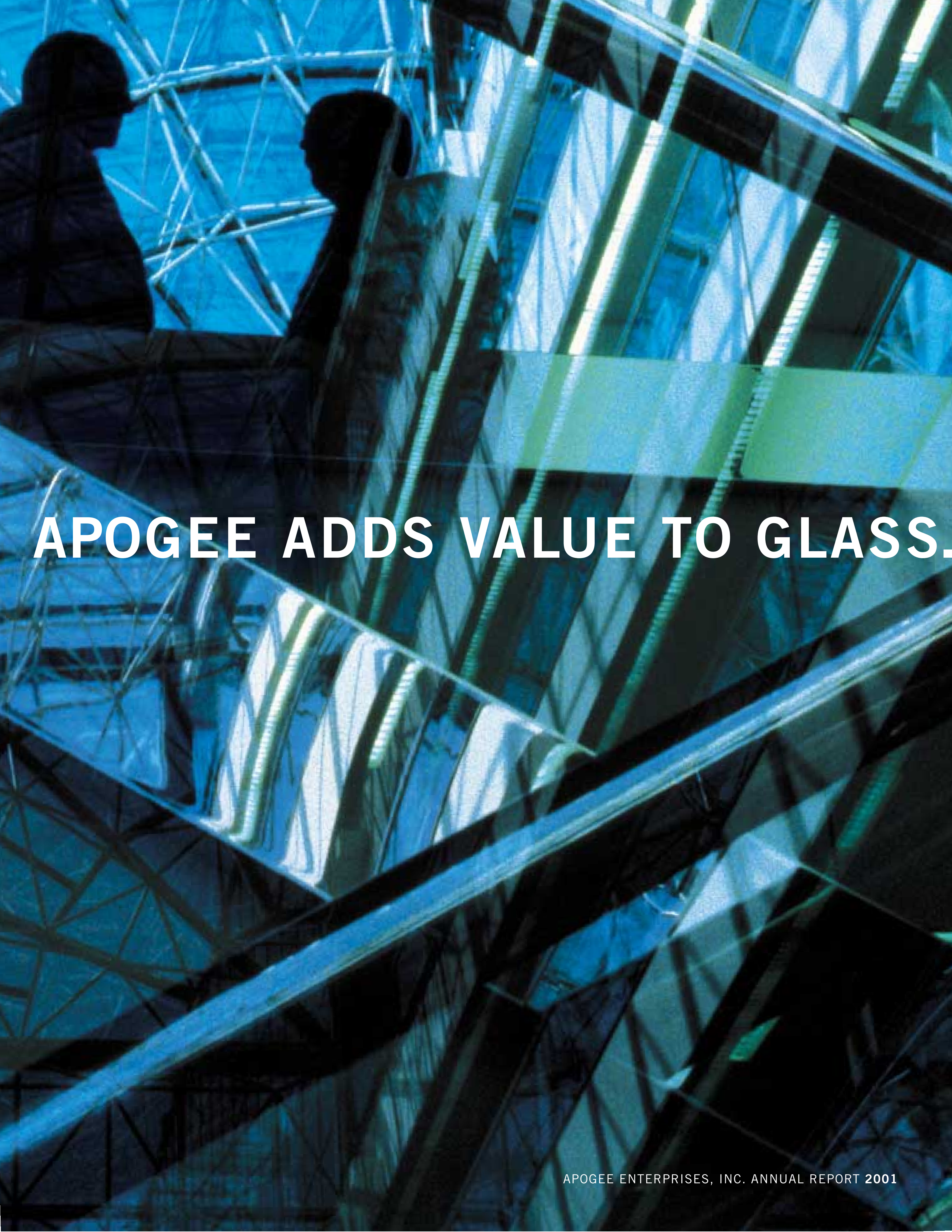


APOGEE ADDS VALUE TO GLASS.

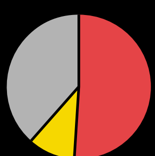
APOGEE ENTERPRISES, INC. ANNUAL REPORT **2001**

CORPORATE OVERVIEW

Apogee Enterprises is a world leader in technologies involving the design and development of value-added glass products, services and systems. Apogee's businesses maintain industry leadership through quality, service and innovation, and are committed to providing superior value to shareholders, customers, employees, business partners and the community. The company is organized in three segments:

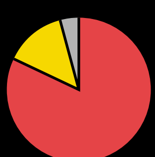
- **Architectural Products and Services** businesses design, engineer, fabricate and install the walls of glass and windows comprising the outside skin of commercial and institutional buildings.
- **Large-Scale Optical Technologies** businesses develop and produce high technology glass that enhances the visual performance of products for the display, imaging and picture framing industries.
- **Automotive Replacement Glass and Services** businesses fabricate, repair and replace automobile windshields and windows.

Apogee's Vision. Lead the markets we serve by setting new standards through innovative solutions.



FY 2001 CONSOLIDATED NET SALES
(Excluding discontinued operations)

- Architectural Products and Services 51%
- Large-Scale Optical Technologies 10%
- Automotive Replacement Glass and Services 39%



FY 2001 CONSOLIDATED OPERATING INCOME
(Excluding discontinued operations)

- Architectural Products and Services 82%
- Large-Scale Optical Technologies 14%
- Automotive Replacement Glass and Services 4%

FINANCIAL HIGHLIGHTS

(In thousands, except per share data and percentages)	Year Ended March 3, 2001	Year Ended February 26, 2000	Percent Change
OPERATING RESULTS			
Net sales	$ 865,200	$ 840,488	3%
Operating income	31,894	19,418	64%
Earnings from continuing operations	13,361	3,071	335%
Earnings from discontinued operations	1,641	9,104	–82%
Net earnings	15,002	12,175	23%
Earnings per share — diluted			
From continuing operations	0.48	0.11	336%
From discontinued operations	0.06	0.33	–82%
Net earnings	0.54	0.44	23%
BALANCE SHEET DATA			
Working capital	37,754	79,025	–52%
Total assets	432,679	481,154	–10%
Total long-term debt	104,206	164,371	–37%
Shareholders' equity	148,292	137,772	8%
Invested capital*	276,964	327,391	–15%
CASH FLOW DATA			
Depreciation and amortization	34,229	33,019	4%
EBITDA**	66,123	52,437	26%
Net cash flow provided by operating activities	61,610	43,836	41%
Capital expenditures	14,823	44,025	–66%
Free cash flow***	46,787	(189)	N/M
FINANCIAL RATIOS			
Gross margin	20.7%	19.9%	
Operating margin	3.7%	2.3%	
Return on average shareholders' equity	10.5%	9.1%	
Return on average invested capital	5.0%	3.7%	
Long-term debt to invested capital	37.6%	50.2%	
OTHER DATA			
Dividends paid per share	0.21	0.21	—
Book value per share	5.33	4.97	7%
Average shares outstanding — diluted	27,898	27,794	—
Number of shareholders	10.2	9.4	9%
Number of employees	5.9	6.4	–8%

** Long-term debt + other long-term liabilities + shareholders' equity*
*** Earnings before interest, taxes, depreciation and amortization*
**** Net cash flow provided by operating activities – capital expenditures*

CONTENTS

Apogee excels at adding value to glass, that transparent material which often goes unnoticed. Our architectural glass is integral to the distinctive look of landmark skyscrapers. Office buildings, schools and hospitals feature our windows and curtainwall systems. Our skilled tradesmen provide weather-resistant, secure installation of glass on buildings. Glass with our special coatings protects family photos along with works of art, and reduces eyestrain as we work at our computers. And our state-of-the-art automobile windshield replacement techniques provide families peace of mind as they drive their children to and from activities.

We take plain glass, a commodity, and through complex processes, add ultra thin coatings to create colors, reflectivity and energy efficiency. Our craftsmen incorporate this coated glass in windows known for their fit and finish. In contrast, other technical coatings reduce the reflectivity of glass and protect against the sun's damaging rays. And that plain glass also is shaped into thousands of windshields installed in cars plying our highways.

Apogee takes pride in setting the standards in the industries we serve through the value we bring to glass products and services. And today, we're focused on better translating that added value into improved financial performance for the benefit of our shareholders, customers and employees.

VISION. EFFICIENCY.

APOGEE ADDS EFFICIENCY.

ARCHITECTURAL PRODUCTS AND SERVICES is Apogee's largest segment with approximately 50 percent of revenues and more than 75 percent of earnings in fiscal 2001. These businesses produce and install energy-efficient coated glass that maximizes daylight and almost eliminates heat entering a building to keep workers comfortable and decrease air conditioning requirements. As more states add energy-efficiency regulations, markets for these Apogee products will continue to expand.

PRESENCE. EXPERTISE.

APOGEE ADDS PRESENCE.

Colors, reflectivity, energy-efficiency, custom-engineering, superb fit and finish, and comprehensive ongoing maintenance differentiate Apogee glass products and services from the competition. The high-end architectural and construction markets across the country rely on Apogee's well-respected brands — Viracon, Harmon, Inc., Wausau Window & Wall Systems and Linetec — for their building projects.

INGENUITY. PROTECTION.

APOGEE ADDS PROTECTION.

LARGE-SCALE OPTICAL TECHNOLOGIES segment, with 10 percent of revenues and 14 percent of operating income in fiscal 2001, offers the greatest growth potential for the company longer-term. Tru Vue, Apogee's framing product company, protects pictures, art and family "memories." Tru Vue's high-growth proprietary, valued-added glass prevents deterioration from harmful ultraviolet rays.

TECHNOLOGY. CLARITY.

APOGEE ADDS CLARITY.

Viratec's proprietary coated, high-performance glass enhances the visual performance of computer privacy screens (shown here) and other products for the display, imaging, large-area projection and art glass markets. Emerging markets for Viratec's high-tech coatings include acrylic anti-glare filters and projection televisions and displays.

CONVENIENCE. QUALITY.

APOGEE ADDS CONVENIENCE.

AUTOMOTIVE REPLACEMENT GLASS AND SERVICES represented 39 percent of Apogee revenues and 4 percent of operating income in fiscal 2001. With more than 400 shops and service centers throughout the United States and a large fleet of mobile service trucks, Apogee's Harmon AutoGlass business is available when and where automobile drivers need windshields or windows replaced. Longer term, this slow growth segment is expected to generate cash to expand higher-growth businesses.

APOGEE ADDS SAFETY.

Apogee's original business, Harmon AutoGlass, has been known for more than 50 years for its quality, state-of-the-art auto glass replacement services. Families count on Harmon to provide installations that maintain the safety features of the windshield which provides 20 percent or more of the structural integrity of vehicles.

DEAR SHAREHOLDERS:

APOGEE TODAY SUCCESSFULLY DELIVERS VALUE-ADDED GLASS PRODUCTS AND SERVICES TO CUSTOMERS AROUND THE WORLD, AND WE ARE RESHAPING YOUR COMPANY TO LEVERAGE THIS MARKET STRENGTH FOR GREATER SHAREHOLDER VALUE.

Apogee achieved a more than 300 percent increase in earnings from continuing operations, to $0.48 per diluted share in fiscal year 2001 from $0.11 in 2000 through our focus on operational improvement and structural change. As our performance improved over the course of the year, we saw our stock price increase from a low of $3.25 in June 2000 to a 52-week high of $10.00 in early March 2001.

Other significant financial results for fiscal 2001 include:

- Net income from continuing operations of $13.4 million, up from $3.1 million in fiscal 2000.
- Net earnings of $15.0 million, or $0.54 per share, compared with $12.2 million, or $0.44 per share, in fiscal 2000. The fiscal 2001 results included $1.6 million, or $0.06 per share, of earnings from discontinued operations, compared to $9.1 million, or $0.33 per share, in fiscal 2000.
- Reported revenues of $865.2 million, a 3 percent increase from revenues of $840.5 million in fiscal 2000. Revenues grew 11 percent compared to last year after being adjusted for the formation of the PPG Auto Glass, LLC joint venture in July 2000.
- Long-term debt dropped to $104.2 million, down from $164.4 million at the prior year-end, for a debt-to-total-capital ratio of 41 percent at the end of fiscal 2001.
- Working capital declined to $37.8 million compared to $79.0 million the previous year, largely due to the contribution of inventory to PPG Auto Glass in the fiscal 2001 second quarter.
- Capital expenditures were reduced to $14.8 million, less than half of the $44.0 million invested the prior year for plant expansions.

In 2002, we will be even more attentive to operational excellence as we incorporate the Six Sigma business improvement process in our operations and strive to reach the full potential of investments made in new manufacturing capacity two years ago. As we continue our turnaround this year, our objective is to increase earnings per share by more than 15 percent on modest revenue growth after adjusting for the PPG Auto Glass joint venture. At the same time, we are focused on using our free cash flow in 2002 to further reduce our debt. We invite you to monitor our performance during the year on the investor relations portion of the Apogee Web site (www.apog.com).

NEW SEGMENTS, NEW STRUCTURES, NEW THINKING. A different Apogee is taking shape—from segments more closely aligned with markets served to underscore growth potential, to structural changes in our automobile replacement glass businesses, and improvements in how all our businesses operate—for the benefit of our shareholders, customers and employees.

Our new segments reflect our changing business mix and focus. Representing 50 percent of our revenues and more than 75 percent of our operating income last year, the architectural products and services segment captures Apogee's competitive strengths—serving high-end markets with custom-engineered, energy-efficient, value-added, higher-margin products that feature high-performance coatings on glass. Because of these attributes, architects and building owners seek our industry-leading brands to fulfill their visions for commercial buildings. During fiscal 2002, we see high single-digit top-line and bottom-line growth in this core segment, which enters this year with a record backlog.

With our large-scale optical segment, we have leveraged our glass coating expertise to serve the display, imaging and picture framing industries (versus the small-scale segments of eyeglass and binocular lenses, and fiber optics filters). We're experiencing exceptional growth in value-added picture framing glass and are improving operations in our display and imaging coatings business. Our goal for this segment is low double-digit revenue growth this year, with the stronger performance in picture framing offset by the soft PC market.

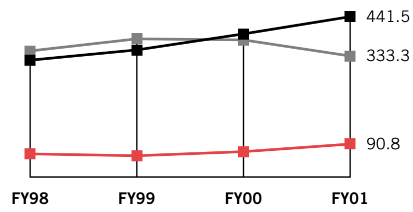
During fiscal 2001, we restructured our original business, automotive replacement glass and services, which is our third segment. To better compete, we formed the PPG Auto Glass wholesale distribution joint venture with PPG Industries, Inc.; in retail, we closed 11 percent of our facilities (all underperforming) and eliminated two layers of field management; and we partnered with industry leader APAC Customer Services, Inc. to provide insurance claims processing. What was half of Apogee's revenues two years ago is now only about a third, and longer-term we expect to generate cash here to help fund growth in other segments. Owned 34 percent by Apogee, PPG Auto Glass, reported in "equity in affiliates," was a positive contributor to fiscal 2001 second-half earnings, a trend expected to continue this year.

