

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 August 31, 1996 Commission File Number 0-6365  
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APOGEE ENTERPRISES, INC.  
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(Exact Name of Registrant as Specified in Charter)

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

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

Registrant's Telephone Number (612) 835-1874  
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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  
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APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at September 30, 1996
----- Common Stock, \$.33-1/3 Par Value	----- 13,666,088

APOGEE ENTERPRISES, INC. AND SUBSIDIARIES  
 FORM 10-Q  
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APOGEE ENTERPRISES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Thousands of Dollars)

	August 31, 1996	March 2, 1996
	-----	-----
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (including restricted funds of \$63 and \$208, respectively)	\$ 5,305	\$ 7,389
Receivables, net of allowance for doubtful accounts	183,372	158,368
Inventories	59,584	54,484
Costs and earnings in excess of billings on uncompleted contracts	41,498	26,276
Deferred tax assets	5,365	6,689
Other current assets	5,729	5,353
	-----	-----
Total current assets	300,853	258,559
	-----	-----
Property, plant and equipment, net	110,979	78,485
Marketable securities - insurance subsidiary	14,887	12,231
Investments in and advances to affiliated companies	--	15,821
Investments	999	612
Intangible assets, at cost less accumulated amortization	16,776	10,332
Deferred tax assets	8,220	6,970
Other assets	2,248	3,126
	-----	-----
Total assets	\$454,962	\$386,136
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 68,981	\$ 57,678
Accrued expenses	81,897	52,430
Billings in excess of costs and earnings on uncompleted contracts	31,709	19,470
Accrued income taxes	11,301	7,634
Current installments of long-term debt	5,254	5,265
	-----	-----
Total current liabilities	199,142	142,477
	-----	-----
Long-term debt	77,166	79,102
Other long-term liabilities	28,147	24,180
Minority interest	347	1,456
Shareholders' equity		
Common stock, \$.33 1/3 par value; authorized 50,000,000 shares; issued and outstanding 13,660,000 and 13,517,000 shares, respectively	4,553	4,506
Additional paid-in capital	23,387	20,445
Retained earnings	123,366	113,970
Unamortized deferred compensation	(1,000)	--
Unrealized loss on marketable securities	(146)	--
	-----	-----
Total shareholders' equity	150,160	138,921
	-----	-----
Total liabilities and shareholders' equity	\$454,962	\$386,136
	=====	=====

See accompanying notes to consolidated financial statements.

APOGEE ENTERPRISES, INC. AND SUBSIDIARIES  
CONSOLIDATED RESULTS OF OPERATIONS  
FOR THE THREE MONTHS AND SIX MONTHS ENDED  
AUGUST 31, 1996 AND SEPTEMBER 2, 1995  
(Thousands of Dollars Except Share and Per Share Amounts)

	Three Months Ended		Six Months Ended	
	August 31, 1996	September 2, 1995	August 31, 1996	September 2, 1995
Net sales	\$253,154	\$222,186	\$481,762	\$441,218
Cost of sales	210,838	190,362	403,059	377,469
Gross profit	42,316	31,824	78,703	63,749
Selling, general and administrative expenses	27,792	21,126	53,822	45,253
Operating income	14,524	10,698	24,881	18,496
Interest expense, net	1,901	1,711	4,256	3,463
Other income, net	---	(161)	---	(161)
Earnings before below taxes and other items below	12,623	9,148	20,625	15,194
Income taxes	4,629	3,301	7,583	5,698
Equity in net loss of affiliated companies	---	226	60	149
Minority Interest	14	(25)	26	220
Net earnings	\$ 7,980	\$ 5,646	\$ 12,956	\$ 9,127
Earnings per share:	\$ .57	\$ .41	\$ .93	\$ .67
Weighted average number of common shares and common share equivalents outstanding	14,008,000	13,637,000	13,919,000	13,630,000
Cash dividends per common share	\$ .085	\$ .08	\$ .17	\$ .16

See accompanying notes to consolidated financial statements.

