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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2001

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-20243

-----  
VALUEVISION INTERNATIONAL, INC.

-----  
(Exact name of registrant as specified in its charter)

Minnesota

41-1673770

-----  
(State or other jurisdiction of  
incorporation or organization)

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

6740 Shady Oak Road, Minneapolis, MN 55344

-----  
(Address of principal executive offices)

952-943-6000

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

Indicate by check mark whether the registrant: (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

YES [X] NO [ ]

As of September 10, 2001, there were 38,784,090 shares of the Registrant's  
common stock, \$.01 par value per share, outstanding.

=====

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES

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JULY 31, 2001

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VALUEVISION INTERNATIONAL, INC.  
AND SUBSIDIARIES CONDENSED  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)  
(In thousands, except share data)

<TABLE>  
<CAPTION>

	JULY 31, 2001 -----	JANUARY 31, 2001 -----
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 85,005	\$136,045
Short-term investments	154,875	108,678
Accounts receivable, net	55,249	61,173
Inventories, net	32,379	34,960
Prepaid expenses and other	10,033	9,298
Income taxes receivable	16,195	13,417
Deferred income taxes	3,965	3,965
	-----	-----
Total current assets	357,701	367,536
PROPERTY & EQUIPMENT, NET	33,631	33,982
NBC TRADEMARK LICENSE AGREEMENT, NET	29,981	58,386
CABLE DISTRIBUTION AND MARKETING AGREEMENT, NET	6,444	5,701
INVESTMENTS AND OTHER ASSETS, NET	42,439	44,753
DEFERRED INCOME TAXES	397	339
	-----	-----
	\$ 470,593	\$510,697
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 46,891	\$ 56,033
Accrued liabilities	20,860	19,338
	-----	-----
Total current liabilities	67,751	75,371
SERIES A REDEEMABLE CONVERTIBLE PREFERRED STOCK, \$.01 PER SHARE PAR VALUE, 5,339,500 SHARES AUTHORIZED; 5,339,500 SHARES ISSUED AND OUTSTANDING	42,040	41,900
SHAREHOLDERS' EQUITY:		
Common stock, \$.01 per share par value, 100,000,000 shares authorized; 38,733,096 and 38,578,401 shares issued and outstanding	387	386
Warrants to purchase 8,198,485 and 7,854,760 shares of		

common stock	47,467	73,170
Additional paid-in capital	286,692	286,258
Accumulated other comprehensive losses	(904)	(813)
Note receivable from officer	(3,946)	(3,863)
Retained earnings	31,106	38,288
	-----	-----
Total shareholders' equity	360,802	393,426
	-----	-----
	\$ 470,593	\$510,697
	=====	=====

</TABLE>

The accompanying notes are an integral part of these condensed consolidated balance sheets.

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VALUEVISION INTERNATIONAL, INC.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(In thousands, except share and per share data)

ENDED	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS	
	JULY 31,		JULY 31,	
	2001	2000	2001	
-----	-----	-----	-----	-----
2000				
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
NET SALES	\$ 104,784	\$ 89,511	\$ 216,763	\$
175,166				
COST OF SALES	63,498	55,777	133,208	
108,647	-----	-----	-----	-----
-----	-----	-----	-----	-----
Gross profit	41,286	33,734	83,555	
66,519	-----	-----	-----	-----
-----	-----	-----	-----	-----
Margin %	39.4%	37.7%	38.5%	
38.0%				
OPERATING EXPENSES:				
Distribution and selling	36,308	25,997	70,289	
52,137				
General and administrative	3,935	4,074	8,260	
7,886				
Depreciation and amortization	2,944	1,390	6,081	
2,717	-----	-----	-----	-----
-----	-----	-----	-----	-----
Total operating expenses	43,187	31,461	84,630	
62,740	-----	-----	-----	-----
-----	-----	-----	-----	-----
OPERATING INCOME (LOSS)	(1,901)	2,273	(1,075)	
3,779	-----	-----	-----	-----
-----	-----	-----	-----	-----
OTHER INCOME (EXPENSE):				
Loss on sale of property and investments	(23)	(1)	(415)	
(6)				
Unrealized loss on security holdings	(56)	(19)	(270)	
(63)				
Write-down of investments	(1,560)	(583)	(7,566)	
(583)				
Equity in losses of affiliates	(2,879)	(405)	(4,616)	
(407)				
Interest income	2,493	3,703	5,343	
7,464	-----	-----	-----	-----
-----	-----	-----	-----	-----

6,405	Total other income (expense)	(2,025)	2,695	(7,524)	
-----		-----	-----	-----	-----
10,184	INCOME (LOSS) BEFORE INCOME TAXES	(3,926)	4,968	(8,599)	
3,768	Income tax provision (benefit)	(2,236)	1,732	(1,886)	
-----		-----	-----	-----	-----
6,416	INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(1,690)	3,236	(6,713)	
--	Cumulative effect of accounting change	--	--	(329)	
-----		-----	-----	-----	-----
6,416	NET INCOME (LOSS)	(1,690)	3,236	(7,042)	
(139)	Accretion of redeemable preferred stock	(70)	(69)	(140)	
-----		-----	-----	-----	-----
6,277	NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ (1,760)	\$ 3,167	\$ (7,182)	\$
=====		=====	=====	=====	
0.16	NET INCOME (LOSS) PER COMMON SHARE: Before cumulative effect of accounting change	\$ (0.05)	\$ 0.08	\$ (0.18)	\$
--	Cumulative effect of accounting change	--	--	(0.01)	
-----		-----	-----	-----	-----
0.16	Net income (loss)	\$ (0.05)	\$ 0.08	\$ (0.19)	\$
=====		=====	=====	=====	
0.14	NET INCOME (LOSS) PER COMMON SHARE: - ASSUMING DILUTION: Before cumulative effect of accounting change	\$ (0.05)	\$ 0.07	\$ (0.18)	\$
--	Cumulative effect of accounting change	--	--	(0.01)	
-----		-----	-----	-----	-----
0.14	Net income (loss)	\$ (0.05)	\$ 0.07	\$ (0.19)	\$
=====		=====	=====	=====	
38,490,124	Weighted average number of common shares outstanding: Basic	38,624,727	38,566,364	38,574,919	
=====		=====	=====	=====	
47,439,565	Diluted	38,624,727	47,126,102	38,574,919	
=====		=====	=====	=====	

The accompanying notes are an integral part of these condensed consolidated financial statements.

VALUEVISION INTERNATIONAL, INC.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JULY 31, 2001  
(Unaudited)  
(In thousands, except share data)

<Table>  
<Caption>

ADDITIONAL PAID-IN CAPITAL	COMPREHENSIVE INCOME (LOSS)	COMMON STOCK		COMMON STOCK PURCHASE WARRANTS
		NUMBER OF SHARES	PAR VALUE	
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>				
BALANCE, JANUARY 31, 2001		38,578,401	\$ 386	\$ 73,170
\$ 286,258				
Comprehensive loss:				
Net loss	\$ (7,042)	--	--	--
--				
Other comprehensive income (loss), net of tax:				
Unrealized losses on securities, net of tax of \$291	(473)			
Gains on securities included in net loss, net of tax of \$109	177			
Cumulative effect of accounting change, net of tax of \$124	205			
	-----			
Other comprehensive income (loss)	(91)	--	--	--
--				
Comprehensive loss	\$ (7,133)			
	=====			
Revaluation of NBC common stock purchase warrants		--	--	(26,878)
--				
Value assigned to common stock purchase warrants		--	--	1,175
--				
Repurchases of common stock (1,274)		(105,000)	(1)	
Increase in note receivable from officers		--	--	--
--				
Exercise of stock options 1,708		259,695	2	--
Accretion on redeemable preferred stock		--	--	--
--				
-----		-----	-----	-----
BALANCE, JULY 31, 2001		38,733,096	\$ 387	\$ 47,467
\$ 286,692		-----	-----	-----

</TABLE>

<Table>  
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TOTAL SHAREHOLDERS' EQUITY	ACCUMULATED OTHER COMPREHENSIVE LOSSES	NOTE RECEIVABLE FROM OFFICER	RETAINED EARNINGS	
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>

BALANCE, JANUARY 31, 2001	\$ (813)	\$ (3,863)	\$ 38,288	\$
393,426				
Comprehensive loss:				
Net loss	--	--	(7,042)	
(7,042)				
Other comprehensive income (loss), net of tax:				
Unrealized losses on securities, net of tax of \$ 291				
Gains on securities included in net loss, net of tax of \$109				
Cumulative effect of accounting change, net of tax of \$124				
Other comprehensive income (loss)	(91)	--	--	
(91)				
Comprehensive loss				
Revaluation of NBC common stock purchase warrants	--	--	--	
(26,878)				
Value assigned to common stock purchase warrants	--	--	--	
1,175				
Repurchases of common stock	--	--	--	
(1,275)				
Increase in note receivable from officers	--	(83)	--	
(83)				
Exercise of stock options	--	--	--	
1,710				
Accretion on redeemable preferred stock	--	--	(140)	
(140)				
-----	-----	-----	-----	-
BALANCE, JULY 31, 2001	\$ (904)	\$ (3,946)	\$ 31,106	\$
360,802				
-----	-----	-----	-----	-

</TABLE>

The accompanying notes are an integral part of these condensed consolidated financial statements.

VALUEVISION INTERNATIONAL, INC.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In thousands, except share data)

<TABLE>  
<CAPTION>

	FOR THE SIX MONTHS ENDED JULY 31,	
	2001	2000
	-----	-----
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Net income (loss)	\$ (7,042)	\$
6,416		
Adjustments to reconcile net income (loss) to net cash provided by operating activities-		
Depreciation and amortization	6,081	
2,717		
Loss on sale of property and investments	415	

	Unrealized loss on security holdings	270	
63			
	Equity in losses of affiliates	4,616	
407			
	Write-down of investments	7,566	
583			
	Cumulative effect of accounting change	329	
--			
	Changes in operating assets and liabilities:		
	Accounts receivable, net	5,867	
(1,529)			
	Inventories, net	2,581	
(2,320)			
	Prepaid expenses and other	(1,362)	
(2,436)			
	Accounts payable and accrued liabilities	(7,790)	
5,190			
	Income taxes payable (receivable), net	(2,778)	
8,757			
		-----	-----
---			
	Net cash provided by operating activities	8,753	
17,854			
		-----	-----
---			
	INVESTING ACTIVITIES:		
	Property and equipment additions	(7,350)	
(10,024)			
	Proceeds from sale of investments and property	928	
362			
	Purchase of short-term investments	(147,399)	
(89,389)			
	Proceeds from sale of short-term investments	101,202	
119,779			
	Payment for investments and other assets	(7,609)	
(32,983)			
	Issuance of note receivable from officer	--	
(500)			
	Proceeds from notes receivable	--	
324			
		-----	-----
---			
	Net cash used for investing activities	(60,228)	
(12,431)			
		-----	-----
---			
	FINANCING ACTIVITIES:		
	Payments for repurchases of common stock	(1,275)	-
-			
	Proceeds from exercise of stock options and warrants	1,710	
2,311			
		-----	-----
---			
	Net cash provided by financing activities	435	
2,311			
		-----	-----
---			
	Net increase (decrease) in cash and cash equivalents	(51,040)	
7,734			
	BEGINNING CASH AND CASH EQUIVALENTS	136,045	
138,221			
		-----	-----
---			
	ENDING CASH AND CASH EQUIVALENTS	\$ 85,005	\$
145,955			
		=====	
=====			
	SUPPLEMENTAL CASH FLOW INFORMATION:		
	Interest paid	\$ 23	\$
23			
		=====	
=====			
	Income taxes paid	\$ 908	\$
11			
		=====	
=====			
	SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		

-	Revaluation of common stock purchase warrants	\$ 26,878	\$ -
=====		=====	
=====			
-	Issuance of 343,725 warrants in connection with NBC Distribution and Marketing Agreement	\$ 1,175	\$ -
=====		=====	
=====			
139	Accretion of redeemable preferred stock	\$ 140	\$
=====		=====	
</TABLE>			

The accompanying notes are an integral part of these condensed consolidated financial statements.