To leverage the potential of these segments and our corporation, we are implementing a new business improvement process—Six Sigma to reduce variation within our processes, combined with Lean Thinking/Manufacturing to eliminate non-value-added steps from the customer's view. By the end of fiscal 2002, we expect to have trained 60 "black belts," each leading, or having completed, an improvement project. I am excited about the potential of this new thinking based on use at Viratec. By sharing best practices and standardizing processes in administrative services and research and development, we also expect to impact variability and profitability.

FISCAL 2002 AND BEYOND. This year, we'll build on the momentum developed in fiscal 2001 to continue to grow our earnings. Our high-tech manufacturing made impressive strides in the second half, becoming more productive month after month. As the economy slows, the Apogee management team continues to see significant growth opportunities for our leading brands in the custom portion of the construction market, where demand remains strong for our high-end, value-added products and we have built solid customer relationships.

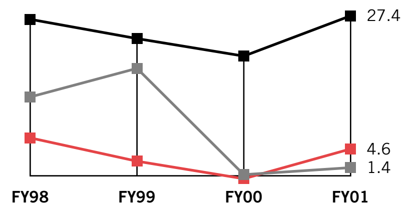
CONSOLIDATED NET SALES

(Dollars in millions)



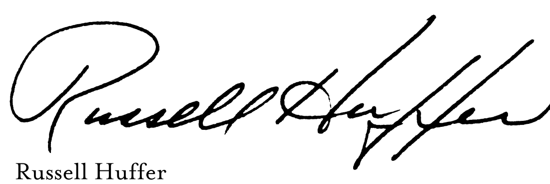
CONSOLIDATED OPERATING INCOME

(Dollars in millions)



■ Architectural Products and Services
■ Large-Scale Optical Technologies
■ Automotive Replacement Glass and Services

Near term, we're working to achieve earnings growth and increased capacity utilization in our high-potential architectural and large-scale optical businesses, largely through business process improvements. We are also focused on debt management and further strengthening our balance sheet. Longer term, our vision is clear—Apogee companies must lead their markets by setting new standards through innovative solutions, and we'll pursue growth opportunities in value-added products where the potential return justifies investment. Our goal is to improve value for our shareholders, customers and employees in fiscal 2002 and beyond.



Russell Huffer
Chairman, President and
Chief Executive Officer

BUSINESS SECTOR 1

ARCHITECTURAL PRODUCTS AND SERVICES

SEGMENT AT A GLANCE. Apogee's businesses serving the architectural products and services market design, engineer, fabricate and install the walls of glass and windows comprising the outside skin of commercial and institutional buildings.

- **Harmon, Inc.:** the second largest U.S. full-service building glass installation and maintenance company.
- **Linetec:** one of the largest U.S. high-performance paint and anodizing finishers.
- **Viracon:** a leading global fabricator of coated, high-performance architectural glass.
- **Wausau Window & Wall Systems:** a manufacturer of custom aluminum windows and curtainwall systems.

Apogee's strengths and growth potential converge in the architectural products and services segment. Generating 50 percent of the corporation's revenues and more than 75 percent of operating income in fiscal 2001, this segment serves the high-end of the commercial construction market with value-added glass products and services. We apply high-tech coatings to glass to create colors, reflectivity and energy efficiency (Viracon), manufacture curtainwall (Wausau Window & Wall Systems, Harmon, Inc.) and windows (Wausau) using coated aluminum (Linetec) which is then installed on buildings (Harmon) and serviced long-term (Harmon). The success of these brands depends on Apogee's core strengths of developing and delivering custom-engineered, high-value products supported by unparalleled customer service.

Apogee products and services are integral to new construction as well as renovation projects on skylines primarily in the United States. For example, Wausau, Viracon and Linetec products are featured at John F. Kennedy International Airport and the Denver Bronco's new Mile High Stadium, while Viracon glass was selected by renowned architect Cesar Pelli & Associates for the NE Tower in Hong Kong, Mori Building in Tokyo, Enron headquarters in Houston, and the Goldman-Sachs world headquarters in New York. Harmon, Inc. works with contractors such as Whiting-Turner in Baltimore on the Johns Hopkins University Professional Center, and Kraus-Anderson Building Division in Minneapolis on the ADC Telecommunications World Headquarters. They also maintain about 20 buildings for 3M in Minneapolis/St. Paul and 50 Citibank locations in Chicago.

STRENGTHENING PERFORMANCE. Results for fiscal 2001 were generally strong. Viracon, the largest business in the segment, made a solid comeback, Harmon again had significant earnings, and Linetec had a solid performance. However, Wausau struggled with product mix and timing issues. Overall in fiscal 2002, we're anticipating high single-digit revenue and operating income growth in this segment despite the slowing economy. We expect continuing expansion due to our high-end market presence and respected brands, new regulations requiring use of energy-efficient or hurricane-resistant glass, geographic expansion opportunities, production efficiency and focus on renovation projects. The segment entered fiscal 2002 with a record backlog representing almost six months of business.

UNPARALLELED PRODUCTS, SERVICES. In the fiscal 2001 second half, Viracon improved its earnings by focusing on its most profitable products, and using Lean Manufacturing techniques to increase throughput of a high-growth, energy-efficient product by 20 percent and to double weekly output of popular glass silkscreening. As a result, Viracon had double-digit earnings and revenue growth. The business will invest to increase its silkscreening capacity by another 50 percent in fiscal 2002 and introduce a new high reflectance, energy-efficient glass.

Viracon maintains its market strength by serving as a single, high-volume source for coatings, glass sizes and design capabilities. At the same time, Viracon is well positioned to take advantage of the ongoing industry conversion to value-added glass—it delivers the aesthetic products demanded by leading architects as well as energy-efficient and hurricane-resistant products.

Harmon, Inc. has profitably grown its revenues more than 20 percent annually for the past five years by providing general contractors curtainwall systems with predictable performance and reliable project management in ever expanding markets. As the nation's economy slows, Harmon's building maintenance expertise, reputation and proven renovation capabilities will be key to maintaining consistent growth. Building owners have come to rely on the glass and glazing knowledge and problem-solving skills of Harmon employees.

Harmon entered fiscal 2002 with just under six months backlog and continues its geographic expansion strategy, led by management developed in its extensive training program. Last year, it expanded into Tampa and Harmon is evaluating entering two new markets during the current year.

ENGINEERING, TECHNOLOGY LEADERSHIP. Wausau was unable to fill second-half capacity with less engineered products requiring shorter lead times, and as a result had flat sales and decreased operating income compared to fiscal 2000. However, it expects strong improvement in both sales and earnings in fiscal 2002, which it started with a record backlog. Paving the way for Wausau's profitability improvement is its enterprise resource planning system which will enhance engineering productivity, combined with a new pre-engineered window product line that provides cost competitive standard products for schools and hospitals.

Wausau sets itself apart with its detailed shop drawings and engineering, professional project managers, and the fit and finish of its installed product which reflect advanced manufacturing technology and skilled craftsmanship. It also excels in producing historically accurate renovation windows.

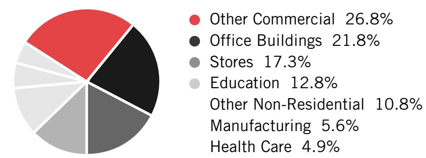
In fiscal 2001, Linetec recorded strong operating earnings growth on a slight increase in revenues, and it expects to have further growth in sales and earnings this year through productivity improvements. The company coats architectural aluminum for companies such as Wausau and Tubelite, and paints home and commercial shutters for Polywood, a large customer.

With capacity available at its two locations, Linetec continues to pursue additional finishing opportunities. Customers rely on Linetec for higher-end coatings produced with state-of-the-art technology to ensure consistent color and quality, quick turnaround, dedicated shipping to eliminate freight damage and its field service crew, all strengths that set Linetec apart.

These Apogee companies are exploring future innovations in architectural glass, including building integrated photovoltaic (BIPV) systems. Solar energy generation panels may eventually become a standard part of a building's skin and Apogee's complementing businesses are positioned to be leaders in this industry. In the short term, they are participating in BIPV demonstration projects this year.

MARKET OUTLOOK

2001 U.S. NON-RESIDENTIAL CONSTRUCTION MARKET ESTIMATED AT $10.46 BILLION



(Source: Apogee estimates based on F.W. Dodge forecasts)

Apogee's businesses in this segment, which last year had revenues of almost $500 million, have immense opportunity in this $10.46 billion market. Even though they are all industry leaders, their shares in this fragmented market are small. Harmon, Inc.'s share within the small to mid-size construction projects market is 1.6 percent; Wausau's share of the non-residential aluminum window and curtainwall niche is 3.0 percent; and Linetec's share of architectural finishing is 5.2 percent. F.W. Dodge, a building research firm, projects flat to slight growth in 2002 in the sectors served by these companies — office buildings, educational and institutional. In addition, FMI, a construction industry consulting firm, forecasts a slight increase in another Apogee target market, building renovation.

Viracon, the largest business in the segment, holds a 9.7 percent share of the $1.4 billion North American architectural glass market (based on F.W. Dodge, Ducker Research and Viracon data). This niche can be further divided into low-, middle- and high-performance glass. Within the high-performance sector, which is 18 percent of the total, Viracon holds a 65 percent share. Based on market research firm data, Viracon expects the architectural glass market to grow to $1.8 billion by 2005, with the high-performance sector growing at a faster rate as the looks and energy-efficiency of value-added glass are increasingly incorporated in buildings.

BUSINESS SECTOR 2

LARGE-SCALE OPTICAL TECHNOLOGIES

SEGMENT AT A GLANCE. Apogee's businesses serving the large-scale optical technologies industry develop and produce high technology glass that enhances the visual performance of products for the display, imaging and picture framing industries.

- **Tru Vue:** a leading North American value-added glass and matboard manufacturer for the custom framing and pre-framed art markets.
- **Viratec Thin Films:** a leading global producer of optical thin film coatings for the display and imaging markets.

Apogee's large-scale optical technologies segment, featuring proprietary, market-shaping products and processes with global appeal, offers the highest potential growth rate for the company longer-term. For fiscal 2002, we anticipate revenue and earnings growth in high single to double digits in this segment.

Our businesses coat larger surfaces of glass in higher volume for use in the display, imaging and picture framing industries, versus the smaller optical lenses and filters for eyeglasses, binoculars and fiber optics. The development of our large-scale optical technologies companies followed our success in architectural glass coatings. And, the supplier-customer relationship between these businesses further solidifies this segment—Viratec applies anti-reflective coatings to glass for Tru Vue.

In the past two years, Tru Vue created such demand for its proprietary higher-margin glass that protects pictures and art from deteriorating in sunlight, that it nearly doubled sales of this TruGuard product in fiscal 2001 from the prior year. Overall, Tru Vue again produced double-digit growth in sales. Viratec turned its coatings operations around in the second half of fiscal 2001 to produce modest earnings and noteworthy improvement from the prior year's operating losses.

SETTING NEW STANDARDS. By demonstrating the financial benefit of moving to value-added glass, Tru Vue converted three mass merchandisers and 1,000 frame shops from plain framing glass to TruGuard in fiscal 2001, with Michaels Stores, Inc., the nation's largest art and craft retailer, to significantly increase their use of TruGuard in fiscal 2002. In anticipation of converting as many as 1,500 framers and two mass merchandisers this year, Tru Vue will install a second production line for this product.

Further penetration in the pre-framed art market, which is expected to grow 20 percent this year, is also providing opportunities for TruGuard glass and for Tru Vue. Last year Tru Vue, which has been framing art for retailing giants such as Crate and Barrel for the past year, purchased two small pre-framed art companies. In fiscal 2002, Tru Vue expects to further increase revenues by re-energizing its international sales to expand this market to more than 10 percent of revenue in two years, and focusing on museums and private collections. Tru Vue will use the Six Sigma business improvement process to ensure it profitably manages its ongoing growth.

Tru Vue's proprietary products, extensive value-added glass, matboard and framing products and services, timely product availability, strong distribution network and financial strength in an industry of many small players have led to its leadership position. Industry expectations this year are for 11 percent growth in framing glass and 9 percent in matboard, and with Tru Vue's market understanding and strong customer relationships, it is well positioned to exceed these rates. It counts Larson-Juhl, the largest U.S. framing distributor, and mass merchandiser Aaron Brothers among its major customers.

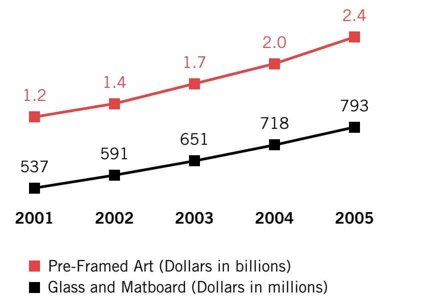
INNOVATIVE TECHNOLOGY, OPERATIONAL IMPROVEMENT. In fiscal 2001, Viratec achieved operational improvements and returned to profitability. Viratec's patented products and technology reduce glare, enhance contrast, minimize eyestrain and improve the ergonomics of many consumer electronics products.

And, today it has the capacity and improved quality to better serve customers such as 3M, which has extended its contract with Viratec for coated glass used in computer monitor anti-glare and privacy screens, and Sony, which purchases mirrors for large-screen rear projection televisions. Mirrors are also used in scanners and copiers, and its new Taiwanese distributor, Liefco Scientific Corporation which covers Taiwan, China and Hong Kong, has secured agreements with major scanner manufacturers for fiscal 2002. Viratec also is producing increasing levels of anti-reflective glass for Tru Vue this year. Viratec's market edge results from its proprietary high-performance coatings, high-volume capabilities, and value-added services such as laminating, glass cutting and application of electrical bus bars.

Viratec restored profitability, in part, through a focus on more profitable products and exiting lower-margin markets. Operational improvements also were key to its turnaround last year. The Faribault, Minnesota, facility has begun restructuring its operations in Lean Manufacturing focused factories organized around product flow to the customer. The San Diego facility, through use of Six Sigma tools, provided solid operating profits in fiscal 2001. Unfortunately, this high-performance facility will be closed this year due to the slowdown in the computer industry and, as a result, Viratec overall expects to have flat sales and earnings. As the Minnesota facility continues to improve operations, it will be able to maximize the potential capacity on its coater acquired in fiscal 1999. Although Viratec's current target markets are being impacted by the high-tech slowdown, new markets are emerging for acrylic anti-glare filters, large-area architectural glass and projection televisions and displays.