APOGEE ENTERPRISES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED AUGUST 31, 1996 AND SEPTEMBER 2, 1995  
(Thousands of Dollars)

	1996	1995
	----	----
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 12,956	\$ 9,127
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	11,945	8,283
Provision for losses on accounts receivable	987	632
Deferred income tax expense	374	(1,200)
Gain on sale of Nanik Window Coverings Group	---	(4,709)
Equity in net loss of affiliated companies	60	149
Minority interest	26	220
Other, net	452	(343)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Receivables	(21,098)	(3,892)
Inventories	(2,563)	(5,280)
Costs and earnings in excess of billings on uncompleted contracts	(15,222)	2,197
Other current assets	30	1,959
Accounts payable and accrued expenses (1)	33,370	1,671
Billings in excess of costs and earnings on uncompleted contracts	12,239	(988)
Accrued income taxes	3,358	(430)
Other long-term liabilities	3,967	780
	-----	-----
Net cash provided by operating activities	40,881	8,176
	-----	-----
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(15,087)	(9,536)
Acquisition of businesses, net of cash acquired (1)	(23,671)	(446)
Investments in and advances to affiliated companies	---	(2,807)
Increase in marketable securities	(2,802)	---
Proceeds from sale of Nanik Window Coverings Group	---	18,250
Proceeds from sale of property and equipment	1,853	296
Other, net	(684)	(65)
	-----	-----
Net cash (used in) provided by investing activities	(40,391)	5,692
	-----	-----
<b>FINANCING ACTIVITIES</b>		
Increase in notes payable	---	535
Payments on long-term debt	(1,947)	(1,030)
Proceeds from issuance of common stock	3,091	819
Purchase and retirement of common stock	(1,396)	(240)
Dividends paid	(2,322)	(2,160)
	-----	-----
Net cash (used in) financing activities	(2,574)	(2,076)
	-----	-----
(Decrease)/increase in cash	(2,084)	11,792
Cash and cash equivalents at beginning of period	7,389	2,894
	-----	-----
Cash and cash equivalents at end of period	\$ 5,305	\$14,686
	=====	=====

(1) The estimated cost of the Marcon and Viratec acquisition, subject to the determination of the Court as described on page 8, included in investing activities is offset by an increase in accrued expenses included in operating activities.

See accompanying notes to consolidated financial statements.

APOGEE ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation  
-----

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 August 31, 1996 and March 2, 1996, the results of operations for the three months and six months ended August 31, 1996 and September 2, 1995 and cash flows for the six months ended August 31, 1996 and September 2, 1995.

The financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and notes.

The results of operations for the six-month period ended August 31, 1996 are not necessarily indicative of the results to be expected for the full year.

Accounting period  
-----

The Company's fiscal year ends on the Saturday closest to February 28. Each interim quarter ends on the Saturday closest to the end of the months of May, August and November. The first quarter of fiscal 1997 consisted of 13 weeks while the first quarter of fiscal 1996 had 14 weeks. Consequently, Fiscal 1997 is a fifty-two week year while fiscal 1996 was a fifty-three week year.

2. INVENTORIES

Inventories consist of the following:

	August 31, 1996	March 2, 1996
	-----	-----
Raw materials and supplies	\$12,378	\$10,402
In process	4,908	3,964
Finished goods	42,298	40,118
	-----	-----
	\$59,584	\$54,484
	=====	=====

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

SALES AND EARNINGS

Record second quarter net earnings of \$8.0 million, or 57 cents per share, were 39% greater than last year's \$5.6 million, or 41 cents a share. Revenues rose 14%, to \$253 million, from \$222 million a year ago. Year-to-date net earnings rose 42% to \$13 million, or 93 cents per share, from \$9.1 million, or 67 cents per share, a year ago. Revenues for the first six months increased 9%, to \$482 million compared to \$441 million a year ago.

The following table presents the percentage change in sales and operating income for the Company's three segments and on a consolidated basis, for three and six months when compared to the corresponding periods a year ago.