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JULY 31, 2001  
(Unaudited)

(1) GENERAL

ValueVision International, Inc. and its Subsidiaries ("ValueVision" or the "Company") is an integrated direct marketing company that markets its products directly to consumers through various forms of electronic media. The Company's operating strategy incorporates television home shopping, Internet e-commerce, vendor programming sales and fulfillment services.

The Company's television home shopping business uses on-air television home shopping personalities to market brand name merchandise and proprietary / private label consumer products at competitive prices. The Company's live 24-hour per day television home shopping programming is distributed primarily through long-term cable and satellite affiliation agreements and the purchase of month-to-month full and part-time block lease agreements of cable and broadcast television time. In addition, the Company distributes its programming through Company-owned low power television ("LPTV") stations. The Company also complements its television home shopping business by the sale of merchandise through its Internet shopping website (www.shopnbc.com) which sells a broad array of merchandise and simulcasts its television home shopping show live 24 hours a day, 7 days a week.

The Company rebranded its growing home shopping network and companion Internet shopping website as "ShopNBC" and "ShopNBC.com", respectively, in fiscal 2001 as part of a wide-ranging direct marketing strategy the Company is pursuing in conjunction with certain of its strategic partners. This rebranding is intended to position ValueVision as a multimedia retailer, offering consumers an entertaining, informative and interactive shopping experience, and position the Company as a leader in the evolving convergence of television and the Internet. On November 16, 2000, the Company entered into an exclusive license agreement with National Broadcasting Company, Inc. ("NBC") pursuant to which NBC granted ValueVision worldwide use of an NBC-branded name and the Peacock image for a ten-year period. The new ShopNBC name will be promoted as part of a wide-ranging marketing campaign that the Company intends to launch in the second half of 2001. ValueVision's original intent was to re-launch its television network and companion Internet website under the SnapTV and SnapTV.com brand names, respectively, in conjunction with NBC Internet, Inc. ("NBCi"). On June 12, 2000, NBCi announced a strategy to integrate all of its consumer properties under the single NBCi.com brand, effectively abandoning the Snap name. This led to ValueVision's search for an alternative rebranding strategy culminating in the license agreement with NBC. In mid-1999, the Company founded ValueVision Interactive, Inc. as a wholly-owned subsidiary of the Company to manage and develop the Company's Internet e-commerce initiatives.

The Company, through its wholly-owned subsidiary, VVI Fulfillment Center, Inc. ("VVIFC"), provides fulfillment, warehousing and telemarketing services on a cost plus basis to Ralph Lauren Media, LLC ("RLM"). VVIFC's services agreement was entered into in conjunction with the execution of the Company's investment and electronic commerce alliance entered into with Polo Ralph Lauren Corporation, NBC and other NBC affiliates.

(2) BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures



normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim condensed consolidated financial statements includes normal recurring accruals and reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto included in its fiscal 2000 Annual Report on Form 10-K. Operating results for the six-month period ended July 31, 2001 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2002.

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(3) NET INCOME (LOSS) PER COMMON SHARE

The Company calculates earnings per share ("EPS") in accordance with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128"). Basic EPS is computed by dividing reported earnings by the weighted average number of common shares outstanding for the reported period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock of the Company during reported periods.

A reconciliation of EPS calculations under SFAS No. 128 is as follows:

	THREE MONTHS ENDED JULY 31,		SIX MONTHS ENDED JULY 31,	
	2001	2000	2001	2000
<hr/>				
<S>	<C>		<C>	
Net income (loss) available to common shareholders	\$	\$	\$	\$
6,277,000	(1,760,000)	3,167,000	(7,182,000)	
<hr/>				
Weighted average number of common shares outstanding - Basic	38,625,000	38,566,000	38,575,000	
38,490,000				
Dilutive effect of convertible preferred stock	--	5,340,000	--	
5,340,000				
Dilutive effect of stock options and warrants	--	3,220,000	--	
3,610,000				
<hr/>				
Weighted average number of common shares outstanding - Diluted	38,625,000	47,126,000	38,575,000	
47,440,000				
<hr/>				
Net income (loss) per common share	\$	\$	\$	\$
0.16	(0.05)	0.08	(0.19)	
<hr/>				
Net income (loss) per common share - assuming dilution	\$	\$	\$	\$
0.14	(0.05)	0.07	(0.19)	
<hr/>				

For the quarters ended July 31, 2001 and 2000, respectively, 11,192,000 and 1,755,000 potentially dilutive common shares have been excluded from the computation of diluted earnings per share, as required under SFAS No. 128, as the effect of their inclusion would be antidilutive.

(4) COMPREHENSIVE INCOME (LOSS)

The Company reports comprehensive income (loss) in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for reporting in the financial statements all changes in equity during a period, except those resulting from investments by and distributions to owners. For the Company, comprehensive income (loss) includes net income (loss) and other comprehensive income (loss), which consists of unrealized holding gains and losses from equity investments classified as "available-for-sale". Total comprehensive loss was (\$2,046,000) and (\$1,692,000) for the three months ended July 31, 2001 and 2000, respectively. Total comprehensive loss was (\$7,133,000) and (\$13,158,000) for the six months ended July 31, 2001 and 2000, respectively.

#### (5) SEGMENT DISCLOSURES

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), requires the disclosure of certain information about operating segments in financial statements. The Company's reportable segments are based on the Company's method of internal reporting, which through fiscal 2000 segregated the strategic business units into two segments: electronic media and print media. In fiscal 1999, the Company sold its remaining direct-mail catalog subsidiaries and exited from the print media business segment. The Company's remaining business units, which are categorized as the electronic media segment, consist primarily of the Company's television home shopping business and Internet shopping website business. Management has reviewed the provisions of SFAS No. 131 and determined that the Company meets the aggregation criteria as outlined in the Statement since the Company's remaining business units have similar customers, products and sales processes. As a result, the Company now reports as a single business segment.

#### (6) NBC TRADEMARK LICENSE AGREEMENT

In November 2000, the Company entered into a Trademark License Agreement with NBC pursuant to which NBC granted the Company an exclusive, worldwide license for a term of 10 years to use certain NBC trademarks, service marks and domain names to rebrand the Company's business and corporate name on terms and conditions set forth in the License Agreement. In connection with the License Agreement, the Company issued to NBC warrants to purchase 6,000,000 shares of the Company's common stock at an exercise price of \$17.375 per share. The original fair value assigned to the NBC License Agreement and related warrants was determined pursuant to an independent appraisal. At the date of the agreement, a measurement date had not yet been established and the Company revalued the Trademark License and warrants to \$59,629,000, the estimated fair value as of January 31, 2001, including professional fees. The Trademark License asset is being amortized on a straight-line basis over the ten-year term of the agreement. In March 2001, the Company established a measurement date with respect to the NBC Trademark License Agreement by amending the agreement, and fixed the fair value of the Trademark License asset at \$32,837,000, which is being amortized over the remaining term of the Trademark License Agreement.

#### (7) EQUITY INVESTMENTS

As of July 31, 2001, the Company had equity investments totaling approximately \$40,334,000 of which \$32,602,000 related to the Company's investment in RLM after adjusting for the Company's equity share of RLM losses under the equity method of accounting. At July 31, 2001, investments in the accompanying consolidated balance sheet also include approximately \$5,721,000 related to equity investments made in companies whose shares are traded on a public exchange. Investments in common stock are classified as "available-for-sale" investments and are accounted for under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No.115"). Investments in the form of stock purchase warrants are accounted for under the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No.133") as discussed in Note 10. In addition to the Company's investment in RLM, investments at July 31, 2001 include certain other nonmarketable equity investments in private and other enterprises totaling approximately \$2,011,000 which are carried at the lower of cost or net realizable value.

In February 2000, the Company entered into a strategic alliance with Polo Ralph Lauren, NBC, NBCi and CNBC.com and created RLM, a joint venture formed for the purpose of bringing the Polo Ralph Lauren American lifestyle experience to consumers via multiple platforms, including the Internet, broadcast, cable and print. The Company owns a 12.5% interest in RLM. In connection with forming this strategic alliance, the Company has committed to provide up to \$50 million of cash for purposes of financing RLM's operating activities of which approximately \$42 million has been funded through July 31, 2001. Currently, the Company's investment in RLM is \$32,602,000 after adjusting for the Company's equity share

of RLM's losses under the equity method of accounting. The RLM joint venture is still considered a start-up venture and to date has incurred significant operating losses since it commenced operations in November 2000. Being a minority shareholder, the Company does not have direct control over the strategic operational direction of this joint venture. No assurance can be given that this alliance will be successful or that the Company will be able to ultimately realize any return on its ownership interest in RLM. The Company has also committed and spent significant resources totaling over \$12 million to develop facilities to allow the Company to fulfill its service obligations to RLM. There can be no assurance that the Company will recover its costs for developing and constructing these facilities and, if the alliance were not successful, the Company would have limited ability to recover such costs.

The Company evaluates the carrying values of its investments using recent financing and securities transactions, present value and other pricing models, as well as by evaluating financial condition, liquidity prospects, cash flow forecasts and comparing operating results to plan. Impairment losses are recorded if events or circumstances indicate that such investments may be impaired and the decline in value is other than temporary. In the first half of fiscal 2001, the Company recorded pre-tax investment losses totaling \$7,566,000 of which \$6,006,000 related to the write-off of the Company's investment in Internet company Wine.com pursuant to its announced employee layoff, sale of assets to eVineyard.com and subsequent dissolution. The declines in fair value were determined by the Company to be other than temporary.

#### (8) NBC DISTRIBUTION WARRANTS

In the first quarter ended April 30, 2001, the Company issued to NBC warrants to purchase 343,725 shares of the Company's common stock at an exercise price of \$23.07 per share. The warrants were issued in connection with the Company's Distribution and Marketing Agreement with NBC which provides that warrants will be granted at current market prices upon the achievement of specific goals in connection with distribution of the Company's television programming with respect to FTE subscriber homes. The

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warrants are immediately exercisable, and have a term of 5 years. The fair value assigned to the distribution warrants of \$1,175,000, was determined using the Black Scholes warrant valuation model and is being amortized over the seven-year weighted average term of the new distribution agreements.

#### (9) RELATED PARTY TRANSACTION

At July 31, 2001 the Company held a note receivable totaling \$3,946,000, including interest (the "Note") from an officer of the Company for a loan made in accordance with provisions set forth in such officer's employment agreement with the Company. The Note is reflected as a reduction of shareholders' equity in the accompanying consolidated balance sheet as the Note is collateralized by a security interest in vested stock options and in shares of the Company's common stock to be acquired by the officer upon the exercise of such vested stock options.