MARKET OUTLOOK

NORTH AMERICAN FRAMING GLASS/MATBOARD, PRE-FRAMED ART MARKETS GROWING



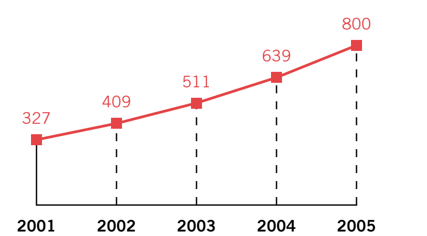
(Sources: Home Accents, Russell Field Papers, AFG, Tru Vue, The Blackstone Group, Edelmann Scott, Inc. and The Advanstar Group)

Today Tru Vue holds a 10 percent share of the more than $500 million North American custom framing glass and matboard market, and less than 1 percent of the more than $1 billion pre-framed art market that the company entered early in fiscal 2001. All three markets offer significant opportunities for Tru Vue in the next five years, with the pre-framed art market expected to grow 20 percent annually, the glass market to grow 11 percent and the matboard market, 9 percent. Tru Vue's revenues have been growing at a faster rate than the market as it has been converting framers from plain glass to value-added glass.

VIRATEC MARKETS EXPECTED TO GROW 25% ANNUALLY

(Current and Future Potential Markets)

(Dollars in millions)



(Sources: Stanford Resources, 3M, DisplaySearch, Data-Quest, IDC, Tru Vue, Lyra Research, Cap Ventures, Sony and Viratec)

Today Viratec has a 13 percent share of the approximately $327 million market it serves for display, imaging, large-area projection and art glass products. Viratec estimates its markets will grow 25 percent annually, totaling $800 million by 2005 as demand for current products increases along with new markets emerging for acrylic anti-glare filters, projection televisions and displays, and large-area architectural glass. In fiscal 2002, the large-area projection and art glass niches are expected to grow from 10 to 20 percent, while the high-tech slowdown is softening the display and imaging markets.

BUSINESS SECTOR 3

AUTOMOTIVE REPLACEMENT GLASS AND SERVICES

SEGMENT AT A GLANCE. Apogee's automotive replacement glass and services companies fabricate and install automobile windshields and windows.

- **Harmon AutoGlass:** the nation's second largest chain of retail auto glass replacement and repair stores.
- **Viracon/Curvlite:** a leading U.S. fabricator of aftermarket foreign and domestic car windshields.

Apogee's mix of automotive replacement glass and services businesses was scaled back in fiscal 2001 to the company's historical strengths of fabricating windshields, and repairing and replacing windshield glass as it completed the restructuring strategy developed the prior year. Longer term, the resulting smaller, more focused segment is expected to be a strong generator of cash to help fund other parts of the corporation with greater growth potential. Also this year, Apogee will realize the full-year benefit of its PPG Auto Glass, LLC joint venture.

Because the outlook for this slow growth industry does not improve in the foreseeable future, Apogee took these actions in fiscal 2001:

- Formed an automotive replacement glass distribution joint venture (owned 34 percent by Apogee) with PPG Industries, Inc. to reduce overcapacity in that market segment and expand geographic reach;
- In retail, eliminated two layers of field management to bring leadership closer to the customer, and closed 37 under-performing shops, or about 11 percent of total facilities while maintaining service coverage in all impacted markets;
- Partnered with APAC Customer Services, Inc. for call center insurance claims processing to improve customer service and gain a technological edge; and
- Sold the assets of its non-strategic VIS'N Service Corporation subsidiary, a non-auto glass focused, third-party administered claims processor.

The retail downsizings and call center outsourcing alone should generate annual savings of more than $5 million for Apogee.

JOINT VENTURE RATIONALIZES INDUSTRY. Formation of PPG Auto Glass on July 29, 2000, led to closing approximately 50 redundant wholesale automobile windshield locations, or 25 percent of the PPG and Apogee depots. Reductions in staffing, vehicles and distribution centers also generated savings, as did a smooth startup. The net was a positive contribution to Apogee's 2001 earnings and a second-quarter reduction in working capital of $30 million. The U.S. leader in wholesale windshield distribution, the joint venture is again expected to have a net positive impact on Apogee's earnings in fiscal 2002. PPG Auto Glass is reported in "equity in affiliates."

The distribution joint venture plays an important role in Apogee's auto replacement glass segment, since Viracon/Curvlite's automotive replacement glass production is now dedicated to PPG, and Harmon AutoGlass purchases the majority of its windshields from the joint venture.

Under the long-term contract with PPG, Curvlite is now fabricating approximately 500 different parts, about half the number manufactured previously. With longer product runs, Curvlite has increased efficiency and reduced costs. Operating in a team environment, Curvlite made a smooth transition to PPG being its primary customer, and has consistently met or exceeded product quality and delivery expectations. At the same time, the facility continues to produce windshields for the RV and bus industries. Curvlite should see a higher return on its flat revenues due to costs removed with the PPG supply agreement.

IMPROVING SERVICES. Finalized in December 2000, Harmon AutoGlass's partnership with APAC Customer Services benefits all involved—insurance companies, consumers and Harmon. Partnering with APAC for automotive glass claims program management underscores independence in assigning repair and replacement work among Harmon, affiliates and other shops. At the same time, APAC's technology leadership will mean new and improved insurance claims processing services for the companies and their customers, starting with consumers being able to call around the clock to schedule repair work later this year. These benefits, along with reduced claims processing costs and APAC's ongoing technology investments that Harmon could not justify with its small-scale claims processing, significantly strengthen Harmon's competitive position. In addition to better serving existing customers, Harmon and APAC are partnering to offer expanded services and next-generation solutions to other insurance companies.

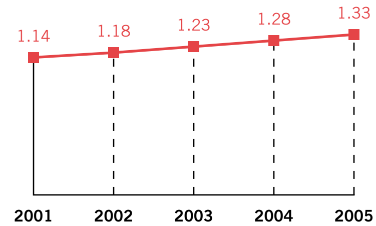
Harmon AutoGlass reduced fixed costs significantly last year, and in fiscal 2002 is focused on gaining further reductions along with efficiency and customer service improvements by leveraging technology and developing a continuous improvement culture. Although Harmon's windshield replacement units and revenues are expected to be flat this year due to discipline in pursuing only profitable business, increased unit pricing and operational improvements are expected to yield operating profit for Harmon in fiscal 2002. Harmon is striving to be the best run company in a difficult market.

With all these changes, Harmon won't lose sight of its historical market strength—providing consumers convenient, quality installations utilizing the most sophisticated technology. This ensures consumers realize the full safety benefit of their cars' windshields, which provide 20 percent or more of the structural integrity of vehicles. The majority of Harmon's repair and replacement calls are serviced through its mobile fleet which travels to the customer's home or business. To reach consumers, in addition to insurance companies, automobile dealers and company fleet customers, Harmon is continuing its "Gurus of Glass" retail branding campaign in larger markets. Insurance companies remain the core of Harmon's business, with American International Group, Inc. (AIG) Specialty Auto and The Cincinnati Insurance Companies among Harmon's leading customers.

MARKET OUTLOOK

U.S. AUTO REPLACEMENT GLASS WHOLESALE SALES EXPECTED TO INCREASE 4% ANNUALLY

(Dollars in billions)



(Source: Frost & Sullivan)

U.S. demand for automobile replacement windshields and windows is expected to increase only 4 percent annually through 2005, while windshield repairs are expected to grow at a slightly faster rate. Although the second largest company in auto replacement glass retail services, Harmon's share of the fragmented retail market is just 5 percent. Viracon/Curvlite has approximately 6 percent of the aftermarket windshield manufacturing market.

INTRODUCTION

In fiscal 2001, Apogee experienced enhanced revenues and earnings primarily through improved operational efficiencies, as well as through better equipment utilization and increased market share. Highlights for the year included the following:

- Realignment of the reporting segments with the markets they serve to underscore Apogee's growth potential and to reflect Apogee's changing business mix and focus.
- Completion of the ramp-up of the fiscal 2000 start-up of Apogee's Statesboro, Georgia plant to support Viracon's continued growth for high-end manufactured architectural glass.
- Formation of PPG Auto Glass, LLC joint venture to enhance efficiency, geographic coverage and customer service in the distribution of auto replacement glass.
- Improved operating efficiencies through cost reduction initiatives at Apogee's Harmon AutoGlass, which are expected to result in annual savings of $5 million.
- Acquisition of two manufacturers in the $2 billion pre-framed art market, which expands the markets for Apogee's Tru Vue products.
- Reduction of long-term debt to $104 million at the end of fiscal 2001 from $164 million at the end of fiscal 2000.

PERFORMANCE

Fiscal 2001 Compared to Fiscal 2000

Consolidated net sales increased 3% in fiscal 2001 to $865.2 million from $840.5 million in fiscal 2000. The results of the Auto Glass distribution unit, which Apogee contributed to the PPG Auto Glass joint venture, were not included in Apogee's continuing operations for the third and fourth quarters of fiscal 2001, as they were through the second quarter of fiscal 2001. Fiscal 2001 revenues grew 11% compared to the prior year after being adjusted for the formation of the joint venture. The majority of the increase is attributable to increased unit production due to the full-year impact of plant expansions completed during fiscal 2000, enhanced equipment utilization, and the impact of fiscal year 2001 acquisitions. Additionally, fiscal 2001 comprised of 53 weeks while fiscal 2000 comprised of 52 weeks.

The following table illustrates the relationship between various components of operations, stated as a percent of net sales, for each of the fiscal years in the three-year period ended March 3, 2001. Fiscal 1999 results are restated to reflect the effect of discontinued operations reported during fiscal 2000.

	2001	2000	1999
Percent of Net Sales			
Net sales	100.0	100.0	100.0
Cost of sales	79.3	80.1	78.4
Gross profit	20.7	19.9	21.6
Selling, general and administrative expenses	17.0	17.6	16.1
Operating income	3.7	2.3	5.5
Interest expense, net	1.3	1.3	1.2
Equity in income (loss) of affiliated companies	0.2	(0.3)	(0.2)
Earnings from continuing operations before income taxes	2.6	0.7	4.1
Income taxes	1.1	0.4	1.5
Earnings from continuing operations	1.5	0.3	2.6
Earnings from discontinued operations, net	0.2	1.1	0.6
Net earnings	1.7	1.4	3.2

On a consolidated basis, cost of sales, as a percentage of net sales, fell to 79.3% for fiscal 2001, improving from 80.1% in fiscal 2000. The primary factors underlying the resulting increase in gross profit percentage were improved performance attributable to enhanced manufacturing performance within the Architectural and Large-Scale Optical segments, as well as cost reduction initiatives within the Automotive Replacement Glass segment. These improvements were partially offset by higher general liability and health insurance related expenses across all segments.

Selling, general and administrative (SG&A) expenses, as a percentage of sales, decreased to 17.0% from 17.6%. After being adjusted for the formation of the PPG Auto Glass joint venture, SG&A expenses decreased, as a percentage of sales, from 18.5% in fiscal 2000. The primary factor for the decrease was due to the cost reduction initiatives implemented at the Automotive Replacement Glass segment, as well as reductions in expenses related to doubtful accounts across all segments. These were offset by increases in amounts expensed for bonuses and incentives.

Net interest expense rose slightly to $11.1 million, or 1.3% of sales, in fiscal 2001. The increase reflected higher weighted-average interest rates under the Company's revolving credit agreement. This was somewhat offset by lower average borrowing levels during fiscal 2001 as compared to fiscal 2000.

Apogee's equity in income from affiliated companies was $1.5 million in fiscal 2001 compared to an equity in loss from affiliated companies of $2.8 million a year ago. Income associated with the Company's PPG Auto Glass joint venture, including rationalization and other transaction related adjustments, was offset by the Company's TerraSun research and development joint venture. The PPG Auto Glass joint venture formed on July 29, 2000, combined the Company's and PPG's U.S. automotive replacement glass distribution businesses into a newly formed entity, PPG Auto Glass, LLC, with the Company having a 34% ownership interest in the joint venture. Fiscal 2000 results were largely attributable to TerraSun.

Apogee's effective income tax rate of 39.9% of pre-tax earnings from continuing operations decreased from the 50.8% of pre-tax earnings from continuing operations reported in fiscal 2000. This reduction is due to the relationship of book and tax differences as a percentage of pre-tax income.

Apogee's fiscal 2001 earnings from continuing operations increased to $13.4 million or $0.48 diluted earnings per share. This compared to earnings from continuing operations of $3.1 million, or $0.11 diluted earnings per share, a year earlier.

The Company reported earnings from operations of discontinued businesses of $1.6 million after tax, or $0.06 diluted earnings per share for fiscal 2001 as compared to $9.1 million after tax, or $ 0.33 diluted earnings per share, a year earlier.

Apogee's fiscal 2001 net earnings were $15.0 million, or $0.54 diluted earnings per share. This compared to $12.2 million, or $0.44 diluted earnings per share, a year ago. The return on average shareholders' equity was 10.5% in fiscal 2001 versus 9.1% for fiscal 2000.

Segment Analysis

During fiscal 2001, the Company realigned its operating business units into three reporting segments. The following is a discussion on the results of operations of these three business segments. See Note 17 "Business Segments Data" in the Notes to Consolidated Financial Statements for a three-year history of each segment's net sales, operating income, identifiable assets, capital expenditures, and depreciation and amortization.

(In thousands)	2001	2000	1999
Architectural Products and Services			
Net sales	$441,466	$394,104	$349,968
Operating income	27,393	20,513	23,501
Large-Scale Optical Technologies			
Net sales	90,768	69,934	58,669
Operating income (loss)	4,571	(540)	2,477
Automotive Replacement Glass and Services			
Net sales	333,311	377,499	380,524
Operating income	1,429	184	18,399

Architectural Products and Services (Architectural). Architectural companies design, engineer, fabricate and install the walls of glass and windows comprising the outside skin of commercial and institutional buildings. The businesses in this segment include: Viracon, the leading global fabricator of coated, high-performance architectural glass; Harmon, Inc., the Company's full service building glass installation and maintenance business; Wausau Window & Wall Systems, a manufacturer of custom, non-residential aluminum window systems and curtainwall; and Linetec, one of the largest U.S. architectural paint and anodizing finishers.