	THREE MONTHS ENDED			SIX MONTHS ENDED		
	AUG. 31, 1996	SEPT. 2, 1995	% CHG	AUG. 31, 1996	SEPT. 2, 1995	% CHG
<b>SALES</b>						
Building products & services	\$ 122,012	\$ 115,886	5	\$ 231,202	\$ 227,045	2
Glass technologies	49,474	34,735	42	93,743	73,632	27
Auto glass	84,429	75,031	13	162,847	147,532	10
Eliminations	-2,761	-3,466	-20	-6,030	-6,991	-14
<b>Total</b>	<b>\$ 253,154</b>	<b>\$ 222,186</b>	<b>14</b>	<b>\$ 481,762</b>	<b>\$ 441,218</b>	<b>9</b>
<b>OPERATING INCOME</b>						
Building products & services	\$ 2,125	\$ -1,304	NM	\$ 2,686	\$ -2,303	NM
Glass technologies	3,904	3,483	12	7,927	6,967	14
Auto glass	8,769	8,090	8	14,974	13,663	10
Corporate and other	-274	429	NM	-706	169	NM
<b>Total</b>	<b>\$ 14,524</b>	<b>\$ 10,698</b>	<b>36</b>	<b>\$ 24,881</b>	<b>\$ 18,496</b>	<b>35</b>

Building Products & Services (BPS)

BPS's continued focus on profitability improvement produced a nominal operating income in the second quarter. The segment's revenue gain reflected strong activity levels at all of BPS's units. When adjusted for the July 1995 divestiture of the Nanik group revenues grew 10% on a comparative basis. The segment's operating income gain was a result of cost reductions and operating efficiencies at the segment's Harmon Contract and Wausau Architectural Products operating units.

BPS has reported three consecutive quarters of operating income and it currently anticipates favorable year over year comparisons for the remainder of the fiscal year.

Glass Technologies (GT)

As a result of the litigation and court proceedings described in the next paragraph, Marcon Coatings (Marcon) and Viratec Thin Films (Viratec) were consolidated in Apogee's financial statements beginning with this fiscal year, and are reflected in the GT segment. Through fiscal 1996, Marcon and Viratec were accounted by the equity method, with the 50% equity in Marcon's and Viratec's net earnings included in "Equity in net earnings of affiliated companies" in Apogee's Consolidated Results of Operations.

In November 1995, Apogee's 50% joint venture partner (JV Partner) in Marcon/Viratec commenced litigation against Apogee, alleging claims for damages and seeking to have the Minnesota State Court (Court) order Apogee to sell its 50% interest to the JV Partner. Apogee filed counterclaims seeking to have the JV Partner's 50% interest sold to Apogee. In March 1996, the Court ordered the JV partner to sell shares representing its 50% interest in Marcon/Viratec to Apogee upon payment by Apogee of fair value for those shares as determined by the Court. The JV Partner's rights and status as shareholder, its related rights to appoint directors, were terminated as of the effective date of the order and the fair value for the shares is to be determined by the Court after further proceedings. The Court has not yet scheduled a trial or hearing to determine fair value. In April 1996, the Court

ordered Apogee to post security of \$50 million for the ultimate payment of the purchase price for the JV Partner's shares. Accordingly, Apogee posted a letter of credit in the amount of \$50 million in May 1996. The amount of the letter of credit is intended as security and is not intended to reflect the Court's view on the fair value for the shares. The Court has taken under advisement certain motions brought by the parties, including a motion by the JV Partner for reconsideration of the March 4, 1996 order terminating its rights and status as a shareholder.

GT's second quarter produced double-digit percentage revenue and earnings gains when compared to the same period a year ago. After adjusting for the inclusion of Marcon and Viratec, revenues were up 22% on a quarter to quarter comparison. The growth was largely due to record bookings and strong demand experienced at Viracon, the segment's high-performance architectural glass fabricator. The unit increased its capacity by 25% this year and is moving forward with additional production capacity expansion plans to meet the current and expected future demand for its products. Viracon is currently booking production into next spring.