#### (10) ADOPTION OF SFAS NO. 133

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", establishes accounting and reporting standards requiring that derivative instruments, as defined in the standard, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires changes in the derivative's fair value to be recognized currently in earnings unless specific hedge accounting criteria are met. The Company adopted the provisions of SFAS No. 133, as amended, effective February 1, 2001. The impact of the initial adoption of SFAS No. 133 was (\$329,000) and is reflected in the consolidated statement of operations as a cumulative effect of change in accounting principle. For the six-month period ended July 31, 2001, the Company also recorded unrealized losses on security holdings of (\$270,000) relating to fair value adjustments made with respect to derivative common stock purchase warrants held by the Company.

#### (11) 2001 OMNIBUS STOCK PLAN

In June 2001, the shareholders of the Company voted to approve the 2001 Omnibus Stock Plan (the "2001 Plan"), which provides for the issuance of up to 3,000,000 shares of the Company's common stock. The 2001 Plan is administered by the Company's Compensation Committee (the "Committee") and has two basic components, discretionary options for employees and consultants and options for outside directors. All employees of the Company or its affiliates are eligible to receive awards under the 2001 Plan. The Committee may also award nonstatutory stock options under the 2001 Plan to individuals or entities who are not employees but who provide services to the Company in capacities such as advisors, directors and consultants. The types of awards that may be granted under the 2001 Plan include restricted and unrestricted stock, incentive and

nonstatutory stock options, stock appreciation rights, performance units and other stock-based awards. Incentive stock options may be granted to participants at such exercise prices as the Committee may determine but not less than 100% of the fair market value of the underlying stock as of the date of grant. With respect to incentive stock options, no stock option may be granted more than ten years after the effective date of the 2001 Plan or be exercisable more than ten years after the date of grant. The 2001 Plan also provides for additional restrictions on incentive stock options granted to an individual who beneficially owns 10% or more of the outstanding shares of the Company. The 2001 Plan also provides for option grants on an annual basis to each outside director of the Company. All options granted to outside directors pursuant to the 2001 Plan are nonstatutory stock options with an exercise price equal to 100% of the fair market value of the underlying stock as of the date of grant.

#### (12) COMMON STOCK REPURCHASE PROGRAM

In the second quarter of fiscal 2001, the Company's Board of Directors authorized a \$25 million common stock repurchase program whereby the Company may repurchase shares of its common stock in the open market and through negotiated transactions, at prices and times deemed to be beneficial to the long-term interests of shareholders and the Company. The repurchase program is subject to applicable securities laws and may be discontinued at any time without any obligation or commitment by the Company to repurchase all or any portion of the shares covered by the authorization. The Company initiated the purchasing of shares under the new stock purchase program in late August 2001. In the first quarter of fiscal 2001, the Company had repurchased 105,000 shares of its common stock under a previously authorized stock repurchase program for a total net cost of \$1,275,000.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### INTRODUCTION

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's accompanying unaudited condensed consolidated financial statements and notes included herein and the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2001.

#### SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

<TABLE>

<CAPTION>

	DOLLAR AMOUNT AS A PERCENTAGE OF NET SALES FOR THE THREE MONTHS ENDED JULY 31,		DOLLAR AMOUNT AS A PERCENTAGE OF NET SALES FOR THE SIX MONTHS ENDED JULY 31,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
NET SALES	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====
GROSS MARGIN	39.4%	37.7%	38.5%	38.0%
	-----	-----	-----	-----
Operating expenses:				
Distribution and selling	34.6%	29.0%	32.4%	29.7%
General and administrative	3.8%	4.6%	3.8%	4.5%
Depreciation and amortization	2.8%	1.6%	2.8%	1.6%
	-----	-----	-----	-----
	41.2%	35.2%	39.0%	35.8%
	-----	-----	-----	-----
Operating income (loss)	(1.8)%	2.5%	(0.5)%	2.2%
	=====	=====	=====	=====

</TABLE>

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

### OVERVIEW

ValueVision International, Inc. and its Subsidiaries ("ValueVision" or the "Company") is an integrated direct marketing company that markets its products directly to consumers through various forms of electronic media. The Company's operating strategy incorporates television home shopping, Internet e-commerce, vendor programming sales and fulfillment services.

The Company's television home shopping business uses on-air television home shopping personalities to market brand name merchandise and proprietary / private label consumer products at competitive prices. The Company's live 24-hour per day television home shopping programming is distributed primarily through long-term cable and satellite affiliation agreements and the purchase of month-to-month full and part-time block lease agreements of cable and broadcast television time. In addition, the Company distributes its programming through Company-owned low power television ("LPTV") stations. The Company also complements its television home shopping business by the sale of merchandise through its Internet shopping website (www.shopnbc.com) which sells a broad array of merchandise and simulcasts its television home shopping show live 24 hours a day, 7 days a week.

The Company rebranded its growing home shopping network and companion Internet shopping website as "ShopNBC" and "ShopNBC.com", respectively, in fiscal 2001 as part of a wide-ranging direct marketing strategy the Company is pursuing in conjunction with certain of its strategic partners. This rebranding is intended to position ValueVision as a multimedia retailer, offering consumers an entertaining, informative and interactive shopping experience, and position the Company as a leader in the evolving convergence of television and the Internet. On November 16, 2000, the Company entered into an exclusive license agreement with National Broadcasting Company, Inc. ("NBC") pursuant to which NBC granted ValueVision worldwide use of an NBC-branded name and the Peacock image for a ten-year period. The new ShopNBC name will be promoted as part of a wide-ranging marketing campaign that the Company intends to launch in the second half of 2001. ValueVision's original intent was to re-launch its television network and companion Internet website under the SnapTV and SnapTV.com brand names, respectively, in conjunction with NBC Internet, Inc. ("NBCi"). On June 12, 2000, NBCi announced a strategy to integrate all of its consumer properties under the single NBCi.com brand, effectively abandoning the Snap name. This led to ValueVision's search for an alternative rebranding strategy culminating in the license agreement with NBC. In mid-1999, the Company founded ValueVision Interactive, Inc. as a wholly-owned subsidiary of the Company to manage and develop the Company's Internet e-commerce initiatives.

The Company, through its wholly-owned subsidiary, VVI Fulfillment Center, Inc. ("VVIFC"), provides fulfillment, warehousing and telemarketing services on a cost plus basis to Ralph Lauren Media, LLC ("RLM"). VVIFC's services agreement was entered into in conjunction with the execution of the Company's investment and electronic commerce alliance entered into with Polo Ralph Lauren Corporation, NBC and other NBC affiliates.

#### WRITE-DOWN OF INVESTMENTS

In the first half of fiscal 2001, the Company recorded pre-tax investment losses totaling \$7,566,000, of which \$6,006,000 related to the write-off of the Company's investment in Internet company Wine.com pursuant to its announced employee layoff, sale of assets to eVineyard.com and subsequent dissolution. The declines in fair value were determined by the Company to be other than temporary.

#### RESULTS OF OPERATIONS

##### NET SALES

Consolidated net sales, inclusive of shipping and handling revenue (reclassified effective January 31, 2001 per EITF Issue No. 00-10) for the three months ended July 31, 2001 (fiscal 2001) were \$104,784,000 compared with net sales of \$89,511,000 for the three months ended July 31, 2000 (fiscal 2000), a 17% increase. Consolidated net sales, inclusive of shipping and handling revenue for the six months ended July 31, 2001 were \$216,763,000 compared with \$175,166,000 for the six months ended July 31, 2000, a 24% increase. The increase in net sales is directly attributable to the continued improvement in and increased sales from the Company's television home shopping and Internet operations, as well as a result of amounts billed for fulfillment services provided in connection with the Company's service agreement with Ralph Lauren Media. Net sales attributed to the Company's television home shopping and Internet businesses increased 17% to \$102,676,000 for the quarter ended July 31, 2001 from \$88,107,000 for the comparable prior year period. On a year-to-date basis, net sales attributed to the Company's television home shopping and Internet businesses increased

the comparable prior year period. The challenging retail economic environment currently being experienced by the Company and other merchandise retailers has had a negative affect on total net sales growth for the quarter and year-to-date periods. The growth in home shopping net sales is primarily attributable to the growth in FTE homes receiving the Company's television programming which increased by 9 million homes since December 2000, however, the complete net sales impact and productivity from these additional homes is still to be realized as these additional new homes have yet to mature. During the 12-month period ended July 31, 2001, the Company added approximately 12.0 million FTE subscriber homes, a 43% increase. In addition to new FTE subscriber homes, television home shopping and Internet sales increased due to the continued addition of new customers from households already receiving the Company's television home shopping programming, an increase in the average order size and a 283% year-to-date increase in Internet sales over the prior year. The Company intends to continue to test and change its merchandising and programming strategies with the goal of improving its television home shopping and Internet sales results. However, while the Company is optimistic that television home shopping and Internet sales results will continue to improve, there can be no assurance that such changes in strategy will achieve the intended results.

#### GROSS PROFITS

Gross profits for the second quarter ended July 31, 2001 and 2000 were \$41,286,000 and \$33,734,000, respectively, an increase of \$7,552,000 or 22%. Gross margins for the three months ended July 31, 2001 and 2000 were 39.4% and 37.7%, respectively. Gross profits for the six months ended July 31, 2001 and 2000 were \$83,555,000 and \$66,519,000, respectively, an increase of \$17,036,000 or 26%. Gross margins for the six months ended July 31, 2001 and 2000 were 38.5% and 38.0%, respectively. The principal reason for the increase in gross profits was the increased sales volume from the Company's television home shopping and Internet businesses. In addition, gross profits increased from amounts billed for fulfillment services to Ralph Lauren Media. Overall, second quarter and year-to-date television and Internet gross margins between comparable periods improved over prior year primarily as a result of improved and favorable vendor pricing on jewelry merchandise and increases in the gross margin percentages in the electronics/computer product category.

#### OPERATING EXPENSES

Total operating expenses for the three and six months ended July 31, 2001 were \$43,187,000 and \$84,630,000, respectively, versus \$31,461,000 and \$62,740,000 for the comparable prior year periods. Distribution and selling expense increased \$10,311,000 or 40% to \$36,308,000 or 35% of net sales during the second quarter of fiscal 2001 compared to \$25,997,000 or 29% of net sales for the comparable prior-year period. Distribution and selling expense increased \$18,152,000 or 35% to \$70,289,000 or 32% of net sales for the six months ended July 31, 2001 compared to \$52,137,000 or 30% of net sales for the comparable prior-year period. Distribution and selling expense increased primarily as a result of increases in net cable access fees due to a 41% year-to-date increase in the number of average FTE subscribers over the prior year, increased marketing and advertising fees, and increased costs associated with credit card processing and telemarketing primarily resulting from increased sales. Distribution and selling expense increased as a percentage of net sales over the prior year primarily as a result of the Company's fixed cable access fee expense base growing at a faster rate than the related incremental increase in television home shopping net sales, which is to be expected from the increased subscriber carriage over the prior year.