Architectural net sales for fiscal 2001 increased 12% over fiscal 2000. Viracon reported an increase in net sales of 18%, mostly due to the increased capacity from the full-year impact associated with the completion of the Statesboro facility. Additionally, strong customer demand for Viracon's high-performance architectural glass products significantly improved sales volume. Harmon, Inc. reported a 19% increase in net sales, primarily due to an increased number of curtainwall installation projects and Linetec improved sales by 5%. These increases were offset by a slow-down in shipments at Wausau Window & Wall Systems due to the facility not being able to fill its available short lead-time capacity during the second half of the year.

Operating income for the segment of $27.4 million represented an increase of 34% over prior year. This was the result of increased production capacity and improved utilization at Viracon as well as increased earnings at Harmon, Inc. and Linetec. These increases were partially offset by reductions in earnings at Wausau Window & Wall Systems.

The Architectural segment backlog, at March 3, 2001, remained at record levels of $190.0 million, compared to $153.6 million at February 26, 2000.

Large-Scale Optical Technologies (LSO). LSO companies develop and produce high technology glass that enhances the visual performance of products for the display, imaging and picture framing industries. Businesses in this segment include: Tru Vue, a leading U.S. value-added glass and matboard manufacturer for the art and framing industry; and Viratec Thin Films, a leading global producer of optical thin film coatings for the display and imaging markets.

LSO net sales of $90.8 million represented a 30% increase over fiscal 2000. Tru Vue reported a 25% improvement in sales due to increased demand for their high margin, value-added glass products. Additionally, Tru Vue expanded its pre-framed art business through the acquisitions of Balangier Fine Art and Designs, and Corporate Art Services, Inc. These acquisitions represent 40 percent of the Tru Vue increase for fiscal 2001 sales. Viratec reported a net sales increase of 37% over fiscal 2000 levels due to strong operational improvement that allowed for significant volume growth.

LSO operating income of $4.6 million for fiscal 2001 compared favorably to an operating loss of $0.5 million for fiscal 2000. The increase was the result of the increased sales volume at both of the segment's operations as well as the impact of sales of higher margin products from Tru Vue and improved equipment utilization at Viratec. These increases were offset by acquisition related integration costs at Tru Vue and the impact of shut down costs for Viratec's San Diego facility. The shut down of the San Diego facility will not have a material impact on next year's financial results.

Automotive Replacement Glass and Services (Auto Glass). Auto Glass companies fabricate, repair and replace automobile windshields and windows. Businesses in this segment include: Harmon AutoGlass, the nation's second largest chain of retail auto glass replacement and repair stores; and Viracon/Curvlite, a leading U.S. fabricator of aftermarket foreign and domestic car windshields.

Auto Glass net sales decreased 12% to $333.3 million in fiscal 2001. Fiscal 2001 revenues for the segment grew 4% compared to the prior year after being adjusted for the formation of the PPG Auto Glass joint venture. Net sales of the auto glass retail unit decreased 2% compared with those of a year ago due, in part, to soft demand for auto replacement glass services. The retail unit volume decrease was offset by unit price increases. Market data indicates that unit demand for replacement auto glass in the U.S. rose 4.2% during fiscal 2001. In an effort to improve margins, Harmon AutoGlass closed retail facilities and implemented strategies to reduce low margin business. This resulted in a reduction in volume of 14.9%.

Auto Glass operating income increased to $1.4 million for fiscal 2001 from operating income of $0.2 million in fiscal 2000. During fiscal 2001, as part of the Company's initiative to maintain customer service and reduce costs, Harmon AutoGlass reduced headcount through position eliminations, closed 37 underperforming stores, or nearly 11% of its retail locations, and transitioned call center operations to APAC Customer Services, Inc. Harmon AutoGlass continued to maintain a presence in most markets where shop closings occurred. Viracon/Curvlite reported slightly increased operating income over the prior year.

At the end of fiscal 2001, Auto Glass had 287 Harmon AutoGlass retail locations and 167 co-branded facilities. The segment continues to explore opportunities to increase utilization and improve efficiencies.

Discontinued Operations. During fiscal 2001, the Company completed the sale of substantially all of the assets of VIS'N Service Corporation (VIS'N), a non-auto glass focused, third-party administered claims processor, in two separate transactions with no impact to net earnings. In fiscal 2000, the Company completed the sale of 100% of the stock of its large-scale domestic curtainwall business, Harmon, Ltd. In fiscal 1999, Apogee's Board of Directors authorized the divestiture of the detention/security operations and the Company executed the sale of the business. The sale of Harmon, Ltd. and the Company's detention/security business combined with the fiscal 1998 exit from international curtainwall operations effectively removed the Company from the large-scale construction business. Accordingly, these businesses are presented as discontinued operations in the accompanying financial statements and notes. Prior periods have been restated.

The Company reported after-tax operating income from the businesses reported as discontinued operations for fiscal 2001 of $1.6 million. This was primarily the result of cash collected from our international curtainwall operations during fiscal 2001 that exceeded the anticipated receipts. For fiscal 2000, after-tax earnings from discontinued operations were $9.1 million.

Fiscal 2000 Compared to Fiscal 1999

Consolidated net sales increased 7% to $840.5 million in fiscal 2000 compared to fiscal 1999. Net sales increased 13% in the Architectural Products and Services (Architectural) segment, and 19% at the Large-Scale Optical Technologies (LSO) segment. Net sales at the Automotive Replacement Glass and Services (Auto Glass) segment were flat compared to fiscal 1999.

On a consolidated basis, cost of sales, as a percentage of net sales, rose slightly to 80.1%, up from 78.4% in fiscal 1999. The primary factors underlying the resulting decline in gross profit were slower than anticipated production ramp-ups within the Architectural and LSO segments along with increased costs to increase production velocity at Viracon. Additionally, Apogee experienced increased costs associated with meeting demand in these segments as well as a decline in margin in the Auto Glass businesses. These factors were offset by margin improvements at Harmon, Inc.

Selling, general and administrative (SG&A) expenses grew by $20.8 million, or 16%. The primary factors for the growth were an increase in salaries, allowance for doubtful accounts, marketing costs, outside services, information systems and severance costs, offset by a decrease in bonuses and incentives. A portion of the increased personnel costs represented classification variances associated with the Company's many system conversions; quantification of such classifications is not considered cost effective. Gross profit benefited as a result of these classification variances.

Net interest expense rose 9% to $10.4 million in fiscal 2000. The increase reflected higher weighted-average outstanding borrowing levels and to a lesser extent, slightly higher interest rates under the Company's revolving credit agreement.

Apogee's effective income tax rate was 50.8% of pre-tax earnings from continuing operations, up substantially from the 37.6% rate recorded in fiscal 1999.

Apogee's equity in loss of affiliated companies was $2.8 million in fiscal 2000 compared to $1.4 million a year ago, largely associated with the Company's TerraSun research and development joint venture.

Apogee's fiscal 2000 earnings from continuing operations declined to $3.1 million, or $0.11 diluted earnings per share. This compared to earnings from continuing operations of $20.2 million, or $0.73 diluted earnings per share, a year earlier.

Earnings from operations of discontinued businesses were $9.1 million after tax, or $0.33 diluted earnings per share, compared to $5.0 million, or $0.18 diluted earnings per share, a year earlier.

Apogee's fiscal 2000 net earnings were $12.2 million, or $0.44 diluted earnings per share. This compared to $25.2 million, or $0.91 diluted earnings per share, a year ago. The return on average shareholders' equity was 9.1% in fiscal 2000 versus 21.0% for fiscal 1999.

Segment Analysis

The following is a discussion on the results of operations of the Company's three business segments. See Note 17 "Business Segments Data" in the Notes to Consolidated Financial Statements for a three-year history of each segment's net sales, operating income, identifiable assets, capital expenditures, and depreciation and amortization.

Architectural Products and Services (Architectural). Net sales for the Architectural segment for fiscal 2000 increased 13% to $394.1 million, while operating income decreased 13% to $20.5 million for the year.

Viracon, the segment's architectural glass fabrication unit, reported a net sales increase of 8%, while operating earnings decreased significantly in fiscal 2000 as compared to the prior year. The decrease in profitability was the result of a decrease in earnings at the Owatonna, Minnesota plant and start-up losses and slower than expected ramp-up at its Statesboro, Georgia facility. Operating earnings at the Owatonna plant were down compared to fiscal 1999 due to reduced operating rates and additional costs incurred to position the facility for improved production velocity.

The Harmon, Inc. business had a solid year. Net sales grew by 29%, while operating income rose by 75%. Continuing operating improvements and an emphasis toward higher-margin business helped the unit's profitability.

Wausau Window & Wall Systems, which manufactures commercial windows, had increased sales of 9% for the year. Operating income decreased for the facility compared to fiscal 1999.

Linetec, which provides painting and anodizing services, leveraged higher net sales into a significant operating income increase. This business also continued to benefit from improvements in its engineering capabilities.

Large-Scale Optical Technologies (LSO). LSO reported a net sales improvement for fiscal 2000 of 19% to $69.9 million while reporting a significant decrease in earnings as compared to the prior year.

Tru Vue, the segment's value-added art framing glass and matboard fabrication unit, posted a 9% improvement in sales, while earnings rose by 26%. These results reflect increased penetration of the unit's value-added products and increased capacity and efficiency due to the second quarter completion of a new production facility in Chicago.

Viratec, which applies optical-grade coatings to glass and other substrates, reported a net sales increase of 29%, while recording an operating loss. The operating loss was primarily due to Viratec's flat glass operation which encountered significant downtime with the start-up of its new vertical coater. The vertical coater became operational in the third quarter but continued to experience problems during the remainder of the year. Also, in mid-year, Viratec's San Diego CRT coating operation lost significant production time during a technology changeover to accommodate a new product.

Automotive Replacement Glass and Services (Auto Glass). During fiscal 2000 and 1999, Auto Glass operated auto glass businesses under the Harmon AutoGlass (Harmon), Harmon Solutions Group (Solutions), Glass Depot and Viracon/Curvlite brands. Due to an industry merger in 1997, Harmon became the second largest company in the auto glass repair and replacement industry. Fiscal 2000 net sales at Auto Glass remained flat as compared to fiscal 1999 net sales while operating income decreased significantly.

Net sales of the Auto Glass retail unit decreased slightly compared with those of fiscal 1999, although unit volume was flat. A significant operating loss was recorded due to increased competitive pricing pressures in the retail business and soft retail demand. Market data indicates that unit demand for replacement auto glass in the U.S. fell nominally in 1999. Same-location retail net sales decreased by 8%, while unit net sales were flat with last year. To respond to changing market conditions, the business was restructured during fiscal 2000 to reduce fixed cost overhead. In fiscal 2000, 17 retail auto facilities were closed. In addition, employee headcount was reduced at auto glass headquarters and to a lesser extent in the field workforce. In addition, retail coverage in closed store markets was being maintained by mobile vans and service centers operated from facilities shared with businesses outside of the Company. Unit sales trends for the Auto Glass retail unit continue to outpace the industry.

The segment's manufacturing operation, Viracon/Curvlite, fabricates auto glass for the replacement auto glass aftermarket. Viracon/Curvlite's net sales in fiscal 2000 decreased slightly. The unit's National Distribution Center, which offered other manufacturers' products as well as Viracon/Curvlite's products for both domestic and foreign vehicles, and the AutoGlass Express program, a delivery system to fill customer orders more quickly and completely, accounted for an increase in unit sales. This increase was offset by a decrease in unit sales for the broker program, resulting in a slight decrease in unit sales for fiscal 2000, compared to fiscal 1999. About 61% of Viracon/Curvlite's net sales were made to the Glass Depot unit in fiscal 2000.

At fiscal year-end, Auto Glass had 324 Harmon AutoGlass retail locations, 143 co-branded facilities and 77 Glass Depot distribution centers.

Discontinued Operations. In late fiscal 2000, Apogee's Board of Directors authorized the exit from the Company's interest in VIS'N Service Corporation (VIS'N), a non-auto glass focused, third-party administered claims processor. In addition, during fiscal 2000, the Company completed the sale of 100% of the stock of its large-scale domestic curtainwall business, Harmon, Ltd. In fiscal 1999, Apogee's Board of Directors authorized the divestiture of the detention/security and domestic curtainwall operations. On December 3, 1998, the segment executed the sale of its detention/security business, effective November 28, 1998. Combined with the fiscal 1998 exit from international curtainwall operations, these transactions effectively remove the Company from the large-scale construction business, in addition to the non-auto glass focused third-party administered claims processing business. Accordingly, these businesses are presented as discontinued operations in the accompanying financial statements.

Operating results from the businesses reported as discontinued operations improved significantly over fiscal 1999. For fiscal 2000, earnings from discontinued operations were $9.1 million after-tax compared to $5.0 in fiscal 1999.

LIQUIDITY AND CAPITAL RESOURCES

(In thousands, except percentages)	Year Ended March 3, 2001	Year Ended February 26, 2000
Cash provided by operations	$ 61,610	$ 43,836
Capital expenditures	14,823	44,025
Acquisition of businesses, net of cash acquired	3,602	1,983
Proceeds from dispositions of property	17,834	14,672
Payments on long-term debt, net	60,703	1,844
Debt to invested capital	37.6%	50.2%

Net Cash Provided by Operating Activities

Cash provided by continuing operating activities was $61.6 million in fiscal 2001, an increase of $17.8 million compared to last year. The increase was due to improved cash flow generated by the operating companies during the year, primarily from improved results. The Company reduced working capital by $41.3 million during the year, primarily related to the contribution of inventory to the PPG Auto Glass joint venture, but also due to continued focus on reducing working capital.

Net Cash Provided by Investing Activities

New capital investment in fiscal 2001 totaled $14.8 million, versus $44.0 million and $77.4 million in fiscal 2000 and 1999, respectively. This reduction is the result of focusing on the expenditures made in the prior years by completing the start-up at Viracon's Statesboro facility and of the vertical coater at Viratec's Faribault, Minnesota operation. In addition, in fiscal 2001, the LSO segment expanded its pre-framed art business by purchasing two high-end pre-framed art businesses. The aggregate purchase price for these businesses was $3.6 million, including goodwill of $2.9 million.

During fiscal 2001, the Company entered into a $16 million sale/leaseback associated with miscellaneous operating equipment. In fiscal 2000, the Company entered into a $13.4 million sale/leaseback associated with miscellaneous operating equipment. The Company used the proceeds of these sale/leaseback transactions to reduce the Company's long-term floating rate debt and replaced it with eight-year fixed rate operating leases.

In fiscal 2002, the Company expects to incur capital expenditures as necessary to maintain existing facilities and information systems. Fiscal 2002 expenditures are expected to be approximately $25 million.

