President or such other person as one of these officers may from time to time authorize so to do. Checks, drafts, and other evidences of indebtedness to the corporation shall, for the purpose of deposit, discount and collection, be endorsed by these same officers or their delegees. Whenever the Board of Directors shall provide that any contract be executed or any other act be done in any other manner and by any other officer than as specified in these By-Laws, such method of execution or action shall be as equally effective to bind the corporation as specified herein.

ARTICLE VI

FISCAL YEAR

The fiscal year of the corporation shall end with the close of business on the Saturday closest to the last day in February in each year or as otherwise determined by the Board of Directors.

ARTICLE VII

INDEMNIFICATION

The corporation shall indemnify such persons, for such expenses and liabilities, in such manner, under such circumstances, and to such extent as required or permitted by the Minnesota Business Corporation Act, ss.302A.521, as now enacted or hereafter amended.

ARTICLE VIII

AMENDMENTS

These By-Laws may be altered or amended by majority vote of the entire Board of Directors, subject to the power of the shareholders to adopt, amend or repeal the By-Laws as provided in Minnesota Statutes ss. 302A.181, Subdivision 3.

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