General and administrative expense for the three months ended July 31, 2001 decreased \$139,000 or 3% to \$3,935,000 or 4% of net sales compared to \$4,074,000 or 5% of net sales for the three months ended July 31, 2000. For the six months ended July 31, 2001, general and administrative expense increased \$374,000 or 5% to \$8,260,000 or 4% of net sales compared to \$7,886,000 or 5% of net sales for the six months ended July 31, 2000. On a year to date basis, general and administrative expense increased from the prior year primarily as a result of increases in personnel costs, travel and information systems costs, including increased consulting and placement fees. General and administrative expense as a percentage of net sales decreased over prior year as a result of expenses growing at a slower rate than the increase in television home shopping and Internet net sales over the prior year due to tight management control over spending.

Depreciation and amortization expense for the three months ended July 31, 2001 was \$2,944,000 versus \$1,390,000, representing an increase of \$1,554,000 or 112% from the comparable prior-year period. Depreciation and amortization expense for the six months ended July 31, 2001 was \$6,081,000 versus \$2,717,000, representing an increase of \$3,364,000 or 124% from the comparable prior-year period. Depreciation and amortization expense as a percentage of net sales for the three and six months ended July 31, 2001 and 2000 were 3% and 2%, each, respectively. The dollar increase is primarily due to additional amortization incurred in fiscal 2001 in connection with the Company's NBC Trademark License Agreement and increased depreciation associated with the Company's fixed assets and fulfillment service obligations with RLM.

## OPERATING INCOME (LOSS)

For the three months ended July 31, 2001, the Company reported an operating loss of \$1,901,000 compared to operating income of \$2,273,000 for the three months ended July 31, 2000, a decrease of \$4,174,000. For the six months ended July 31, 2001, the Company reported an operating loss of \$1,075,000 compared to operating income of \$3,779,000, a decrease of \$4,854,000. Operating income decreased from prior year primarily as a result of the Company achieving less than expected sales levels in the second quarter coupled with increased distribution and selling expenses, particularly net cable access fees for which the expense of adding approximately 9 million new homes over the last six months is being incurred but the future revenue benefit and productivity of these additional homes is yet to be realized. The net sales shortfall has been a direct result of the challenging economic environment in general and soft retail market in particular. In addition, operating income also decreased as a result of increased amortization expense associated with the Company's Trademark License Agreement with NBC and increases in depreciation associated with the Company's fixed assets and fulfillment obligations with RLM. Second quarter and year to date operating expense increases were offset by the increase in net sales and gross profits reported by the Company's television home shopping and Internet businesses.

## NET INCOME (LOSS)

For the three months ended July 31, 2001, the Company reported a net loss available to common shareholders of \$1,760,000 or \$.05 per share on 38,625,000 weighted average common shares outstanding, compared with net income available to common shareholders of \$3,167,000 or \$.07 per share on 47,126,000 diluted weighted average common shares outstanding (\$.08 per share on 38,566,000 basic shares) for the quarter ended July 31, 2000. The net loss available to common shareholders for the quarter ended July 31, 2001 includes a pre-tax loss of \$1,560,000 related to the write off of certain pre-2000 investments whose decline in fair value was determined to be other than temporary and pre-tax losses totaling \$79,000 recorded on the sale and holdings of the Company's property and other investments. For the quarter ended July 31, 2001, the net loss available to common shareholders also included a pre-tax loss of \$2,879,000 related to the Company's equity interest in RLM and interest income totaling \$2,493,000 earned on the Company's cash and short-term investments. Net income available to common shareholders for the quarter ended July 31, 2000 includes pre-tax losses totaling \$603,000 recorded on the sale and holdings of the Company's property and investments. For the quarter ended July 31, 2000, net income available to common shareholders also included a pre-tax loss of \$405,000 related to the Company's equity interest in RLM and interest income totaling \$3,703,000.

Excluding the net one-time gains/losses on the sale and holdings of property and investments and other one-time charges/benefits, the net loss available to common shareholders for the quarter ended July 31, 2001 totaled \$1,464,000, or \$.04 per share compared to net income available to common shareholders of \$3,540,000, or \$.08 per diluted share (\$.09 per basic share) for the quarter ended July 31, 2000.

For the six months ended July 31, 2001, the Company reported a net loss available to common shareholders of \$7,182,000 or \$.19 per share on 38,575,000 weighted average common shares outstanding, compared with net income available to common shareholders of \$6,277,000 or \$.14 per share on 47,440,000 diluted weighted average common shares outstanding (\$.16 per share on 38,490,000 basic shares) for the six months ended July 31, 2000. The net loss available to common shareholders for the six months ended July 31, 2001 includes a pre-tax loss of \$7,566,000 related primarily to the write-down of the Company's investment in Internet retailer Wine.com and other investments whose decline in fair values were determined by the Company to be other than temporary and pre-tax losses totaling \$685,000 recorded on the sale and holdings of the Company's property and other investments. For the six months ended July 31, 2001, the net loss available to common shareholders also included a pre-tax loss of \$4,616,000 related to the Company's equity interest in RLM, a loss of \$329,000 relating to the cumulative effect of adopting SFAS No. 133 and interest income totaling \$5,343,000 earned on the Company's cash and short-term investments. Net income available to common shareholders for the six months ended July 31, 2000 includes pre-tax losses totaling \$652,000 recorded on the sale and holdings of the Company's property and investments. For the six months ended July 31, 2000, net income available to common shareholders also included a pre-tax loss of \$407,000 related to the Company's equity interest in RLM and interest income totaling \$7,464,000.

Excluding the net one-time gains/losses on the sale and holdings of property and investments and other one-time charges/benefits, the net loss available to common shareholders for the six months ended July 31, 2001 totaled \$195,000, or \$.01 per share compared to net income available to common shareholders of \$6,648,000, or \$.14 per diluted share (\$.17 per basic share) for the six months

ended July 31, 2000.

The Company's year-to-date effective tax rate is lower than its historical effective tax rate as a result of the timing of future tax benefits relating to certain investments written down during the first half of fiscal 2001 and an increase in the mix of interest income

generated from tax-free, short-term investments over prior year offset by a tax benefit recorded in the second quarter relating to a previously written off capital investment.

#### PROGRAM DISTRIBUTION

The Company's television home-shopping programming was available to approximately 47.6 million homes as of July 31, 2001, as compared to 42.6 million homes as of January 31, 2001 and to 36.0 million homes as of July 31, 2000. The Company's programming is currently available through affiliation and time-block purchase agreements with approximately 560 cable or satellite systems. In addition, the Company's programming is available unscrambled to homes equipped with satellite dishes and is broadcast full-time over eleven Company-owned, low-power television stations in major markets. As of July 31, 2001 and 2000, the Company's programming was available to approximately 39.7 million and 27.7 million FTE households, respectively. As of January 31, 2001, the Company's programming was available to 34.2 million FTE households. Approximately 33.9 million and 18.7 million households at July 31, 2001 and 2000, respectively, received the Company's programming on a full-time basis. Homes that receive the Company's television home shopping programming 24 hours per day are counted as one FTE each and homes that receive the Company's programming for any period less than 24 hours are counted based upon an analysis of time of day and day of week. The Company's television home shopping programming is also broadcast live 24 hours a day, 7 days a week through its Internet shopping website ([www.shopnbc.com](http://www.shopnbc.com)) which is not included in total FTE households.

#### FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 2001, cash and cash equivalents and short-term investments were \$239,880,000, compared to \$244,723,000 as of January 31, 2001, a \$4,843,000 decrease. For the six months ended July 31, 2001, working capital decreased \$2,215,000 to \$289,950,000 driven primarily from the reduction in cash and cash equivalents and short-term investments. The current ratio was 5.3 at July 31, 2001 compared to 4.9 at January 31, 2001. At July 31, 2001, short-term investments and cash equivalents were invested primarily in money market funds, high quality commercial paper with original maturity dates of less than two hundred and seventy (270) days and investment grade corporate and municipal bonds and other tax advantaged certificates with original maturity dates and/or tender option terms ranging from one month to one year. The average maturity of the Company's investment portfolio is approximately 30 days.

Total assets at July 31, 2001 were \$470,593,000, compared to \$510,697,000 at January 31, 2001. Shareholders' equity was \$360,802,000 at July 31, 2001, compared to \$393,426,000 at January 31, 2001, a \$32,624,000 decrease. The decrease in shareholders' equity and total assets for the six-month period ended July 31, 2001 resulted primarily from the \$26,878,000 revaluation of common stock purchase warrants granted to NBC in connection with the Company's NBC Trademark License Agreement pursuant to the establishment of a fixed measurement date. Shareholders' equity also decreased as a result of recording a \$7,042,000 net loss for the six-month period primarily attributable to write downs of historical investments. In addition, shareholders' equity also decreased \$1,275,000 in connection with the Company's first quarter repurchase of 105,000 common shares under a previously authorized stock repurchase plan, \$83,000 relating to increased notes receivable from officers, the recording of net unrealized losses on investments classified as "available-for-sale" totaling \$91,000 and accretion on redeemable preferred stock of \$140,000. These decreases were offset by increases in shareholders' equity relating to the issuance of 343,725 common stock purchase warrants valued at \$1,175,000 to NBC and by proceeds received of \$1,710,000 related to the exercise of stock options.

For the six-month period ended July 31, 2001, net cash provided by operating activities totaled \$8,753,000 compared to net cash provided by operating activities of \$17,854,000 for the six-month period ended July 31, 2000. Cash flows from operations after adding back depreciation and amortization expense, which the Company defines as EBITDA, was a positive \$5,006,000 for the six months ended July 31, 2001, compared to a positive \$6,496,000 for the same prior-year period. Net cash provided by operating activities for the six months ended July 31, 2001 reflects a net loss, as adjusted for depreciation and amortization, write-down of investments, unrealized losses on security holdings, equity in losses of affiliates, the cumulative effect of adopting SFAS No. 133 and losses on the sale of property and investments. In addition, net cash provided by operating activities for the six months ended July 31, 2001 reflects



decreases in accounts receivable and inventories, offset by an increase in income taxes receivable, prepaid expenses and a decrease in accounts payable and accrued liabilities. Accounts receivable decreased primarily due to the timing of customer collections made pursuant to the "ValuePay" installment program, a reduction in sales made utilizing extended payment terms, decreased vendor airtime receivables and decreased interest receivable resulting from lower interest rates driven by reductions in federal funds rates. Inventories decreased from year-end due to the timing of merchandise receipts, typical lower inventory levels during the second quarter summer season and aggressive management of inventory. The decrease in accounts payable and accrued liabilities is a direct result of the decrease in inventory levels and the timing of vendor payments.