Net Cash Used in Financing Activities

In May 1998, the Company obtained a five-year, committed credit facility in the amount of $275 million. This credit facility requires Apogee to maintain minimum levels of net worth and certain financial ratios. The total commitment of the credit facility was reduced by the sales price, net of taxes, of the fiscal 1999 sale of the detention/security business, resulting in a committed credit facility of $253 million as of February 27, 1999. The total commitment of the credit facility was also reduced in April 2000, resulting in a committed credit facility of $200 million as of March 3, 2001. The Company's receivables, inventory, equipment and intangibles secure the credit facility. Based upon the Company's satisfaction of certain financial covenants during fiscal 2001, the Company has the right to cause this security interest to be released upon its request.

Long-term debt, including current installments of $0.3 million, stood at $104.5 million at March 3, 2001, down $60.0 million from a year earlier. The majority of the Company's long-term debt consisted of bank borrowings. During fiscal 2000, $7.7 million of variable rate industrial revenue bonds were issued and the resulting proceeds were loaned to the Company to finance a portion of the Company's capital projects in Statesboro and San Diego.

In December 1998, the Company entered into an interest rate swap agreement, which expires in fiscal 2004, which effectively converted $25 million of its variable rate borrowings into a fixed rate obligation. In February 2000, the Company entered into an interest rate swap agreement, which expires in fiscal 2003, which effectively converted $10 million of its variable rate borrowings into a fixed rate obligation.

For fiscal 2002, the Company expects that outstanding borrowings will generally decline over the course of the year. The Company believes that cash from operating activities and the available credit facility provide adequate liquidity for the next 12 months.

Shareholders' Equity

At March 3, 2001, Apogee's shareholders' equity stood at $148.3 million, up 8% from a year ago. Book value per share also rose to $5.33, up from $4.97 per share a year ago, as outstanding common shares increased only nominally during the year. Net earnings and the proceeds from the issuance of 118,000 shares of common stock under our stock-based compensation plans accounted for the increases, which were partly offset by dividends paid of $0.21 per share and the repurchase of 36,000 shares of common stock.

MARKET RISKS

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

The primary measure of interest rate risk is the simulation of net income under different interest rate environments. The approach used to quantify interest rate risk is a sensitivity analysis. This approach calculates the impact on net earnings, relative to a base case scenario, of rates increasing or decreasing gradually over the next 12 months by 200 basis points. The aforementioned changes in interest rates affecting the Company's financial instruments would result in approximately a $400,000 impact to net earnings. As interest rates increase, net earnings decrease; as interest rates decrease, net earnings increase.

The Company uses interest swaps to fix a portion of its variable rate borrowings from fluctuations in interest rates. As of March 3, 2001, the Company has interest swaps covering $35 million of variable rate debt. The net present liability associated with these swaps is $1.8 million at the end of fiscal 2001.

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

Given the Company's balanced foreign exchange position described above, a 10% adverse change in foreign exchange rates upon which these contracts are based would result in exchange losses from these contracts that would, in all material respects, be fully offset by exchange gains on the underlying net monetary exposures for which the contracts are designated as hedges. As of March 3, 2001, the Company did not have any forward contracts outstanding as the Company had no material foreign exchange exposure.

IMPACT OF INFLATION

Our financial statements are prepared on a historical cost basis, which does not completely account for the effects of inflation. However, since the cost of many of our inventories is determined using the last-in, first-out (LIFO) method of accounting, cost of sales, except for depreciation expense included therein, generally reflects current costs.

The cost of glass, one of our primary raw materials, was essentially flat compared with last year. We expect the cost of glass to increase slightly in fiscal 2002. While our construction and supply contracts are at fixed prices, the material components are usually based on firm quotes obtained from suppliers. Labor costs, including taxes and fringe benefits, rose in fiscal 2001 and a moderate increase also can be reasonably anticipated for fiscal 2002. Other costs are managed to minimize the inflationary pressures that exist in markets for goods and services that Apogee's business operations require.

FORWARD-LOOKING STATEMENTS

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

The Company wishes to caution investors that any forward-looking statements made by or on behalf of the Company are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other risk factors include, but are not limited to, those noted below. There can be no assurances given that the ongoing reorganization and realignment of Harmon AutoGlass will lead to successful operating results now or in the future. Also, there can be no assurances that the ramp-ups of plant capacity will lead to successful operating results for those companies now or in the future. There can be no assurances that the closing of the Viratec San Diego facility will not result in an additional charge to earnings. There can be no assurances that PPG Auto Glass, Apogee's automotive replacement glass distribution joint venture with PPG Industries, will achieve favorable short-term or long-term operating results. In addition, in recent years, there has been excess capacity at the distribution level of the automotive replacement glass industry and margins have narrowed. There is no assurance PPG Auto Glass will achieve any anticipated efficiencies or be able to improve or maintain margins.

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

FY 2001: CONSOLIDATED BALANCE SHEETS

(In thousands)	March 3, 2001	February 26, 2000
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,689	$ 7,192
Receivables, net of allowance for doubtful accounts	121,461	125,064
Inventories	40,434	68,184
Deferred income taxes	4,854	8,435
Other current assets	3,753	5,547
Total current assets	175,191	214,422
Property, plant and equipment, net	147,593	186,039
Marketable securities available for sale	24,451	24,951
Investments in affiliated companies	32,530	418
Intangible assets, at cost less accumulated amortization of $12,520 and $11,668, respectively	50,145	50,549
Other assets	2,769	4,775
Total assets	$ 432,679	$ 481,154
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 59,537	$ 57,989
Accrued expenses	57,571	56,624
Current liabilities of discontinued operations, net	2,578	2,907
Billings in excess of costs and earnings on uncompleted contracts	10,330	9,827
Accrued income taxes	7,093	7,868
Current installments of long-term debt	328	182
Total current liabilities	137,437	135,397
Long-term debt, less current installments	104,206	164,371
Other long-term liabilities	24,466	25,248
Liabilities of discontinued operations, net	18,278	18,366
Commitments and contingent liabilities (Notes 6, 13 and 14)		
Shareholders' equity		
Common stock of $0.33⅓ par value; authorized 50,000,000 shares; issued and outstanding, 27,825,000 and 27,743,000, respectively	9,275	9,248
Additional paid-in capital	45,773	45,106
Retained earnings	93,543	84,608
Unearned compensation	(757)	(888)
Net unrealized gain (loss) on marketable securities	458	(302)
Total shareholders' equity	148,292	137,772
Total liabilities and shareholders' equity	$ 432,679	$ 481,154

See accompanying notes to consolidated financial statements.

FY 2001: CONSOLIDATED RESULTS OF OPERATIONS

(In thousands, except per share data)	Year Ended March 3, 2001	Year Ended February 26, 2000	Year Ended February 27, 1999
Net sales	$ 865,200	$ 840,488	$ 788,062
Cost of sales	686,203	673,253	617,647
Gross profit	178,997	167,235	170,415
Selling, general and administrative expenses	147,103	147,817	127,063
Operating income	31,894	19,418	43,352
Interest expense, net	11,122	10,359	9,494
Equity in income (loss) of affiliated companies	1,465	(2,817)	(1,424)
Earnings from continuing operations before income taxes	22,237	6,242	32,434
Income taxes	8,876	3,171	12,189
Earnings from continuing operations	13,361	3,071	20,245
Earnings from operations of discontinued businesses, net of income taxes	1,641	9,104	4,988
Net earnings	$ 15,002	$ 12,175	$ 25,233
Earnings per share — basic			
Continuing operations	$ 0.48	$ 0.11	$ 0.73
Discontinued operations	0.06	0.33	0.18
Net earnings	$ 0.54	$ 0.44	$ 0.91
Earnings per share — diluted			
Continuing operations	$ 0.48	$ 0.11	$ 0.73
Discontinued operations	0.06	0.33	0.18
Net earnings	$ 0.54	$ 0.44	$ 0.91
Weighted average basic shares outstanding	27,835	27,746	27,586
Weighted average diluted shares outstanding	27,898	27,794	27,762

See accompanying notes to consolidated financial statements.

FY 2001: CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Net Unrealized Gain (Loss) on Marketable Securities	Comprehensive Earnings
Balance at February 28, 1998	27,453	$ 9,151	$ 38,983	$ 61,899	$ (686)	$ 254	
Net earnings				25,233			$ 25,233
Unrealized loss on marketable securities, net of $93 tax benefit						(174)	(174)
Comprehensive earnings							$ 25,059
Unearned compensation					(35)		
Common stock issued	306	102	2,994				
Common stock repurchased and retired	(136)	(45)	(74)	(1,272)			
Cash dividends ($0.205 per share)				(5,666)			
Balance at February 27, 1999	27,623	9,208	41,903	80,194	(721)	80	
Net earnings				12,175			$ 12,175
Unrealized loss on marketable securities, net of $204 tax benefit						(382)	(382)
Comprehensive earnings							$ 11,793
Unearned compensation					(167)		
Tax benefit associated with stock plans			803				
Common stock issued	309	103	2,678				
Common stock repurchased and retired	(189)	(63)	(278)	(1,928)			
Cash dividends ($0.21 per share)				(5,833)			
Balance at February 26, 2000	27,743	9,248	45,106	84,608	(888)	(302)	
Net earnings				15,002			$ 15,002
Unrealized gain on marketable securities, net of $407 tax expense						760	760
Comprehensive earnings							$ 15,762
Unearned compensation					131		
Tax benefit associated with stock plans			236				
Common stock issued	118	39	493				
Common stock repurchased and retired	(36)	(12)	(62)	(233)			
Cash dividends ($0.21 per share)				(5,834)			
Balance at March 3, 2001	27,825	$ 9,275	$ 45,773	$ 93,543	$ (757)	$ 458	

See accompanying notes to consolidated financial statements.

FY 2001: CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended March 3, 2001	Year Ended February 26, 2000	Year Ended February 27, 1999
OPERATING ACTIVITIES			
Net earnings	$ 15,002	$ 12,175	$ 25,233
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net earnings from discontinued operations	(1,641)	(9,104)	(4,988)
Depreciation and amortization	34,229	33,019	25,798
Deferred income tax expense (benefit)	4,422	(3,319)	4,844
Equity in (income) loss of affiliated companies	(1,465)	2,817	1,424
Net cash flow to discontinued operations	(3,151)	(534)	(13,580)
Other, net	2,857	643	(349)
Cash flow before changes in operating assets and liabilities	50,253	35,697	38,382
Changes in operating assets and liabilities, net of effect of acquisitions and investment in joint venture:			
Receivables	4,292	(6,828)	(17,115)
Inventories	5,394	637	(7,128)
Other current assets	1,682	30	1,295
Accounts payable and accrued expenses	998	20,330	5,151
Billings in excess of costs and earnings on uncompleted contracts	503	(1,795)	4,680
Refundable and accrued income taxes	(539)	2,004	26,972
Other	(973)	(6,239)	778
Net cash provided by operating activities	61,610	43,836	53,015
INVESTING ACTIVITIES			
Capital expenditures	(14,823)	(44,025)	(77,392)
Proceeds from sales of property, plant and equipment	17,834	14,672	310
Acquisition of businesses, net of cash acquired	(3,602)	(1,983)	(380)
Purchases of marketable securities	(7,900)	(17,469)	(24,315)
Sales/maturities of marketable securities	9,570	19,169	15,515
Investment in and advances to affiliated companies	(3,083)	(2,665)	(1,285)
Dividends from affiliated companies	1,247	—	—
Net cash flow from discontinued operations	4,375	2,000	22,500
Other, net	(856)	(162)	(62)
Net cash provided by (used in) investing activities	2,762	(30,463)	(65,109)
FINANCING ACTIVITIES			
Payments on long-term debt	(60,703)	(9,494)	(1,446)
Proceeds from issuance of long-term debt	—	7,650	14,197
Increase in deferred debt expense	(563)	(334)	(3,107)
Proceeds from issuance of common stock	532	2,781	3,096
Repurchase and retirement of common stock	(307)	(2,269)	(1,515)
Dividends paid	(5,834)	(5,833)	(5,666)
Net cash (used in) provided by financing activities	(66,875)	(7,499)	5,559
(Decrease) increase in cash and cash equivalents	(2,503)	5,874	(6,535)
Cash and cash equivalents at beginning of year	7,192	1,318	7,853
Cash and cash equivalents at end of year	$ 4,689	$ 7,192	$ 1,318
Supplemental schedule of non-cash investing activities:			
Net assets contributed to PPG Auto Glass, LLC (see Note 5)	$ 30,359	$ —	$ —

See accompanying notes to consolidated financial statements.

one SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED DATA

Basis of Consolidation. The consolidated financial statements include the accounts of Apogee and all majority-owned subsidiaries (the Company). As explained in Note 11, the Company's curtainwall contracting and detention/security contracting businesses are reported as discontinued operations, along with the Company's interest in VIS'N Service Corporation. The equity method is used to account for the Company's joint ventures. Intercompany transactions have been eliminated in consolidation. Certain amounts from prior-years' financial statements have been reclassified to conform with this year's presentation.

Cash and Cash Equivalents. Investments with an original maturity of three months or less are included in cash and cash equivalents.

Inventories. Inventories, which consist primarily of purchased glass and aluminum, are valued at the lower of cost or market. Approximately 93% of the inventories are valued by use of the last-in, first-out (LIFO) method, which does not exceed market. If the first-in, first-out (FIFO) method had been used, inventories would have been $3,135,000 and $3,127,000 higher than reported at March 3, 2001, and February 26, 2000, respectively.

Property, Plant and Equipment. Property, plant and equipment are carried at cost. Significant improvements and renewals are capitalized. Repairs and maintenance are charged to expense as incurred. Depreciation is computed on a straight-line basis, based on estimated useful lives of 20 to 40 years for buildings and 2 to 15 years for equipment.

Intangible Assets and Amortization. Intangible assets consist principally of the excess of cost over the fair value of net assets acquired (goodwill) and are amortized on a straight-line basis, primarily over 40 years. Amortization expense amounted to $2,370,000, $2,287,000 and $2,060,000 in 2001, 2000 and 1999, respectively.

Long-Lived Assets. The carrying value of long-lived assets such as property, plant and equipment and intangible assets is reviewed when circumstances suggest that the assets have been impaired. If this review indicates that the long-lived assets will not be recoverable based on the estimated undiscounted cash flows over the remaining amortization period, the carrying value of such assets must be reduced to estimated fair value. The Company has assets at a net book value of $14 million associated with a portion of an Enterprise Resource Planning (ERP) project, the majority of which is in service and is being amortized. In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, the Company will continue to monitor the viability of this investment.