Viratec's results have been less than were anticipated by the Company at the beginning of the fiscal year. Depressed sales and lower earnings are a result of pricing pressures in the flat glass business and weak demand for its direct coatings business. GT's Tru Vue, the custom picture framing glass unit, reported solid earnings during the quarter and margin improvements largely due to favorable material costs.

Through fiscal year end, GT currently anticipates current product demand levels to lead to further profit growth for its Viracon and Tru Vue units, while Viratec is expected to face continued pricing issues and soft product demand.

Auto Glass (AG)  
- - - - -

AG achieved solid earnings and revenue gains during the quarter. The growth in operating income occurred despite a charge that was taken due to obsolescent inventories. Excluding the write-down on inventories, operating income would have increased 21%. The segment also reported a 6.7% improvement in same-location sales. The segment's windshield fabricating unit generated higher windshield sales for the quarter, outpacing industry measures. AG continues to benefit from a modest industry-wide price increase instituted last spring.

For the first six months, the segment opened 6 distribution centers and 15 retail locations while closing 1 distribution center and 7 retail locations for a quarter end total of 63 and 262, respectively. The segment also has 8 Midas Muffler franchises. Expansion opportunities, including both possible acquisitions and start-up operations, continued to be investigated.

AG continues to anticipate a solid operating profit for the remainder of the fiscal year. However, wavering demand for automotive replacement glass and price fluctuations, may cause the segment to report earning deviations on a quarter to quarter comparison, particularly in the latter half of the fiscal year, traditionally the segment's seasonally slower time of the year.

Backlog  
- - - - -

On August 31, 1996, Apogee's consolidated backlog stood at \$399 million, up 7% from the \$374 million reported a year ago, but down 8% from first quarter. While all three segments reported mixed changes from first quarter, the most notable negative variances occurred at BPS's New Construction-International (down 8%) and GT's Viratec (down 24%) units. Backlog growth was reported at BPS's Detention and Wausau Architectural Products (Wausau Metals).



Consolidated

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

	Three Months Ended		Six Months Ended	
	Aug. 31, 1996	Sept. 2, 1995	Aug. 31, 1996	Sept. 2, 1995
Net sales	100.0	100.0	100.0	100.0
Cost of sales	83.3	85.7	83.7	85.6
Gross profit	16.7	14.3	16.3	14.4
Selling, general and administrative expenses	11.0	9.5	11.2	10.3
Operating income	5.7	4.8	5.2	4.2
Interest expense, net	0.8	0.8	0.9	0.8
Other income, net	-	(0.1)	-	-
Earnings before income taxes and other items below	5.0	4.1	4.3	3.4
Income taxes	1.8	1.5	1.6	1.3
Equity in net earnings of affiliated companies	-	0.1	-	-
Minority interest	-	-	-	-
Net earnings	3.2	2.5	2.7	2.1
Income tax rate	36.7%	36.1%	36.8%	37.5%

On a consolidated basis for the three-month and six-month periods, gross profit, as a percentage of net sales, rose primarily due to BPS's focus on margin improvement instituted in fiscal 1995. The growth was slightly offset by lower margins at AG's Curvite unit as a result of tighter pricing in the auto glass fabricating market. Selling, general and administrative expenses (SG & A) increased largely due to higher commissions and profit sharing expenses relating to higher sales activity and earnings growth. Net interest expense rose despite a decline in borrowing levels. The increase reflects the accrual of interest connected with the Viratec and Marcon matter discussed on previous pages.

The effective income tax rate of 36.8% increased slightly due to increased domestic income in the Company's jurisdictional mix.

LIQUIDITY AND CAPITAL RESOURCES

Cash balances were lower at quarter end as cash was used to pay down borrowing levels. Receivables, inventories and costs in excess of billings increased reflecting higher sales levels due to the seasonality of the businesses. Accrued expenses, accounts payable and billings in excess of costs also grew with the increased activity levels. Despite the 14% sales growth, consolidated working capital of \$101.7 million was 20% lower than last year's \$127.7 million as current liabilities related to higher activity and the Viratec and Marcon matter out-paced current asset growth. Borrowing levels declined modestly from year end. Total debt of \$82.4 million at August 31, 1996, represented 30% of invested capital.