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Net cash used for investing activities totaled \$60,228,000 for the six months ended July 31, 2001, which was primarily offset by an increase in short-term investments of \$46,197,000, compared to net cash used for investing activities of \$12,431,000 for the six months ended July 31, 2000. For the six months ended July 31, 2001 and 2000, expenditures for property and equipment were \$7,350,000 and \$10,024,000, respectively. Expenditures for property and equipment during the periods ended July 31, 2001 and 2000 primarily include capital expenditures made for the upgrade and conversion of new computer software, related computer equipment and other office equipment, warehouse equipment, production equipment and expenditures on leasehold improvements. Principal future capital expenditures include the upgrade of television production and transmission equipment and the upgrade and replacement of computer software, systems and related computer equipment associated with the expansion of the Company's home shopping business and e-commerce initiatives. In the first six months of fiscal 2001, the Company invested \$147,399,000 in various short-term investments, received proceeds of \$101,202,000 from the sale of short-term investments, received proceeds of \$928,000 from the sale of property and investments and made disbursements of \$7,609,000 for certain investments and other long-term assets primarily related to the Company's equity interest in RLM. In the first six months of fiscal 2000, the Company invested \$89,389,000 in various short-term investments, received proceeds of \$119,779,000 from the sale of short-term investments, made disbursements of \$32,983,000 for certain investments and other assets, made a \$500,000 loan to an officer of the Company, received proceeds of \$362,000 from the sale of property and investments and received proceeds of \$324,000 in connection with the repayment of outstanding notes receivable.

Net cash provided by financing activities totaled \$435,000 for the six months ended July 31, 2001 and related primarily to cash proceeds received totaling \$1,710,000 from the exercise of stock options offset by payments made of \$1,275,000 in conjunction with the repurchase of 105,000 shares of the Company's common stock in the first quarter at an average price of \$12.14 per share. Net cash provided by financing activities totaled \$2,311,000 for the six months ended July 31, 2000 and related to proceeds received from the exercise of stock options.

Management believes that funds currently held by the Company will be sufficient to fund the Company's operations, anticipated capital expenditures, strategic investments and cable launch fees over the next twelve months.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Information contained in this Form 10-Q and in other materials filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company) contain various "forward-looking statements" within the meaning of federal securities laws which represent management's expectations or beliefs concerning future events. These statements are based on management's current expectations and are accordingly subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained herein due to various important factors, including (but not limited to): consumer spending and debt levels; interest rates; seasonal variations in consumer purchasing activities; competitive pressures on sales; pricing and gross profit margins; the level of cable and satellite distribution for the Company's programming and fees associated therewith; the success of the Company's e-commerce and rebranding initiatives; the performance of the Company's equity investments; the success of the Company's strategic alliances and relationships; the performance of Ralph Lauren Media and the Company's ultimate return on this investment; the ability of the Company to manage its operating expenses successfully; risks associated with acquisitions; changes in governmental or regulatory requirements; litigation or governmental proceedings affecting the Company's operations; and the ability of the Company to obtain and retain key executives and employees. Investors are cautioned that all forward-looking statements involve risk and uncertainty and the Company is under no obligation (and expressly disclaims any such obligation to) update or alter

its forward-looking statements whether as a result of new information, future events or otherwise.

In addition to any specific risks and uncertainties discussed in this Form 10-Q, the risks and uncertainties discussed in detail in the Company's Form 10-K for the fiscal year ended January 31, 2001, specifically under the caption entitled "Risk Factors", provide information which should be considered in evaluating any of the Company's forward-looking statements. In addition, the facts and circumstances that exist when any forward-looking statements are made and on which those forward-looking statements are based may significantly change in the future, thereby rendering obsolete the forward-looking statements on which such facts and circumstances were based.

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#### VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES

### PART II OTHER INFORMATION

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of shareholders of ValueVision International, Inc. pursuant to due call by the Board of Directors was held on June 21, 2001. Shareholders holding 40,818,786 shares (common and preferred shares), or approximately 92.94% of the outstanding shares, were represented at the meeting by proxy or in person. Matters submitted at the meeting for vote by the shareholders were as follows:

##### (a) Election of Directors

The following nominees were elected with the following votes to serve as members of the Board of Directors until the next annual meeting of shareholders in 2002 or until such time as a successor may be elected:

<TABLE> <CAPTION>		
	Shares Voted For -----	Shares Withheld -----
<S>	<C>	<C>
Gene McCaffery	37,477,383	3,341,403
Marshall S. Geller	40,484,814	333,972
Robert J. Korkowski	40,574,978	243,808
Paul D. Tosetti	40,355,439	463,347
Mark W. Begor*	5,339,500	--
John L. Flannery, Jr.*	5,339,500	--
</TABLE>		

\* Messrs. Begor and Flannery are the representatives of the holders of the Company's Series A Redeemable Convertible Preferred stock.

##### (b) Adoption of the ValueVision International, Inc. 2001 Omnibus Stock Plan

Shareholders approved the adoption of the ValueVision International, Inc. 2001 Omnibus Stock Plan providing for the issuance of 3,000,000 shares thereunder by a vote of 22,618,233 shares in favor, 9,631,045 shares against, and 59,043 shares abstained.

##### (c) Ratification of current fiscal year independent auditor

Shareholders ratified the appointment of Arthur Andersen LLP as independent auditors for the fiscal year ending January 31, 2002 by a vote of 40,796,139 shares in favor, 14,303 shares against, and 8,344 shares abstained.

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#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits

10.1 ValueVision International, Inc. 2001 Omnibus Stock Plan

(b) Reports on Form 8-K

None

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#### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES

/s/ Gene McCaffery

-----  
Gene McCaffery  
Chief Executive Officer  
(Principal Executive Officer)

/s/ Richard D. Barnes

-----  
Richard D. Barnes  
Executive Vice President, Chief Financial  
Officer (Principal Financial and  
Accounting Officer), Chief Operating Officer

September 13, 2001

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## VALUEVISION INTERNATIONAL, INC.

## 2001 OMNIBUS STOCK PLAN

1. PURPOSE. The purpose of the ValueVision International, Inc. 2001 Omnibus Stock Plan (the "Plan") is to motivate key personnel to produce a superior return to the shareholders of the Company by offering such personnel an opportunity to realize Stock appreciation, by facilitating Stock ownership and by rewarding them for achieving a high level of corporate financial performance. The Plan is also intended to facilitate recruiting and retaining key personnel of outstanding ability by providing an attractive capital accumulation opportunity. Additionally, the Plan is intended to provide Outside Directors with an opportunity to acquire a proprietary interest in the Company, to compensate Outside Directors for their contribution to the Company and to aid in attracting and retaining Outside Directors.

## 2. DEFINITIONS.

2.1 The terms defined in this Section are used (and capitalized) elsewhere in the Plan.

(a) "AFFILIATE" means any corporation that is a "PARENT CORPORATION" or "SUBSIDIARY CORPORATION" of the Company, as those terms are defined in Code Section 424(e) and (f), or any successor provisions.

(b) "AGREEMENT" means (i) a written contract consistent with the terms of the Plan entered into between the Company or an Affiliate and a Participant and (ii) containing the terms and conditions of an Award in such form and not inconsistent with this Plan as the Committee shall approve from time to time, together with all amendments thereto, which amendments may be unilaterally made by the Company where such amendment is required as a matter of law.

(c) "AWARD" or "AWARDS" means a grant made under this Plan in the form of Restricted Stock, Options, Stock Appreciation Rights, Performance Units, Stock or any other stock-based award.

(d) "BOARD" means the Board of Directors of the Company.

(e) "CODE" means the Internal Revenue Code of 1986, as amended and in effect from time to time or any successor statute.

(f) "COMMITTEE" means the two or more Non-Employee Directors designated by the Board to administer the Plan under Plan Section 3.1 and constituted so as to permit grants thereby to comply with Exchange Act Rule 16b-3 and Code Section 162(m).

(g) "COMPANY" means ValueVision International Inc., a Minnesota corporation, or the successor to all or substantially all of its businesses by merger, consolidation, purchase of assets or otherwise.

(h) "EFFECTIVE DATE" means the date specified in Plan Section 12.1.

(i) "EMPLOYEE" means an employee (including a officer or director who is also an employee) of the Company or an Affiliate.

(j) "EVENT" means any of the following:

(1) The acquisition by any individual, entity or group (within the meaning of Exchange Act Sections 13(d)(3) or 14(d)(2)) of beneficial ownership (within the meaning of Exchange Act Rule 13d-3) of 30% or more of either (i) the then-outstanding shares of common stock of the Company (the "OUTSTANDING COMPANY COMMON STOCK") or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of the Board (the "OUTSTANDING COMPANY VOTING SECURITIES"); provided, however, that the following acquisitions shall not constitute an Event:

(A) any acquisition of common stock or voting securities of the Company directly from the Company,

(B) any acquisition of common stock or

voting securities of the Company by the Company or any of its wholly owned Subsidiaries,

(C) any acquisition of common stock or voting securities of the Company by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries, or

(D) any acquisition by any corporation with respect to which, immediately following such acquisition, more than 70% of, respectively, the then-outstanding shares of common stock of such corporation and the combined voting power of the then-outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately before such acquisition in substantially the same proportions as was their ownership, immediately before such acquisition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be;

(2) Individuals who, as of the Effective Date, constitute the Board (the "INCUMBENT Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director of the Board after the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest

(3) Approval by the shareholders of the Company of a reorganization, merger, consolidation or statutory exchange of Outstanding Company Voting Securities, unless immediately following such reorganization, merger, consolidation or exchange, all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately before such reorganization, merger, consolidation or exchange beneficially own, directly or indirectly, more than 70% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger, consolidation or exchange in substantially the same proportions as was their ownership,

immediately before such reorganization, merger, consolidation or exchange, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be; or

(4) Approval by the shareholders of the Company of  
(i) a complete liquidation or dissolution of the Company or  
(ii) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation with respect to which, immediately following such sale or other disposition, more than 70% of, respectively, the then-outstanding shares of common stock of such corporation and the combined voting power of the then-outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately before such sale or other disposition in substantially the same proportion as was their ownership, immediately before such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be.

Notwithstanding the above, an Event shall not be deemed to occur with respect to a recipient of an Award if the acquisition of the 30% or greater interest referred to in paragraph (1) is by a group, acting in concert, that

includes that recipient of an Award or if at least 30% of the then-outstanding common stock or combined voting power of the then-outstanding voting securities (or voting equity interests) of the surviving corporation or of any corporation (or other entity) acquiring all or substantially all of the assets of the Company shall be beneficially owned, directly or indirectly, immediately after a reorganization, merger, consolidation, statutory share exchange or disposition of assets referred to in paragraphs (3) or (4) by a group, acting in concert, that includes that recipient of an Award.

(k) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended and in effect from time to time, or any successor statute.

(l) "EXCHANGE ACT RULE 16b-3" means Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act, as now in force and in effect from time to time or any successor regulation.

(m) "FAIR MARKET VALUE" as of any date means, unless otherwise expressly provided in the Plan:

(i) the closing price of a Share on the date immediately preceding that date or, if no sale of Shares shall have occurred on that date, on the next preceding day on which a sale of Shares occurred

(A) on the composite tape for New York Stock Exchange listed shares, or

(B) if the Shares are not quoted on the composite tape for New York Stock Exchange listed shares, on the principal United States Securities Exchange registered under the Exchange Act on which the Shares are listed, or

(C) if the Shares are not listed on any such exchange, on the National Association of Securities Dealers, Inc. Automated Quotation National Market System, or

(ii) if clause (i) is inapplicable, the mean between the closing "BID" and the closing "ASKED" quotation of a Share on the date immediately preceding that date, or, if no closing bid or asked quotation is made on that date, on the next preceding day on which a closing bid and asked quotation is made, on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or

(iii) if clauses (i) and (ii) are inapplicable, what the Committee determines in good faith to be 100% of the fair market value of a Share on that date, using such criteria as it shall determine, in its sole discretion, to be appropriate for valuation.