Insurance Subsidiary. Prism Assurance, Inc. (Prism) is a wholly owned insurance subsidiary that insures the Company's workers' compensation, general liability and automobile liability risks. Prism invests in fixed maturity investments which are classified as "available for sale" and are carried at market value as prescribed by SFAS No. 115. Reserve requirements are established based on actuarial projections of ultimate losses. Apogee also has accruals for losses incurred prior to Prism's formation (1996). Losses estimated to be paid within 12 months are classified as accrued expenses, while losses expected to be payable in later periods are included in other long-term liabilities.

Revenue Recognition. The Company recognizes revenue from construction contracts on a percentage-of-completion basis, measured by the percentage of costs incurred to date to estimated total costs for each contract. Contract costs include materials, labor and other direct costs related to contract performance. Provisions are established for estimated losses, if any, on uncompleted contracts in the period in which such losses are determined. Amounts representing contract change orders, claims or other items are included in sales only when they have been approved by customers. Revenue from the sale of products or services provided and the related cost of sales are recorded upon shipment or as services are rendered.

Income Taxes. The Company accounts for income taxes as prescribed by SFAS No. 109, which requires use of the asset and liability method. This method recognizes deferred tax assets and liabilities based upon the future tax consequences of temporary differences between financial and tax reporting.

Foreign Operations. The financial statements of foreign operations have been translated to U.S. dollars, using the rules of SFAS No. 52. Balance sheet accounts are stated in U.S. dollars, generally at the year-end exchange rate. Results of operations are translated at average exchange rates for the respective period.

The Company may periodically enter into forward currency exchange contracts to manage specific foreign currency exposures related to foreign construction contracts, receivables and bank borrowings denominated in foreign currencies. As of March 3, 2001, there were no forward contracts outstanding as the Company had no material foreign currency exchange exposure. Gains and losses on forward contracts related to receivables are recognized currently, while gains and losses related to construction projects are deferred and accounted for as a part of the related transaction.

Accounting Period. Apogee's fiscal year ends on the Saturday closest to February 28. Fiscal year 2001 consisted of 53 weeks, while fiscal 2000 and 1999 each consisted of 52 weeks.

Accounting Estimates. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of net sales and expenses during the reporting period. Amounts subject to significant estimates and assumptions include, but are not limited to, insurance reserves, reserves related to discontinued operations, and net sales recognition for construction contracts, including the status of outstanding disputes and claims. Actual results could differ from those estimates.

New Accounting Standards. The Financial Accounting Standards Board (FASB) issued SFAS No. 133 regarding accounting for derivative instruments and hedging activities. SFAS No. 133, as amended by SFAS No. 137 and No. 138, establishes accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet either as an asset or liability measured at fair value. SFAS No. 133 requires changes in the derivative's fair value to be recognized in earnings or, for derivatives that hedge market risk related to future cash flows, in accumulated other comprehensive income, unless specific hedge accounting criteria are met. The Company adopted SFAS No. 133 on March 4, 2001, which resulted in the Company recording the fair value of the interest rate swaps described in Note 6 as a liability with an offsetting adjustment to other comprehensive earnings.

two WORKING CAPITAL

(In thousands)	2001	2000
Receivables		
Trade accounts	$102,171	$110,704
Construction contracts	16,819	15,550
Contract retainage	6,334	5,212
Other receivables	5,079	4,138
Total receivables	130,403	135,604
Less allowance for doubtful accounts	(8,942)	(10,540)
Net receivables	$121,461	$125,064

The Company provides products and services to the commercial and institutional new construction and remodeling markets, the automotive replacement glass market and selected consumer markets. There is no concentration of credit risk due to the diversity of the markets, channels of distribution, and the geographic location of customers. Allowances are maintained for potential credit losses and such losses have been within management's expectations.

(In thousands)	2001	2000
Inventories		
Raw materials	$ 20,124	$ 18,966
Work-in-process	6,259	4,995
Finished goods	12,406	43,439
Costs and earnings in excess of billings on uncompleted contracts	1,645	784
Total inventories	$ 40,434	$ 68,184

(In thousands)	2001	2000
Accrued Expenses		
Payroll and related benefits	$ 24,077	$ 21,770
Insurance	9,928	10,529
Taxes, other than income taxes	3,927	4,802
Pension	4,777	4,685
Interest	1,048	630
Other	13,814	14,208
Total accrued expenses	$ 57,571	$ 56,624

three PROPERTY, PLANT AND EQUIPMENT

(In thousands)	2001	2000
Land	$ 5,408	$ 3,964
Buildings and improvements	89,787	91,042
Machinery and equipment	139,290	153,186
Office equipment and furniture	60,627	63,472
Construction-in-progress	8,656	22,684
Total property, plant and equipment	303,768	334,348
Less accumulated depreciation	(156,175)	(148,309)
Net property, plant and equipment	$147,593	$186,039

Depreciation expense was $31,859,000, $30,732,000 and $23,738,000 in 2001, 2000 and 1999, respectively.

four MARKETABLE SECURITIES

Prism invests in fixed maturity investments classified as "available for sale" and carried at market value as prescribed by SFAS No. 115. Unrealized gains and losses are reported in a separate component of shareholders' equity, net of income taxes, until the investments are sold. The amortized cost, gross unrealized gains and losses and estimated fair values of investments available for sale at March 3, 2001 and February 26, 2000 are as follows:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
March 3, 2001				
U.S. Treasury Notes	$ 3,464	$ 82	$ —	$ 3,546
Municipal bonds	20,282	675	(52)	20,905
Total investments	$ 23,746	$ 757	$ (52)	$ 24,451
February 26, 2000				
U.S. Treasury Notes	$ 5,466	$ —	$ (248)	$ 5,218
Municipal bonds	19,947	40	(254)	19,733
Total investments	$ 25,413	$ 40	$ (502)	$ 24,951

The amortized cost and estimated fair values of investments at March 3, 2001 by contractual maturity are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In thousands)	Amortized Cost	Estimated Market Value
Due within one year	$ 1,507	$ 1,514
Due after one year through five years	10,694	10,915
Due after five years through 10 years	3,784	4,004
Due after 10 years through 15 years	2,636	2,756
Due beyond 15 years	5,125	5,262
Total	$ 23,746	$ 24,451

Gross realized gains of $30,000, $15,000 and $120,000 and gross realized losses of $94,000, $536,000 and $0 were recognized in fiscal 2001, 2000 and 1999, respectively, and are included in interest expense, net in the accompanying Consolidated Results of Operations.

five INVESTMENTS

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

On July 29, 2000, the Company and PPG Industries combined their U.S. automotive replacement glass distribution businesses in a new entity, PPG Auto Glass, LLC (PPG Auto Glass) of which the Company has a 34 percent interest. On March 3, 2001, the Company's investment in PPG Auto Glass was $32.2 million, of which $7.6 million represents the unamortized excess of the cost of the investment over the value of the underlying net tangible assets when the joint venture was formed. This excess is being amortized over a life of 20 years.

The Company's investment in TerraSun LLC relates to a research and development joint venture of which the Company has a 50 percent interest.

six LONG-TERM DEBT

(In thousands)	2001	2000
Borrowings under revolving credit agreement, interest ranging from 6.38% to 8.38%	$ 96,000	$156,500
Other	8,534	8,053
Total long-term debt	104,534	164,553
Less current installments	(328)	(182)
Net long-term debt	$104,206	$164,371

Long-term debt maturities are as follows:

(In thousands)	
Fiscal Year	
2002	$ 328
2003	328
2004	96,228
2005	—
2006	—
Thereafter	7,650
Total	$104,534

In May 1998, the Company obtained a five-year, committed, secured credit facility in the amount of $275 million. This credit facility requires the Company to maintain minimum levels of net worth and certain financial ratios. The total commitment of the credit facility was reduced by the sales price, net of taxes, of the sale of the detention/security business, resulting in a committed credit facility of $253 million as of February 26, 2000. The total commitment of the credit facility was again reduced in April 2000, resulting in a committed credit facility of $200 million as of March 3, 2001. The majority of the borrowings under the credit facility are made at a rate equal to three-month LIBOR (London Interbank Offered Rate) plus an applicable margin. The applicable margin is calculated based upon the Company's financial ratios. At March 3, 2001, the applicable margin was 1.5%. The Company's receivables, inventory, equipment and intangibles secure the credit facility. Based upon the Company's satisfaction of certain financial covenants during fiscal 2001, the Company has the right to cause this security interest to be released upon its request. At March 3, 2001, the Company was in compliance with all of the financial covenants of the credit facility.

Selected information related to bank borrowings is as follows:

(In thousands, except percentages)	2001	2000
Average daily borrowings during the year	$136,284	$174,869
Maximum borrowings outstanding during the year	156,800	195,300
Weighted average interest rate during the year	8.1%	6.9%

In 2000, the Company entered into an interest rate swap agreement that effectively converted $10 million of variable rate borrowings into a fixed rate obligation. Under this agreement, which expires in 2003, the Company receives payments at variable rates while making payments at a fixed rate of 7.21%. In 1999, the Company entered into an interest rate swap agreement that effectively converted $25 million of variable rate borrowings into a fixed rate obligation. Under this agreement, which expires in 2004, the Company receives payments at variable rates while making payments at a fixed rate of 7.125%. The net interest paid or received associated with these agreements is included in interest expense. The net present liability associated with these interest rate swap agreements was $1.8 million and $198,000 at March 3, 2001 and February 26, 2000, respectively.

seven INTEREST, NET

(In thousands)	2001	2000	1999
Interest on debt	$ 12,610	$ 11,939	$ 10,898
Other interest expense	420	636	619
Total interest expense	13,030	12,575	11,517
Less interest income	(1,908)	(2,216)	(2,023)
Interest expense, net	$ 11,122	$ 10,359	$ 9,494

Interest payments, including interest expense allocated to discontinued operations, were $12,262,000, $12,477,000 and $12,067,000 in 2001, 2000 and 1999, respectively.

eight EMPLOYEE BENEFIT PLANS

The Company maintains a qualified defined contribution pension plan that covers substantially all full-time, non-union employees. Contributions to the plan are based on a percentage of employees' base earnings. Deposits of the pension costs with the trustee are made annually. All pension costs were fully funded or accrued as of year-end. Contributions to the plan were $4,734,000, $4,920,000 and $4,209,000 in 2001, 2000 and 1999, respectively.

The Company also maintains a 401(k) savings plan, which allows employees to contribute 1% to 13% of their compensation. Apogee matches 30% of the first 6% of the employee contributions. Contributions to the plan were $1,967,000, $2,098,000 and $2,009,000 in 2001, 2000 and 1999, respectively.

nine SHAREHOLDERS' EQUITY AND STOCK OPTION PLANS

A class of 200,000 shares of junior preferred stock with a par value of $1.00 is authorized, but unissued.

The Company has a Shareholders' Rights Plan, under which each share of outstanding common stock has an associated preferred share purchase right. The rights are exercisable only under certain circumstances, including the acquisition by a person or group of 10% of the outstanding shares of the Company's common stock. Upon exercise, the rights would allow holders of such rights to purchase common stock of Apogee or an acquiring company at a discounted price, which generally would be 50% of the respective stock's current fair market value.

The 1997 Stock Option Plan and 1987 Stock Option Plan (the "Plans") each provide for the issuance of up to 2,500,000 options to purchase Company stock. Options awarded under these Plans, either in the form of incentive stock options or nonstatutory options, are exercisable at an option price equal to the fair market value at the date of award. The 1987 Plan has expired and no new grants of stock options may be made under this Plan.

The 1987 Partnership Plan, a plan designed to increase the ownership of Apogee stock by key employees, allows participants selected by the Compensation Committee of the Board of Directors to use earned incentive compensation to purchase Apogee common stock. The purchased stock is then matched by an equal award of restricted stock, which vests over a predetermined period. Common shares of 3,200,000 are authorized for issuance under the Plan. As of March 3, 2001, 2,514,000 shares have been issued or committed under the Plan. The Company expensed $1,814,000, $786,000 and $1,926,000 in conjunction with the Partnership Plan in 2001, 2000 and 1999, respectively.

A summary of option transactions under the Plans for 2001, 2000 and 1999 follows:

	Options Outstanding		
	Number of Shares	Average Exercise Price	Option Price Range
Balances, February 28, 1998	1,484,000	$12.53	$ 4.48 – $25.00
Options granted	443,000	13.94	10.63 – 15.25
Options exercised	(160,946)	6.92	5.88 – 8.69
Options canceled	(184,540)	14.33	5.88 – 16.75
Balances, February 27, 1999	1,581,514	13.27	4.48 – 25.00
Options granted	453,500	11.28	6.75 – 13.44
Options exercised	(136,704)	6.66	6.50 – 8.69
Options canceled	(238,875)	14.11	6.50 – 16.75
Balances, February 26, 2000	1,659,435	13.15	4.48 – 25.00
Options granted	728,100	4.80	3.75 – 5.81
Options exercised	(1,250)	4.19	4.19 – 4.19
Options canceled	(274,507)	10.28	3.97 – 17.75
Balances, March 3, 2001	2,111,778	$10.67	$ 3.75 – $25.00

The following table summarizes information about stock options outstanding and exercisable at March 3, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 3.75 – $ 5.00	563,370	8.9 years	$ 4.69	54,970	$ 4.04
5.01 – 12.50	647,288	6.9 years	9.62	322,424	9.50
12.51 – 25.00	901,120	5.7 years	15.16	740,520	15.25
	2,111,778	6.9 years	$10.67	1,117,914	$13.04

In accordance with the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, no compensation cost has been recognized with respect to the Plans. Had compensation cost for the Plans been determined based on the fair value of the awards, the Company's net earnings (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below:

(In thousands, except per share data)	2001	2000	1999
As reported:			
Net earnings			
Continuing operations	$ 13,361	$ 3,071	$ 20,245
Discontinued operations	1,641	9,104	4,988
	$ 15,002	$ 12,175	$ 25,233
Earnings per share — diluted			
Continuing operations	$ 0.48	$ 0.11	$ 0.73
Discontinued operations	0.06	0.33	0.18
	$ 0.54	$ 0.44	$ 0.91

(In thousands, except per share data)	2001	2000	1999
Pro forma:			
Net earnings (loss)			
Continuing operations	$ 10,045	$ (250)	$ 17,477
Discontinued operations	1,641	9,104	4,988
	$ 11,686	$ 8,854	$ 22,465
Earnings (loss) per share — diluted			
Continuing operations	$ 0.35	$ (0.01)	$ 0.63
Discontinued operations	0.06	0.32	0.18
	$ 0.41	$ 0.32	$ 0.81

The above pro forma amounts may not be representative of the effects on reported net earnings (loss) for future years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2001, 2000 and 1999:

	2001	2000	1999
Dividend yield	4.4%	1.8%	1.5%
Expected volatility	60.5%	62.4%	38.0%
Risk-free interest rate	7.5%	4.8%	6.0%
Expected lives	10 years	10 years	10 years

ten INCOME TAXES

The components of income tax expense (benefit) related to continuing operations for each of the last three fiscal years are as follows:

(In thousands)	2001	2000	1999
Current:			
Federal	$ 3,642	$ 6,229	$ 8,267
State and local	402	466	1,175
Total current	$ 4,044	$ 6,695	$ 9,442
Deferred:			
Federal	$ 4,282	$ (3,453)	$ 2,414
State and local	550	(71)	333
Total deferred	$ 4,832	$ (3,524)	$ 2,747
Total income tax expense	$ 8,876	$ 3,171	$ 12,189

Income tax payments, net of refunds, were $4,463,000, $8,508,000, and $2,090,000 in 2001, 2000, and 1999, respectively.