Additions to property, plant and equipment totaled \$15.1 million for the first half of the fiscal year. Major components of these additions included expenditures for information processing systems and facility expansion. For information relating to the purchase of Marcon and Viratec, please see the cash flow statement on page 5 and related footnote.

CAUTIONARY STATEMENTS

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 for the fiscal year ended March 2, 1996 and include, without limitation, cautionary statements regarding (i) industry conditions, including that the industries in which the business segments compete are cyclical in nature and sensitive to changes in general economic conditions, (ii) the competitive environment in which the Company's business segments operate, including

that the industries are highly competitive and fairly mature, and (iii) the Company's international operations are subject to the general risks of doing business abroad and of entering new markets. The Company wishes to caution investors and other 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.

## PART II

## OTHER INFORMATION

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

Apogee Enterprises, Inc. Annual Meeting of Shareholders was held on June 18, 1996. The total number of outstanding shares on the record date for the Annual Meeting was 13,538,244. Eighty-one percent of the total outstanding shares were represented in person or by proxy at the meeting.

The candidates for election as Class I Directors listed in the proxy statement were elected to serve three-year terms, expiring at the 1999 annual meeting. The proposal to ratify the appointment of KPMG Peat Marwick LLP as independent auditors for the Company was also approved. The results of these matters voted upon by shareholders are listed below.

	Number of Shares		
	In Favor	Withheld	Abstained
Election of Class I Directors:			
Barbara B. Grogan	10,489,258	416,117	
Stephen C. Mitchell	10,432,589	472,777	
D. Eugene Nugent	10,432,887	472,488	
Ratification of the appointment of KPMG Peat Marwick LLP as independent auditors	10,723,762	108,082	73,534

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

## (a) Exhibits:

Exhibit 11. Statement of Determination of Common Shares and Common Share Equivalents.

Exhibit 27. Financial Data Schedule (EDGAR filing only).

## (b) The company did not file any reports on Form 8-K during the quarter for which this report is filed.

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 15, 1996  
-----

/s/ Terry L. Hall  
-----

Terry L. Hall  
Vice President of Finance and Chief  
Financial Officer

Date: October 15, 1996  
-----

/s/ Percy C. Tomlinson Jr.  
-----

Percy C. Tomlinson Jr.  
Treasurer and Secretary

EXHIBIT INDEX

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Exhibit 27	Financial Data Schedule (EDGAR filing only)	14

## STATEMENT OF DETERMINATION OF COMMON SHARES AND COMMON SHARE EQUIVALENTS

	Average No. of Common Shares & Common Share Equivalents Assumed to be Outstanding During the Three Months Ended		Average No. of Common Shares & Common Share Equivalents Assumed to be Outstanding During the Six Months Ended	
	August 31, 1996	September 2, 1995	August 31, 1996	September 2, 1995
Weighted average number of common shares outstanding (a)	13,678,988	13,482,119	13,625,221	13,450,941
Common share equivalents resulting from the assumed exercise of stock options (b)	328,538	154,499	294,104	158,707
Total primary common shares and common share equivalents	14,007,526 =====	13,636,618 =====	13,919,325 =====	13,609,648 =====

(a) Beginning balance of common stock adjusted for changes in amount outstanding, weighted by the elapsed portion of the period during which the shares were outstanding.

(b) Common share equivalents computed by the "treasury" method. Share amounts represent the dilutive effect of outstanding stock options which have an option value below the average market value for the current period.



6-MOS  
MAR-01-1997  
MAR-03-1996  
AUG-31-1996  
5,305  
0  
191,836  
8,464  
59,584  
300,853  
227,524  
116,545  
454,962  
199,142  
0  
4,553  
0  
145,607  
454,962  
481,762  
481,762  
403,059  
52,835  
0  
987  
4,256  
20,625  
7,583  
12,956  
0  
0  
0  
12,956  
0.93  
0.93