However, if the applicable securities exchange or system has closed for the day at the time the event occurs that triggers a determination of Fair Market Value, whether the grant of an Award, the exercise of an Option or Stock Appreciation Right or otherwise, all references in this paragraph to the "date immediately preceding that date" shall be deemed to be references to "that date." In the case of an Incentive Stock Option, if this determination of Fair Market Value is not consistent with the then current regulations of the Secretary of the Treasury, Fair Market Value shall be determined in accordance with those regulations. The determination of Fair Market Value shall be subject to adjustment as provided in Plan Section 16.

(n) "FUNDAMENTAL CHANGE" shall mean a dissolution or liquidation of the Company, a sale of substantially all of the assets of the Company, a merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, or a statutory share exchange involving capital stock of the Company.

(o) "INCENTIVE STOCK OPTION" means any Option designated as such and granted in accordance with the requirements of Code Section 422 or any successor provision.

(p) "INSIDER" as of a particular date means any person who, as of that date is an officer of the Company as defined under Exchange Act Rule 16a-1(f) or its successor provision.

(q) "NON-EMPLOYEE DIRECTOR" means a member of the Board who is considered a non-employee director within the meaning of Exchange Act

Rule 16b-3(b) (3) or its successor provision and an outside director for purposes of Code Section 162(m).

(r) "NON-STATUTORY STOCK OPTION" means an Option other than an Incentive Stock Option.

(s) "OPTION" means a right to purchase Stock, including both Non-Statutory Stock Options and Incentive Stock Options.

(t) "OUTSIDE DIRECTOR" means a director who is not an Employee.

(u) "PARTICIPANT" means a person or entity to whom an Award is or has been made in accordance with the Plan.

(v) "PERFORMANCE CYCLE" means the period of time as specified in an Agreement over which Performance Units are to be earned.

(w) "PERFORMANCE UNITS" means an Award made pursuant to Plan Section 11.

(x) "PLAN" means this ValueVision International, Inc. 2001 Omnibus Stock Plan, as may be amended and in effect from time to time.

(y) "RESTRICTED STOCK" means Stock granted under Plan Section 7 so long as such Stock remains subject to one or more restrictions.

(z) "SECTION 16" or "SECTION 16(b)" means Section 16 or Section 16(b), respectively, of the Exchange Act or any successor statute and the rules and regulations promulgated thereunder as in effect and as amended from time to time.

(aa) "SHARE" means a share of Stock.

(bb) "STOCK" means the common stock, par value \$.01 per share, of the Company.

(cc) "STOCK APPRECIATION RIGHT" means a right, the value of which is determined in relation to the appreciation in value of Shares pursuant to an Award granted under Plan Section 10.

(dd) "SUBSIDIARY" means a "subsidiary corporation," as that, term is defined in Code Section 424(f), or any successor provision.

(ee) "SUCCESSOR" with respect to a Participant means the legal representative of an incompetent Participant, and if the Participant is deceased the estate of the Participant or the person or persons who may, by bequest or inheritance, or pursuant to the terms of an Award, acquire the right to exercise an Option or Stock Appreciation. Right or to receive cash and/or Shares issuable in satisfaction of an Award in the event of the Participant's death.

(ff) "TERM" means the period during which an Option or Stock Appreciation Right may be exercised or the period during which the restrictions or terms and conditions placed on Restricted Stock or any other Award are in effect.

(gg) "TRANSFeree" means any member of the Participant's immediate family (i.e., his or her children, step-children, grandchildren and spouse) or one or more trusts for the benefit of such family members or partnerships in which such family members are the only partners.

2.2 GENDER AND NUMBER. Except when otherwise indicated by the context, reference to the masculine gender shall include, when used, the feminine gender and any term used in the singular shall also include the plural.

### 3. ADMINISTRATION AND INDEMNIFICATION.

#### 3.1 ADMINISTRATION.

(a) The Committee shall administer the Plan. The Committee shall have exclusive power to (i) make Awards, (ii) determine when and to whom Awards will be granted, the form of each Award, the amount of each Award (except as to the amount of the Annual Outside Director Option, as provided in Plan Section

9.3), and any other terms or conditions of each Award consistent with the Plan, and (iii) determine whether, to what extent and under what circumstances, Awards may be settled, paid or exercised in cash, Shares or other Awards, or other property or canceled, forfeited or suspended. Each Award shall be subject to an Agreement authorized by the Committee. Notwithstanding the foregoing, the Board shall have the sole and exclusive power to administer the Plan with respect to Awards granted to Outside Directors, including any grants made under Plan Section 9.3(d).

- (b) The Committee may delegate all or any portion of its authority under the Plan to one or more persons who are not Non-Employee Directors.
- (c) To the extent within its discretion and subject to Plan Sections 15 and 16, other than price, the Committee may amend the terms and conditions of any outstanding Award.
- (d) It is the intent that the Plan and all Awards granted pursuant to it shall be administered by the Committee so as to permit the Plan and Awards to comply with Exchange Act Rule 16b-3, except in such instances as the Committee, in its discretion, may so provide. If any provision of the Plan or of any Award would otherwise frustrate or conflict with the intent expressed in this Section 3.1(d), that provision to the extent possible shall be interpreted and deemed amended in the manner determined by the Committee so as to avoid the conflict. To the extent of any remaining irreconcilable conflict with this intent, the provision shall be deemed void as applicable to Insiders to the extent permitted by law and in the manner deemed advisable by the Committee.
- (e) The Committee's interpretation of the Plan and of any Award or Agreement made under the Plan and all related decisions or resolutions of the Board or Committee shall be final and binding on all parties with an interest therein. Consistent with its terms, the Committee shall have the power to establish, amend or waive regulations to administer the Plan. In carrying out any of its responsibilities, the Committee shall have discretionary authority to construe the terms of the Plan and any Award or Agreement made under the Plan.

3.2 INDEMNIFICATION. Each person who is or shall have been a member of the Committee, or of the Board, and any other person to whom the Committee delegates authority under the Plan, shall be indemnified and held harmless by the Company, to the extent permitted by law, against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action taken or failure to act, made in good faith, under the Plan and against and from any and all amounts paid by such person in settlement thereof, with the Company's approval, or paid by such person in satisfaction of any judgment in any such

action, suit or proceeding against such person, provided such person shall give the Company an opportunity, at the Company's expense, to handle and defend the same before such person undertakes to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person or persons may be entitled under the Company's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

#### 4. SHARES AVAILABLE UNDER THE PLAN.

- (a) The number of Shares available for distribution under this Plan shall not exceed 3,000,000 (subject to adjustment pursuant to Plan Section 16).
- (b) Any Shares subject to the terms and conditions of an Award under this Plan that are not used because the terms and conditions of the Award are not met may again be used for an Award under the Plan. But Shares with respect to which a Stock Appreciation Right has been exercised whether paid in cash and/or in Shares may not again be awarded under this Plan.
- (c) Any unexercised or undistributed portion of any terminated, expired, exchanged, or forfeited Award, or any Award settled in cash in lieu of Shares (except as provided in Plan Section 4(b)) shall be available for further Awards.



- (d) For the purposes of computing the total number of Shares granted under the Plan, the following rules shall apply to Awards payable in Shares where appropriate:
- (i) each Option shall be deemed to be the equivalent of the maximum number of Shares that may be issued upon exercise of the particular Option;
  - (ii) an Award (other than an Option) payable in some other security shall be deemed to be equal to the number of Shares to which it relates;
  - (iii) where the number of Shares available under the Award is variable on the date it is granted, the number of Shares shall be deemed to be the maximum number of Shares that could be received under that particular Award; and
  - (iv) where two or more types of Awards (all of which are payable in Shares) are granted to a Participant in tandem with each other, such that the exercise of one type of Award with respect to a number of Shares cancels at least an equal number of Shares of the other, each such joint Award shall be deemed to be the equivalent of the maximum number of Shares available under the largest single Award.

Additional rules for determining the number of Shares granted under the Plan may be made by the Committee, as it deems necessary or desirable.

- (e) No fractional Shares may be issued under the Plan; however, cash shall be paid in lieu of any fractional Share in settlement of an Award.
- (f) The maximum number of Shares that may be awarded to a Participant in any calendar year in the form of Options is 250,000 and the maximum number of Shares that may be awarded to a Participant in any calendar year in the form of Stock Appreciation Rights is 250,000.

5. ELIGIBILITY. Participation in the Plan shall be limited to Employees and to individuals or entities who are not Employees but who provide services to the Company or an Affiliate, including services provided in the capacity of a consultant, adviser or director. The granting of Awards is solely at the discretion of the Committee, except that Incentive Stock Options may only be granted to Employees and Awards to Outside Directors are subject to the limits of Section 9.3.

#### 6. GENERAL TERMS OF AWARDS.

6.1 AMOUNT OF AWARD. Each Agreement shall set forth the number of Shares of Restricted Stock, Stock or Performance Units subject to the Agreement, or the number of Shares to which the Option subject to the Agreement applies or with respect to which payment upon the exercise of the Stock Appreciation Right subject to the Agreement is to be determined, as the case may be, together with such other terms and conditions applicable to the Award as determined by the Committee acting in its sole discretion.

6.2 TERM. Each Agreement, other than those relating solely to Awards of Shares without restrictions, shall set forth the Term of the Option, Stock Appreciation Right, Restricted Stock or other Award or the Performance Cycle for the Performance Units, as the case may be. Acceleration of the expiration of the applicable Term is permitted, upon such terms and conditions as shall be set forth in the Agreement, which may, but need not, include (without limitation) acceleration resulting from the occurrence of an Event or in the event of the Participant's death or retirement. Acceleration of the Performance Cycle of Performance Units shall be subject to Plan Section 11.2.

6.3 TRANSFERABILITY. Except as provided in this Section, during the lifetime of a Participant to whom an Award is granted, only that Participant (or that Participant's legal representative) may exercise an Option or Stock Appreciation Right, or receive payment with respect to Performance Units or any other Award. No Award of Restricted Stock (before the expiration of the restrictions), Options, Stock Appreciation Rights or Performance Units or other Award may be sold, assigned, transferred, exchanged or otherwise encumbered other than pursuant to a qualified domestic relations order as defined in the Code or Title 1 of the Employee Retirement Income Security Act of 1974, as amended ("E.R.I.S.A."), or the rules thereunder; any attempted transfer in violation of this Section 6.3 shall be of no effect. Notwithstanding the immediately preceding sentence, the Committee, in an Agreement or otherwise at its discretion, may provide (i) that the Award subject to the Agreement shall be transferable to a Successor in the event of a Participant's death, or (ii) that the Award (other than Incentive Stock Options) may be transferable to a

Transferee. Any Award held by a Transferee shall continue to be subject to the same terms and conditions that were applicable to that Award immediately before the transfer thereof to the Transferee.

6.4 TERMINATION OF EMPLOYMENT. No Option or Stock Appreciation Right may be exercised by a Participant, all Restricted Stock held by a Participant or any other Award then subject to restrictions shall be forfeited, and no payment with respect to Performance Units for which the applicable Performance Cycle has not been completed shall be made, if the Participant's employment or other relationship with the Company and its Affiliates shall be voluntarily terminated or involuntarily terminated with or without cause before the expiration of the Term of the Option, Stock Appreciation Right, Restricted Stock or other Award, or the completion of the Performance Cycle, as the case may be, except as, and to the extent, provided in the Agreement applicable to that Award. An Award may be

exercised by, or paid to, a Transferee or the Successor of a Participant following the death of the Participant to the extent, and during the period of time, if any, provided in the applicable Agreement.