The differences between statutory federal tax rates and consolidated effective tax rates are as follows:

	2001	2000	1999
Statutory federal tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefit	2.8	4.1	3.0
Tax credits	(3.3)	(2.0)	(1.5)
Foreign sales corporation	(0.8)	(7.3)	(1.1)
Goodwill amortization	1.8	6.4	1.0
Meals and entertainment	1.3	5.5	1.2
Other, net (including changes in tax reserves and tax-exempt interest)	3.1	9.1	—
Consolidated effective tax rate	39.9%	50.8%	37.6%

Tax benefits for deductions associated with the 1987 Stock Option Plan and the 1987 Partnership Plan amounted to $236,000, $803,000 and $0 in 2001, 2000, and 1999, respectively. These benefits were added directly to additional paid-in capital and were not reflected in the determination of income tax expense.

Deferred tax assets and deferred tax liabilities at March 3, 2001 and February 26, 2000 are as follows:

	2001		2000	
(In thousands)	Current	Noncurrent	Current	Noncurrent
Accounts receivable	$ 3,457	$ (183)	$ 3,628	$ (369)
Accrued insurance	—	3,205	—	2,837
Deferred compensation	37	6,208	37	7,837
Restructuring reserve	—	—	2,910	—
Inventory	559	10	1,377	201
Depreciation	—	(2,816)	143	(6,156)
Employee benefit plans	(372)	—	(1,899)	—
Other	1,173	(4,817)	2,239	(1,492)
Deferred tax assets	$ 4,854	$ 1,607	$ 8,435	$ 2,858

eleven DISCONTINUED OPERATIONS

During fiscal 2001, the Company completed the sale of substantially all of the assets of VIS'N Service Corporation (VIS'N), a non-auto glass focused, third-party administered claims processor, in two separate transactions. In fiscal 2000, Apogee's Board of Directors authorized the exit from the Company's interest in VIS'N. In fiscal 2000, the Company completed the sale of 100% of the stock of its large-scale domestic curtainwall business, Harmon, Ltd. In fiscal 1999, Apogee's Board of Directors authorized the divestiture of the detention/security operations and the Company executed the sale of the business. Combined with the fiscal 1998 exit from international curtainwall operations, these transactions effectively remove the Company from the large-scale construction business and the third-party administered claims processing business. Accordingly, these businesses are presented as discontinued operations in the consolidated financial statements and notes. Prior periods have been restated.

(In thousands)	2001	2000	1999
Earnings from Operations of Discontinued Businesses			
Net sales	$ 2,750	$ 28,331	$168,739
Earnings before income taxes and minority interest*	2,525	9,821	7,590
Income tax expense	884	717	2,837
Minority interest	—	—	(235)
Earnings from operations, net of income taxes	$ 1,641	$ 9,104	$ 4,988

** Includes net interest expense allocations (based on the ratio of net operating assets of discontinued operations to consolidated net assets) of $0, $111,000 and $444,000 for 2001, 2000 and 1999, respectively.*

The 2000 effective income tax rate of 7.3% on discontinued operations was due to a decrease in the valuation allowance resulting from the utilization of certain tax assets that were previously reserved for.

(In thousands)	2001	2000
Net Liabilities of Discontinued Operations		
Current assets	$ 629	$ 3,983
Property, plant and equipment, net	—	782
Other assets	—	3,248
Accrued liabilities	(21,485)	(29,286)
Net liabilities of discontinued operations	(20,856)	(21,273)
Less net current liabilities of discontinued operations	2,578	2,907
Net long-term liabilities of discontinued operations	$ (18,278)	$ (18,366)

In fiscal 1998, the Company recorded pre-tax charges of $96.1 million related to the international curtainwall operations. The charges included an amount for the estimated loss on disputed construction contracts in Europe, including the accrual of certain penalty amounts, and a provision for the accrual of legal and related costs associated with the resolution of legal proceedings related to organizational changes in the majority-owned European curtainwall unit. The charges also included amounts for severance and termination benefits for employees in France, Asia and the U.S., the write-down of property and equipment and other long-term assets to their estimated net salable value and other items such as lease termination costs. The charges also reflected the estimated costs associated with exiting the European operations, including the completion of certain remaining projects. In March 1998, the five operating companies comprising the European curtainwall operations filed for bankruptcy or commenced liquidation, effectively relinquishing control over those entities.

At March 3, 2001, accruals totaling $20.9 million represented the remaining estimated future cash outflows associated with the exit from discontinued operations. The majority of these cash expenditures are expected to be made within the next two to three years. The primary components of the accrual relate to the completion of certain construction projects, costs to exit VIS'N, legal costs and other costs associated with the proceedings noted above.

twelve ACQUISITIONS

In fiscal 2001, the Large-Scale Optical Technologies segment expanded its pre-framed art business by purchasing two high-end pre-framed art companies. The purchase price of these businesses was $3.6 million, including $2.9 million of goodwill.

In fiscal 2000, the Auto Glass segment purchased the assets of one distribution center. The purchase price of the acquisition was $2.0 million, including $596,000 recorded as goodwill.

During fiscal 1999, the Auto Glass segment purchased an 80% interest in an insurance claims and policy processing outsource company (VIS'N). The aggregate purchase price of the acquisition was $2.8 million. Goodwill of $3.4 million was recorded and liabilities of $1.4 million were assumed.

Unless noted, no liabilities were assumed in the above transactions. All of the above transactions were accounted for by the purchase method. Accordingly, the consolidated financial statements include the net assets and results of operations from the dates of acquisition.

thirteen LEASES

As of March 3, 2001, the Company was obligated under non-cancelable 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 non-cancelable operating leases are:

(In thousands)	
Fiscal Year	
2002	$ 12,747
2003	11,193
2004	10,145
2005	8,678
2006	6,116
Thereafter	10,379
Total minimum payments	$ 59,258

Total rental expense was $21.8 million, $23.8 million and $24.5 million in 2001, 2000 and 1999, respectively.

During fiscal 2001 and 2000, the Company entered into agreements for the sale and leaseback of certain production equipment. The sale price of the equipment was $16.0 million and $13.4 million, respectively. The Company has a purchase option at projected future fair market value under the agreements. The leases are classified as operating leases in accordance with SFAS No. 13, *Accounting for Leases.*

A gain of $9.7 million has been deferred and is being recognized over the lease term. The unamortized portion of the deferred gain of $8.7 million is included in the balance sheet captions accrued expenses and other long-term liabilities. The average annual lease payment over the life of the lease is $4.5 million.

fourteen COMMITMENTS AND CONTINGENT LIABILITIES

At March 3, 2001, the Company had ongoing letters of credit related to its risk management programs, construction contracts and certain industrial development bonds. The total value of letters of credit under which the Company is obligated as of March 3, 2001 was approximately $16.4 million.

The Company has entered into a number of non-compete agreements, largely associated with acquisitions. As of March 3, 2001, future payments of $4.0 million were committed under such agreements.

The Company has been a party to various legal proceedings incidental to its normal operating activities. In particular, like others in the construction industry, the Company's construction businesses are routinely involved in various disputes and claims arising out of construction projects, sometimes involving significant monetary damages. Although it is impossible to predict the outcome of such proceedings, 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.

fifteen EARNINGS PER SHARE

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

(In thousands)	2001	2000	1999
Basic earnings per share —			
Weighted common shares outstanding	27,835	27,746	27,586
Weighted common shares assumed upon exercise of stock options	63	48	176
Diluted earnings per share —			
Weighted common shares and potential common shares outstanding	27,898	27,794	27,762

sixteen QUARTERLY DATA (UNAUDITED)

(In thousands, except per share data)	Quarter First	Second	Third	Fourth
Fiscal 2001				
Net sales	$ 237,253	$ 236,364	$ 197,291	$ 194,292
Gross profit	47,914	47,056	41,322	42,705
Earnings from continuing operations	2,020	4,200	2,962	4,179
Earnings from discontinued operations	—	—	—	1,641
Net earnings	2,020	4,200	2,962	5,820
Earnings per share — basic				
From continuing operations	0.07	0.15	0.11	0.15
From discontinued operations	—	—	—	0.06
Net earnings	0.07	0.15	0.11	0.21
Earnings per share — diluted				
From continuing operations	0.07	0.15	0.11	0.15
From discontinued operations	—	—	—	0.06
Net earnings	0.07	0.15	0.11	0.21
Fiscal 2000				
Net sales	$ 209,663	$ 216,962	$ 201,127	$ 212,736
Gross profit	47,063	45,493	30,609	44,071
Earnings (loss) from continuing operations	4,787	5,309	(4,982)	(2,043)
Earnings (loss) from discontinued operations	(217)	8,732	2,004	(1,415)
Net earnings (loss)	4,570	14,041	(2,978)	(3,458)
Earnings (loss) per share — basic				
From continuing operations	0.17	0.19	(0.18)	(0.07)
From discontinued operations	(0.01)	0.31	0.07	(0.05)
Net earnings (loss)	0.17	0.51	(0.11)	(0.12)
Earnings (loss) per share — diluted				
From continuing operations	0.17	0.19	(0.18)	(0.07)
From discontinued operations	(0.01)	0.31	0.07	(0.05)
Net earnings (loss)	0.16	0.50	(0.11)	(0.12)

seventeen BUSINESS SEGMENTS DATA

During fiscal 2001, the Company realigned its reporting segments to match the markets they serve in order to underscore the Company's growth potential and to reflect its changing business mix and focus. The segments are Architectural Products and Services (Architectural), Large-Scale Optical Technologies (LSO) and Automotive Replacement Glass and Services (Auto Glass). The Architectural segment designs, engineers, fabricates and installs the walls of glass and windows comprising the outside skin of commercial and institutional buildings. The LSO segment develops and produces high technology glass that enhances the visual performance of products for the display, imaging and picture framing industries. The Auto Glass segment fabricates, repairs and replaces automobile windshields and windows. Prior periods have been restated to reflect these new segments.

(In thousands)	2001	2000	1999
Net Sales			
Architectural	$441,466	$394,104	$349,968
Large-scale optical	90,768	69,934	58,669
Auto glass	333,311	377,499	380,524
Intersegment elimination	(345)	(1,049)	(1,099)
Total	$865,200	$840,488	$788,062
Operating Income			
Architectural	$ 27,393	$ 20,513	$ 23,501
Large-scale optical	4,571	(540)	2,477
Auto glass	1,429	184	18,399
Corporate and other	(1,499)	(739)	(1,025)
Total	$ 31,894	$ 19,418	$ 43,352
Identifiable Assets			
Architectural	$225,668	$226,929	$201,356
Large-scale optical	68,489	77,538	64,858
Auto glass	96,595	123,040	134,564
Corporate and other	41,927	53,647	65,611
Total	$432,679	$481,154	$466,389
Capital Expenditures			
Architectural	$ 6,257	$ 23,382	$ 54,384
Large-scale optical	2,677	17,254	16,057
Auto glass	5,922	3,918	5,359
Corporate and other	(33)	(529)	1,592
Total	$ 14,823	$ 44,025	$ 77,392
Depreciation and Amortization			
Architectural	$ 16,111	$ 15,693	$ 10,081
Large-scale optical	5,916	5,354	4,260
Auto glass	11,873	10,615	10,734
Corporate and other	329	1,357	723
Total	$ 34,229	$ 33,019	$ 25,798

Apogee's export net sales are less than 10% of consolidated net sales. No single customer, including government agencies, accounts for 10% or more of consolidated net sales. Segment operating income is net sales less cost of sales and operating expenses. Operating income does not include provision for interest expense or income taxes. "Corporate and other" includes miscellaneous corporate activity not allocable to business segments.

MANAGEMENT'S REPORT

The management of Apogee Enterprises, Inc. is responsible for the preparation of the consolidated financial statements included in this Annual Report.

To ensure the reliability of financial data, Apogee has established, and maintains, an internal control system. We believe the internal controls in use give reasonable assurance that financial reports do not contain any material misstatement.

We believe that the financial statements and related notes in this report are presented fairly in all material respects, and that they were prepared according to generally accepted accounting principles.

Russell Huffer
Chairman, President and Chief Executive Officer

Michael B. Clauer
Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To: Apogee Enterprises, Inc.:

We have audited the accompanying consolidated balance sheets of Apogee Enterprises, Inc. (a Minnesota corporation) and subsidiaries as of March 3, 2001 and February 26, 2000, and the related results of operations, statements of shareholders' equity and statements of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Apogee Enterprises, Inc. and subsidiaries as of February 27, 1999 were audited by other auditors whose report dated April 12, 1999, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Apogee Enterprises, Inc. and subsidiaries as of March 3, 2001 and February 26, 2000, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP
Minneapolis, Minnesota
April 2, 2001

FY 2001: ELEVEN YEARS IN REVIEW

(In thousands, except per share data)*	2001	2000	1999	1998	1997
OPERATING RESULTS					
Net sales	$ 865,200	$ 840,488	$ 788,062	$ 731,094	$ 642,226
Gross profit	178,997	167,235	170,415	165,139	143,761
Operating income	31,894	19,418	43,352	45,659	44,628
Earnings (loss) from continuing operations	13,361	3,071	20,245	24,114	26,827
Earnings (loss) from discontinued operations	1,641	9,104	4,988	(75,169)	(607)
Net earnings (loss)	15,002	12,175	25,233	(51,055)	26,220
Earnings (loss) per share — basic					
From continuing operations	0.48	0.11	0.73	0.87	0.98
From discontinued operations	0.06	0.33	0.18	(2.70)	(0.02)
Net earnings (loss)	0.54	0.44	0.91	(1.84)	0.96
Earnings (loss) per share — diluted					
From continuing operations	0.48	0.11	0.73	0.85	0.96
From discontinued operations	0.06	0.33	0.18	(2.65)	(0.02)
Net earnings (loss)	0.54	0.44	0.91	(1.80)	0.93
Effective tax rate — %	39.9	50.8	37.6	37.4	31.5
OPERATING RATIOS					
Gross margin — %	20.7	19.9	21.6	22.6	22.4
Operating margin — %	3.7	2.3	5.5	6.2	6.9
Net margin — continuing operations — %	1.5	0.4	2.6	3.3	4.2
Net margin — %	1.7	1.4	3.2	(7.0)	4.1
Return on:					
Average shareholders' equity — %	10.5	9.1	21.0	(36.2)	16.9
Average invested capital — %	5.0	3.7	8.3	(16.7)	9.2
Average total assets — %	3.3	2.6	5.8	(12.5)	7.1
FUNDS FLOW DATA					
Depreciation and amortization	$ 34,229	$ 33,019	$ 25,798	$ 22,463	$ 17,860
Capital expenditures	14,823	44,025	77,392	37,892	34,203
Dividends	5,834	5,833	5,666	5,251	4,806
YEAR-END DATA					
Total assets	$ 432,679	$ 481,154	$ 466,389	$ 405,526	$ 410,522
Current assets	175,191	214,422	204,308	206,858	159,095
Current liabilities	137,437	135,397	119,796	97,750	86,178
Working capital	37,754	79,025	84,512	109,108	72,916
Current ratio	1.3	1.6	1.7	2.1	1.8
Long-term debt	104,206	164,371	165,097	151,967	127,640
% of invested capital	37.6	50.2	51.0	53.1	39.4
Shareholders' equity	148,292	137,772	130,664	109,600	172,150
% of invested capital	53.5	42.1	40.4	38.3	53.1
INVESTMENT INFORMATION					
Dividends per share	$ 0.210	$ 0.210	$ 0.205	$ 0.190	$ 0.175
Book value per share	5.33	4.97	4.73	3.99	6.17
Price range during year:					
High	9 ½	14 5/16	15 ½	25	23 ¾
Low	3 ¼	4	8 ⅛	10 ⅜	9 ⅝
Close	9	5	8 ¾	12 15/16	19 ⅞
Price/earnings ratio at year-end	17	11	10	NM	21
Dividend yield at year-end — %	2.3	4.2	2.4	1.5	0.9
Shares outstanding at year-end	27,825,000	27,743,000	27,623,000	27,453,000	27,882,000
Average monthly trading volume	3,545,000	2,666,000	1,962,000	4,065,092	4,795,244

** Share and per share data have been adjusted for the fiscal 1997 stock dividend.*
*** Fiscal 1994 figures reflect the cumulative effect of a change in accounting for income taxes, which increased net earnings by $525,000, or 4 cents per share.*
NM = Not meaningful

FY 2001: ELEVEN YEARS IN REVIEW

(In thousands, except per share data)*	1996	1995	1994**	1993	1992	1991
OPERATING RESULTS						
Net sales	$ 567,823	$ 516,022	$ 426,400	$ 367,878	$ 364,578	$ 368,094
Gross profit	116,426	102,400	84,184	71,141	67,193	74,816
Operating income	34,729	31,535	23,803	8,779	2,730	17,629
Earnings (loss) from continuing operations	20,656	19,160	16,279	6,657	(1,300)	7,391
Earnings (loss) from discontinued operations	(2,820)	(6,110)	(12,446)	(2,143)	9,805	9,626
Net earnings (loss)	17,836	13,050	3,833	4,514	8,505	17,017
Earnings (loss) per share — basic						
From continuing operations	0.76	0.72	0.62	0.25	(0.05)	0.27
From discontinued operations	(0.10)	(0.23)	(0.47)	(0.08)	0.36	0.36
Net earnings (loss)	0.66	0.49	0.14	0.17	0.32	0.63
Earnings (loss) per share — diluted						
From continuing operations	0.76	0.71	0.61	0.25	(0.05)	0.27
From discontinued operations	(0.10)	(0.23)	(0.47)	(0.08)	0.36	0.35
Net earnings (loss)	0.65	0.48	0.14	0.17	0.31	0.62
Effective tax rate — %	35.4	35.1	32.6	28.8	(113.5)	44.2
OPERATING RATIOS						
Gross margin — %	20.5	19.8	19.7	19.3	18.4	20.3
Operating margin — %	6.1	6.1	5.6	2.4	0.7	4.8
Net margin — continuing operations — %	3.6	3.7	3.8	1.8	(0.4)	2.0
Net margin — %	3.1	2.5	0.9	1.2	2.3	4.6
Return on:						
Average shareholders' equity — %	13.5	10.9	3.4	4.0	7.6	16.6
Average invested capital — %	7.6	6.7	2.4	3.0	5.7	11.5
Average total assets — %	5.5	4.5	1.6	2.1	4.2	8.8
FUNDS FLOW DATA						
Depreciation and amortization	$ 13,122	$ 11,972	$ 12,423	$ 12,344	$ 14,407	$ 12,000
Capital expenditures	20,038	22,603	11,447	6,393	9,985	11,988
Dividends	4,453	4,154	3,841	3,584	3,505	3,248
YEAR-END DATA						
Total assets	$ 327,233	$ 317,085	$ 257,877	$ 213,372	$ 212,282	$ 196,292
Current assets	149,414	155,608	123,301	102,869	112,847	106,614
Current liabilities	83,574	90,876	92,536	61,702	63,786	48,441
Working capital	65,840	64,732	30,765	41,167	49,061	58,173
Current ratio	1.8	1.7	1.3	1.7	1.8	2.2
Long-term debt	79,102	80,566	35,688	28,419	25,267	29,398
% of invested capital	32.5	35.6	21.6	18.7	17.0	19.9
Shareholders' equity	138,922	124,628	114,062	112,336	113,780	109,050
% of invested capital	57.0	55.1	69.0	74.1	76.6	73.8
INVESTMENT INFORMATION						
Dividends per share	$ 0.165	$ 0.155	$ 0.145	$ 0.135	$ 0.130	$ 0.120
Book value per share	5.14	4.64	4.28	4.26	4.23	4.05
Price range during year:						
High	9 7/8	9 1/4	8 7/8	6 3/8	9	10 1/16
Low	6 1/2	5 3/4	5 1/8	4 1/8	4 3/4	6 5/8
Close	9 13/16	8 5/8	7 1/4	5 13/16	6 1/8	9
Price/earnings ratio at year-end	15	18	50	34	19	14
Dividend yield at year-end — %	1.7	1.9	2.0	2.3	2.1	1.3
Shares outstanding at year-end	27,034,000	26,886,000	26,624,000	26,354,000	26,922,000	26,954,000
Average monthly trading volume	1,775,740	1,613,012	518,900	644,294	1,386,058	1,212,682

FY 2001: CORPORATE INFORMATION

BOARD OF DIRECTORS

Bernard P. Aldrich, 51 [1,2]
President and
Chief Executive Officer
Rimage Corporation

Donald W. Goldfus, 67 [3]
Retired Chairman of the Board

Barbara B. Grogan, 53 [1,3]
Chairman and President
Western Industrial Contractors

Harry A. Hammerly, 67 [1]
Retired Executive Vice President
3M Company

J. Patrick Horner, 51 [1,4]
Chief Executive Officer
The Horner Group

Russell Huffer, 51
Chairman, President and
Chief Executive Officer

James L. Martineau, 60
Retired Executive Vice President

Stephen C. Mitchell, 57 [2,3]
President and
Chief Operating Officer
Lester B. Knight & Associates, Inc.

Laurence J. Niederhofer, 68 [3,4]
Retired Vice Chairman
and Chief Executive Officer
Apogee Wausau Group

R. C. Richelsen, 59 [2]
Retired Executive Vice President
3M Company

Michael E. Shannon, 64 [2,3,4]
Retired Chairman of the Board
Ecolab, Inc.

[1] *Audit Committee*
[2] *Compensation Committee*
[3] *Corporate Governance Committee*
[4] *Finance Committee*

CORPORATE OFFICERS

Russell Huffer, 51
Chairman, President and
Chief Executive Officer

Michael B. Clauer, 44
Executive Vice President and
Chief Financial Officer

Joseph T. Deckman, 57
Executive Vice President

Larry D. Stordahl, 58
Executive Vice President

Patricia A. Beithon, 47
General Counsel and Secretary

Gary R. Johnson, 39
Vice President and Treasurer

James S. Porter, 40
Corporate Controller

APOGEE BUSINESSES

Architectural Products and Services

Harmon, Inc.
Minneapolis, MN
John L. Frye
President
Additional Locations:
Atlanta, GA
Baltimore, MD
Chicago, IL
Cincinnati, OH
Cleveland, OH
Denver, CO
Detroit, MI
Indianapolis, IN
Orlando, FL
South Bend, IN
Tampa, FL
Washington, D.C.

Linetec
Wausau, WI
Rick A. Marshall
President
Additional Location:
Villa Rica, GA

Viracon
Owatonna, MN
Donald C. Pyatt
President
Additional Location:
Statesboro, GA

Wausau Window & Wall Systems
Wausau, WI
Alan A. Verploegh
President

Large-Scale Optical Technologies

Tru Vue
McCook, IL
Thomas C. Graham
President
Additional Locations:
Little Ferry, NJ
Salt Lake City, UT
Winter Park, FL

Viratec Thin Films
Faribault, MN
Erik J. Bjornard
President

Automotive Replacement Glass and Services

Harmon AutoGlass
Minneapolis, MN
Robert E. Munzenrider
President
Additional Locations:
More than 400 shops and
service centers throughout
the United States.

Viracon/Curvlite
Owatonna, MN
Robert C. Jungbluth
President

Stock Market
Apogee Enterprises, Inc. common stock is traded on the Nasdaq Stock Market under the symbol APOG.

Corporate Headquarters
7900 Xerxes Avenue South, Suite 1800
Minneapolis, MN 55431-1159
Telephone: (952) 835-1874
Fax: (952) 835-3196

Corporate Web Site
www.apog.com

Independent Auditors
Arthur Andersen LLP
Minneapolis, MN

Quarterly Calendar
The company's fiscal year ends the Saturday nearest the last day of February. Fiscal 2002 quarter-end dates are June 2, 2001, September 1, 2001, December 1, 2001 and March 2, 2002. Quarterly results are usually announced approximately three weeks after the end of each quarter, with the exception of the fourth quarter results which are announced approximately five weeks after the year-end.

Cash Dividends
Apogee has paid quarterly cash dividends in May, August, November and February since 1974.

Transfer Agent and Registrar
For inquiries regarding stock certificates, such as lost certificates, name changes and ownership transfers, contact:

The Bank of New York
Shareholder Relations, Dept. 11E
P.O. Box 11258, Church Street Station
New York, NY 10286-1258
Telephone: (800) 524-4458
E-mail: shareowner-svcs@bankofny.com
Internet: www.stockbny.com

Annual Shareholders' Meeting
The meeting will be held at 10 a.m. CDT on Tuesday, June 19, 2001, in the Lutheran Brotherhood Building Auditorium, 625 Fourth Avenue South, Minneapolis, MN. Apogee also will be webcasting the annual meeting for shareholders: Go to the Apogee Web site at http://www.apog.com, click on "investor relations" and then click on the webcast link at the top of that page at least 15 minutes prior to the 10 a.m. CDT meeting to register, download and install any necessary software.

Investor Relations Contact
Mary Ann Jackson, Director of Investor Relations
Telephone: (952) 830-0674

Investor Information
Additional information, such as Forms 10-K, 10-Q and proxy statements as filed with the Securities & Exchange Commission, and results and news releases may be obtained at no charge through one of the following:

Internet: www.apog.com
E-mail: IR@apog.com
Telephone: (952) 896-2422
Fax: (952) 896-2400
Mail: Attn: Investor Relations, Corporate Headquarters address

Multiple Accounts
Some shareholders prefer to keep their holdings in more than one account, and they are welcome to do so. However, some multiple accounts are unintentional and will occur if one stock purchase is made with the middle initial and a subsequent purchase without the middle initial. Please contact us for information on how to merge accounts.

Forward-Looking Statements
See page 20.

Quarterly Stock Prices and Dividend Rates

2001	High	Low	Dividend
First Quarter	$ 5.500	$ 3.313	$ 0.053
Second Quarter	4.531	3.250	0.053
Third Quarter	6.063	4.313	0.053
Fourth Quarter	9.500	4.625	0.053

2000	High	Low	Dividend
First Quarter	$ 13.750	$ 8.750	$ 0.053
Second Quarter	14.313	7.875	0.053
Third Quarter	8.625	5.688	0.053
Fourth Quarter	6.313	4.000	0.053

GLOSSARY OF TERMS

Auto Glass Repair. A process that bonds glass together with a UV-cured, optically matched resin to restore the windshield's strength, prevent the break from spreading, and improve the windshield's cosmetic appearance.

Black Belts. Trained managers who use Six Sigma tools and methodologies to lead and complete high-impact improvement projects.

Curtainwall. An exterior multi-story wall consisting of an aluminum framing system anchored to steel or concrete, glazed or filled with glass in the vision areas and with panels in the nonvision or spandrel areas.

Energy-Efficient Glass. Generally, insulated glass units incorporating coatings that transmit high levels of visible light while lowering the heat gain from solar energy. Insulated glass is fabricated from two or more panes of glass separated by a sealed air space and used primarily to reduce the transfer of heat or sound.

Focused Factory. A Lean Manufacturing tool that organizes factory functions around product flow to the customer and includes all related resources.

Hurricane-Resistant Glass. Glass laminated with a special composite used primarily to protect a building from wind and wind-borne debris from hurricane-force winds. To meet the safety requirements of building codes, it must pass both projectile impact and cyclic wind pressure tests.

Optical Coatings. Thin film metal oxide coatings which are sputter-deposited onto a base material such as glass. Optical coatings selectively control the reflection and transmission of light, and can provide electrical and static dissipation.

Six Sigma/Lean Thinking or Manufacturing. A business improvement process for eliminating non-value-added process steps from the customer's view (Lean) and reducing variation within processes (Six Sigma). It uses fact-based analytical tools and methodologies for preventing defects in products, processes and services, reducing cycle times and controlling costs to generate value for customers.

apogee

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