6.5 RIGHTS AS SHAREHOLDER. Each Agreement shall provide that a Participant shall have no rights as a shareholder with respect to any securities covered by an Award if and until the date the Participant becomes the holder of record of the Stock, if any, to which the Award relates.

#### 7. RESTRICTED STOCK AWARDS.

(a) An Award of Restricted Stock under the Plan shall consist of Shares subject to restrictions on transfer and conditions of forfeiture, which restrictions and conditions shall be included in the applicable Agreement. The Committee may provide for the lapse or waiver of any such restriction or condition based on such factors or criteria as the Committee, in its sole discretion, may determine.

(b) Except as otherwise provided in the applicable Agreement, each Stock certificate issued with respect to an Award of Restricted Stock shall either be deposited with the Company or its designee, together with an assignment separate from the certificate, in blank, signed by the Participant, or bear such legends with respect to the restricted nature of the Restricted Stock evidenced thereby as shall be provided for in the applicable Agreement.

(c) The Agreement shall describe the terms and conditions by which the restrictions and conditions of forfeiture upon awarded Restricted Stock shall lapse. Upon the lapse of the restrictions and conditions, Shares free of restrictive legends, if any, relating to such restrictions shall be issued to the Participant or a Successor or Transferee.

(d) A Participant or a Transferee with a Restricted Stock Award shall have all the other rights of a shareholder including, but not limited to, the right to receive dividends and the right to vote the Shares of Restricted Stock.

8. OTHER AWARDS. The Committee may from time to time grant Stock and other Awards under the Plan including without limitations those Awards pursuant to which Shares are or may in the future be acquired, Awards denominated in Stock units, securities convertible into Stock and phantom securities. The Committee, in its sole discretion, shall determine the terms and conditions of such Awards provided that such Awards shall not be inconsistent with the terms and purposes of this Plan. The Committee may, at its sole discretion, direct the Company to issue Shares subject to restrictive legends and/or stop transfer instructions that are consistent with the terms and conditions of the Award to which the Shares relate.

#### 9. STOCK OPTIONS.

##### 9.1 TERMS OF ALL OPTIONS.

(a) An Option shall be granted pursuant to an Agreement as either an Incentive Stock Option or a Non-Statutory Stock Option. The purchase price of each Share subject to an Option shall be set forth in the Agreement, but shall not be less than 100% of the Fair Market Value of a Share as of the date the Option is granted (except as provided in Plan Section 19).

(b) The purchase price of the Shares with respect to which an Option is exercised shall be payable in full at the time of exercise, provided that to the extent permitted by law, the Agreement may permit some or all Participants to simultaneously exercise Options and sell the

Shares thereby acquired pursuant to a brokerage or similar relationship and use the proceeds from the sale as payment of the purchase price of the Shares. The purchase price may be payable in cash, by delivery or tender of Shares that have been owned by the Participant for at least the preceding 180 days and having a Fair Market Value as of the date the Option is exercised equal to the purchase price of the Shares being purchased pursuant to the Option, or a combination thereof, as determined by the Committee, but no fractional Shares will be issued or accepted.

(c) Each Option shall be exercisable in whole or in part on the terms provided in the Agreement. Notwithstanding anything to the contrary in this Plan and except as otherwise provided in an Agreement, all Options granted to Employees shall vest and become exercisable in full upon the occurrence of an Event or a proposed Fundamental Change. In no event shall any Option be exercisable at any time after the expiration of its Term. When an Option is no longer exercisable, it shall be deemed to have lapsed or terminated.

9.2 INCENTIVE STOCK OPTIONS. In addition to the other terms and conditions applicable to all Options:

(a) the aggregate Fair Market Value (determined as of the date the Option is granted) of the Shares with respect to which Incentive Stock Options held by an individual first become exercisable in any calendar year (under this Plan and all other incentive stock option plans of the Company and its Affiliates) shall not exceed \$100,000 (or such other limit as may be required by the Code) if this limitation is necessary to qualify the Option as an Incentive Stock Option and to the extent an Option or Options granted to a Participant exceed this limit the Option or Options shall be treated as a Non-Statutory Stock Option;

(b) an Incentive Stock Option shall not be exercisable more than 10 years after the date of grant (or such other limit as may be required by the Code) if this limitation is necessary to qualify the Option as an Incentive Stock Option;

(c) the Agreement covering an Incentive Stock Option shall contain such other terms and provisions that the Committee determines necessary to qualify this Option as an Incentive Stock Option; and

(d) notwithstanding any other provision of this Plan to the contrary, no Participant may receive an Incentive Stock Option under the Plan if, at the time the Award is granted, the Participant owns (after application of the rules contained in Code Section 424(d), or its successor provision), Shares possessing more than 10% of the total combined voting power of all classes of stock of the Company or its Subsidiaries, unless (i) the option price for that Incentive Stock Option is at least 110% of the Fair Market Value of the Shares subject to that Incentive Stock Option on the date of grant and (ii) that Option is not exercisable after the date five years from the date that Incentive Stock Option is granted.

### 9.3 TERMS AND CONDITIONS OF OUTSIDE DIRECTORS' OPTIONS

(a) Annual Outside Director Option Grants. For the Annual Meeting of Shareholders to be held on June 21, 2001 and for each Annual Meeting of Shareholders thereafter during the term of this Plan, each Outside Director serving as an Outside Director of the Company immediately following the Annual Meeting shall be granted, by virtue of serving as an Outside Director of the Company, a Non-Statutory Stock Option to purchase 10,000 Shares or such other amount as may be established from time to time by the Board, but in no event to exceed 50,000 Shares (an "ANNUAL OUTSIDE DIRECTOR OPTION"). Each Annual Outside Director

Option shall be deemed to be granted to each Outside Director immediately after an Annual Meeting.

(b) Vesting of Annual Outside Director Options. Subject to the provisions of Plan Section 9.3(c), Annual Outside Director Options shall vest and become exercisable as provided in the Agreement. Each Option, to the extent exercisable, shall be exercisable in whole or in part. Notwithstanding anything to the contrary in this Plan, all Annual Outside Director Options shall vest and become exercisable in full upon the occurrence of an Event or a proposed Fundamental Change.

(c) Termination of Annual Outside Directors' Options. Each Outside Director Option granted pursuant to this Plan and all rights to purchase Shares thereunder shall terminate on the earliest of:

- (i) ten years after the date that the Outside Director Option was granted or such other time period specified in the Agreement;
- (ii) the expiration of the period specified in the Agreement after the death or permanent disability of an Outside Director; or
- (iii) ninety days after the date the Outside Director ceases to be a director of the Company, provided, however, that the option shall be exercisable during this 90-day period only to the extent the option was exercisable as of the date the person ceases to be an Outside Director unless the cessation results from the director's death or permanent disability. Notwithstanding the preceding sentence, if an Outside Director who resigns or whose term expires then becomes a consultant or Employee of the Company within ninety days of such resignation or term expiration, the Outside Director Options of such person shall continue in full force and effect.

(e) Non-exclusivity of Section 9.3. The provisions of this Section 9.3 are not intended to be exclusive; the Committee, in its discretion, may grant Options or other Awards to an Outside Director.

10. STOCK APPRECIATION RIGHTS. An Award of a Stock Appreciation Right shall entitle the Participant (or a Successor or Transferee), subject to terms and conditions determined by the Committee, to receive upon exercise of the Stock Appreciation Right all or a portion of the excess of (i) the Fair Market Value of a specified number of Shares as of the date of exercise of the Stock Appreciation Right over (ii) a specified price that shall not be less than 100% of the Fair Market Value of such Shares as of the date of grant of the Stock Appreciation Right. A Stock Appreciation Right may be granted in connection with part or all of, in addition to, or completely independent of an Option or any other Award under this Plan. If issued in connection with a previously or contemporaneously granted Option, the Committee may impose a condition that exercise of a Stock Appreciation Right cancels a pro rata portion of the Option with which it is connected and vice versa. Each Stock Appreciation Right may be exercisable in whole or in part on the terms provided in the Agreement. No Stock Appreciation Right shall be exercisable at any time after the expiration of its Term. When a Stock Appreciation Right is no longer exercisable, it shall be deemed to have lapsed or terminated. Upon exercise of a Stock Appreciation Right, payment to the Participant or a Successor or Transferee shall be made at such time or times as shall be provided in the Agreement in the form of cash, Shares or a combination of cash and Shares as determined by the Committee. The Agreement may provide for a limitation upon the amount or

percentage of the total appreciation on which payment (whether in cash and/or Shares) may be made in the event of the exercise of a Stock Appreciation Right.

#### 11. PERFORMANCE UNITS.

##### 11.1 INITIAL AWARD.

(a) An Award of Performance Units under the Plan shall entitle the Participant or a Successor or Transferee to future payments of cash, Shares or a combination of cash and Shares, as determined by the Committee, based upon the achievement of pre-established performance targets. These performance targets may, but need not, include (without limitation) targets relating to one or more of the Company's or a group's, unit's, Affiliate's or an individual's performance. The Agreement may establish that a portion of a Participant's Award will be paid for performance that exceeds the minimum target but falls below the maximum target applicable to the Award. The Agreement shall also provide for the timing of the payment.

(b) Following the conclusion or acceleration of each Performance Cycle, the Committee shall determine the extent to which (i) performance targets have been attained, (ii) any other terms and conditions with respect to an Award relating to the Performance Cycle have been satisfied and (iii) payment is due with respect to an Award of Performance Units.

11.2 ACCELERATION AND ADJUSTMENT. The Agreement may permit an acceleration of the Performance Cycle and an adjustment of performance targets

and payments with respect to some or all of the Performance Units awarded to a Participant, upon the occurrence of certain events, which may, but need not include without limitation an Event, a Fundamental Change, a recapitalization, a change in the accounting practices of the Company, a change in the Participant's title or employment responsibilities, the Participant's death or retirement or, with respect to payments in Shares with respect to Performance Units, a reclassification, stock dividend, stock split or stock combination as provided in Plan Section 16. The Agreement also may provide for a limitation on the value of an Award of Performance Units that a Participant may receive.

## 12. EFFECTIVE DATE AND DURATION OF THE PLAN.

12.1 EFFECTIVE DATE. The Plan shall become effective as of June 22, 2001, provided that the Plan is approved by the requisite vote of shareholders at the meeting of shareholders to be held June 21, 2001 or at any adjournment thereof.

12.2 DURATION OF THE PLAN. The Plan shall remain in effect until all Stock subject to it shall be distributed, all Awards have expired or lapsed, the Plan is terminated pursuant to Plan Section 15, or June 21, 2011 (the "TERMINATION Date"); provided, however, Awards made before the Termination Date may be exercised, vested or otherwise effectuated beyond the Termination Date unless limited in the Agreement or otherwise. No Award of an Incentive Stock Option shall be made more than 10 years after the Effective Date (or such other limit as may be required by the Code) if this limitation is necessary to qualify the Option as an Incentive Stock Option.

## 13. PLAN DOES NOT AFFECT EMPLOYMENT STATUS.

(a) Status as an eligible Employee shall not be construed as a commitment that any Award will be made under the Plan to that eligible Employee or to eligible Employees generally.

(b) Nothing in the Plan or in any Agreement or related documents shall confer upon any Employee or Participant any right to continue in the employment of the Company or any Affiliate or constitute, any contract of employment or affect any right that the Company or any Affiliate may have to change such person's compensation, other benefits, job responsibilities, or title, or to terminate the employment of such person with or without cause.

14. TAX WITHHOLDING. The Company shall have the right to withhold from any cash payment under the Plan to a Participant or other person (including a Successor or Transferee) an amount sufficient to cover any required withholding taxes. The Company shall have the right to require a Participant or other person receiving Shares under the Plan to pay the Company a cash amount sufficient to cover any required withholding taxes before actual receipt of those Shares. In lieu of all or any part of a cash payment from a person receiving Shares under the Plan, the Committee may permit the individual to cover all or any part of the required withholdings, and to cover any additional withholdings up to the amount needed to cover the individual's full FICA and federal, state and local income taxes with respect to income arising from payment of the Award, through a reduction of the number of Shares delivered or delivery or tender return to the Company of Shares held by the Participant or other person, in each case valued in the same manner as used in computing the withholding taxes under the applicable laws.

## 15. AMENDMENT, MODIFICATION AND TERMINATION OF THE PLAN.

(a) The Board may at any time and from time to time terminate, suspend or modify the Plan. Except as limited in (b) below, the Committee may at any time alter or amend any or all Agreements under the Plan to the extent permitted by law.

(b) No termination, suspension, or modification of the Plan will materially and adversely affect any right acquired by any Participant or Successor or Transferee under an Award granted before the date of termination, suspension, or modification, unless otherwise agreed to by the Participant in the Agreement or otherwise, or required as a matter of law; but it will be conclusively presumed that any adjustment for changes in capitalization provided for in Plan Sections 11.2 or 16 does not adversely affect these rights.

16. ADJUSTMENT FOR CHANGES IN CAPITALIZATION. Subject to any required action by the Company's shareholders, appropriate adjustments, so as to prevent enlargement of rights or inappropriate dilution -- (i) in the aggregate number and type of Shares available for Awards under the Plan, (ii) in the limitations on the number of Shares that may be issued to an individual Participant as an Option or a Stock Appreciation Right in any calendar year or that may be issued in the form of Restricted Stock or Shares without restrictions, (iii) in the number and type of Shares and amount of cash subject to Awards then outstanding, (iv) in the Option price as to any outstanding Options and, (v) subject to Plan Section 11.2, in outstanding Performance Units and payments with respect to

outstanding Performance Units may be made by the Committee in its sole discretion to give effect to adjustments made in the number or type of Shares through a Fundamental Change (subject to Plan Section 17), recapitalization, reclassification, stock dividend, stock split, stock combination or other relevant change, provided that fractional Shares shall be rounded to the nearest whole Share.

17. FUNDAMENTAL CHANGE. In the event of a proposed Fundamental Change, the Committee may, but shall not be obligated to:

(a) if the Fundamental Change is a merger or consolidation or statutory share exchange, make appropriate provision for the protection of the outstanding Options and Stock Appreciation Rights by the substitution of options, stock appreciation rights and appropriate

voting common stock of the corporation surviving any merger or consolidation or, if appropriate the parent corporation of the Company or such surviving corporation; or

(b) at least 30 days before the occurrence of the Fundamental Change, declare, and provide written notice to each holder of an Option or Stock Appreciation Right of the declaration, that each outstanding Option and Stock Appreciation Right, whether or not then exercisable, shall be canceled at the time of, or immediately before the occurrence of the Fundamental Change in exchange for payment to each holder of an Option or Stock Appreciation Right, within days after the Fundamental Change, of cash equal to (i) for each Share covered by the canceled Option, the amount, if any, by which the Fair Market Value (as defined in this Section) per Share exceeds the exercise price per Share covered by such Option or (ii) for each Stock Appreciation Right, the price determined pursuant to Section 10, except that Fair Market Value of the Shares as of the date of exercise of the Stock Appreciation Right, as used in clause (i) of Plan Section 10, shall be deemed to mean Fair Market Value for each Share with respect to which the Stock Appreciation Right is calculated determined in the manner hereinafter referred to in this Section. At the time of the declaration provided for in the immediately preceding sentence, each Stock Appreciation Right and each Option shall immediately become exercisable in full and each person holding an Option or a Stock Appreciation Right shall have the right, during the period preceding the time of cancellation of the Option or Stock Appreciation Right, to exercise the Option or the Stock Appreciation Right in whole or in part, as the case may be. In the event of a declaration pursuant to this Plan Section 17(b), each outstanding Option and Stock Appreciation Right granted pursuant to the Plan that shall not have been exercised before the Fundamental Change shall be canceled at the time of, or immediately before, the Fundamental Change, as provided in the declaration. Notwithstanding the foregoing, no person holding an Option or a Stock Appreciation Right shall be entitled to the payment provided for in this Section 17 (b) if such Option or Stock Appreciation Right shall have expired pursuant to the Agreement. For purposes of this Section only, "Fair Market Value" per Share shall mean the cash plus the fair market value, as determined in good faith by the Committee, of the non-cash consideration to be received per Share by the shareholders of the Company upon the occurrence of the Fundamental Change.

18. FORFEITURES. An Agreement may provide that if a Participant has received or been entitled to payment of cash, delivery of Shares, or a combination thereof pursuant to an Award within six months before the Participant's termination of employment with the Company and its Affiliates, the Committee, in its sole discretion, may require the Participant to return or forfeit the cash and/or Shares received with respect to the Award (or its economic value as of (i) the date of the exercise of Options or Stock Appreciation Rights, (ii) the date of, and immediately following, the lapse of restrictions on Restricted Stock or the receipt of Shares without restrictions, or (iii) the date on which the right of the Participant to payment with respect to Performance Units vests, as the case may be) in the event of certain occurrences specified in the Agreement. The Committee's right to require forfeiture must be exercised within 90 days after discovery of such an occurrence but in no event later than 15 months after the Participant's termination of employment with the Company and its Affiliates. The occurrences may, but need not include competition with the Company or any Affiliate, unauthorized disclosure of material proprietary information of the Company or any Affiliate, a violation of applicable business ethics policies of the Company or Affiliate or any other occurrence specified in the Agreement within the period or periods of time specified in the Agreement.

19. CORPORATE MERGERS, ACQUISITIONS, ETC. The Committee may also grant Options, Stock Appreciation Rights, Restricted Stock or other Awards under the Plan having terms, conditions and provisions that vary from those specified in this Plan provided that any such awards are granted in substitution for, or in connection with the assumption of, existing options, stock appreciation rights, restricted stock or other award granted, awarded or issued by another

corporation and assumed or

otherwise agreed to be provided for by the Company pursuant to or by reason of a transaction involving a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation to which the Company or a subsidiary is a party.

20. UNFUNDED PLAN. The Plan shall be unfunded and the Company shall not be required to segregate any assets that may at any time be represented by Awards under the Plan. Neither the Company, its Affiliates, the Committee, nor the Board of Directors shall be deemed to be a trustee of any amounts to be paid under the Plan nor shall anything contained in the Plan or any action taken pursuant to its provisions create or be construed to create a fiduciary relationship between the Company and/or its Affiliates, and a Participant or Successor or Transferee. To the extent any person acquires a right to receive an Award under the Plan, this right shall be no greater than the right of an unsecured general creditor of the Company.

21. LIMITS OF LIABILITY.

(a) Any liability of the Company to any Participant with respect to an Award shall be based solely upon contractual obligations created by the Plan and the Award Agreement.

(b) Except as may be required by law, neither the Company nor any member of the Board of Directors or of the Committee, nor any other person participating in any determination of any question under the Plan, or in the interpretation, administration or application of the Plan, shall have any liability to any party for any action taken, or not taken, in good faith under the Plan.

22. COMPLIANCE WITH APPLICABLE LEGAL REQUIREMENTS. No certificate for Shares distributable pursuant to this Plan shall be issued and delivered unless the issuance of a certificate complies with all applicable legal requirements including, without limitation, compliance with the provisions of applicable state securities laws, the Securities Act of 1933, as amended and in effect from time to time or any successor statute, the Exchange Act and the requirements of the exchanges on which the Company's Shares may, at the time, be listed.

23. DEFERRALS AND SETTLEMENTS. The Committee may require or permit Participants to elect to defer the issuance of Shares or the settlement of Awards in cash under such rules and procedures as it may establish under the Plan. It may also provide that deferred settlements include the payment or crediting of interest on the deferral amounts.

24. OTHER BENEFIT AND COMPENSATION PROGRAMS. Payments and other benefits received by a Participant under an Award made pursuant to the Plan shall not be deemed a part of a Participant's regular, recurring compensation for purposes of the termination, indemnity or severance pay laws of any country and shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan, contract or similar arrangement provided by the Company or an Affiliate unless expressly so provided by such other plan, contract or arrangement, or unless the Committee expressly determines that an Award or portion of an Award should be included to accurately reflect competitive compensation practices or to recognize that an Award has been made in lieu of a portion of competitive cash compensation.

25. BENEFICIARY UPON PARTICIPANT'S DEATH. To the extent that the transfer of a Participant's Award at his or her death is permitted under an Agreement, a Participant's Award shall be transferable at death to the estate or to the person who acquires the right to succeed to the Award by bequest or inheritance.

26. CHANGE-IN-CONTROL PAYMENTS.

(a) Notwithstanding the provisions of Plan Section 17 above, if any Award, either alone or together with other payments in the nature of compensation to a Participant that are contingent on a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company or otherwise, would result in any portion thereof being subject to an excise tax imposed under Code Section 4999, or any successor provision, or would not be deductible in whole or in part by the Company, an affiliate of the Company (as defined in Code Section 1504, or any successor provision), or other person making such payments as a result of Code Section 280G, or any successor provision, such Award and/or such other benefits and payments shall be reduced (but not below zero) to the largest aggregate amount as will result in no portion thereof being subject to such an excise tax or being not so deductible.

(b) For purposes of Plan Section 26(a), (i) no portion of payments the receipt or enjoyment of which a Participant shall have effectively waived in writing before the date of distribution of an Award shall be taken into account; (ii) no portion of such Award, benefits and other payments shall be taken into account that in the opinion of tax counsel selected by the Company's independent auditors and acceptable to the Participant does not constitute a "parachute payment" within the meaning of Code Section 280G(b)(2), or any successor provision; and (iii) the value of any non-cash benefit or any deferred payment or benefit included in such payment shall be determined by the Company's independent auditors in accordance with the principles of Code Sections 280G(d)(3) and (4) or any successor provisions;

(c) Any Award not paid as a result of this Plan Section 26 or reduced to zero as a result of the limitations imposed hereby, shall remain outstanding in full force and effect in accordance with the other terms and provisions of this Plan.

#### 27. REQUIREMENTS OF LAW.

(a) To the extent that federal laws do not otherwise control, the Plan and all determinations made and actions taken pursuant to the Plan shall be governed by the laws of the State of Minnesota without regard to its conflicts-of-law principles and shall be construed accordingly.

(b) If any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not effect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.