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

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the securities exchange act of 1934 for the quarterly period ended May 3, 2008

Commission File Number 0-20243

VALUEVISION MEDIA, INC.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of
incorporation or organization)

41-1673770

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

6740 Shady Oak Road, Eden Prairie, MN 55344

(Address of Principal Executive Offices, including Zip Code)

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 Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

As of June 9, 2008, there were 33,550,834 shares of the registrant's common stock, \$.01 par value per share, outstanding.

VALUEVISION MEDIA, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

VALUEVISION MEDIA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	<u>May 3,</u> <u>2008</u>	<u>February 2,</u> <u>2008</u>
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 44,367	\$ 25,605
Short-term investments	17,886	33,473
Accounts receivable, net	71,820	109,489
Inventories	69,254	79,444
Prepaid expenses and other	4,912	4,172
Total current assets	<u>208,239</u>	<u>252,183</u>
Long-term investments	23,802	26,306
Property & equipment, net	35,818	36,627
FCC broadcasting license	31,943	31,943
NBC trademark license agreement, net	9,801	10,608
Cable distribution and marketing agreement, net	676	872
Other assets	526	541
	<u>\$ 310,805</u>	<u>\$ 359,080</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 52,895	\$ 73,093
Accrued liabilities	36,936	44,609
Deferred revenue	678	648
Total current liabilities	<u>90,509</u>	<u>118,350</u>
Deferred revenue	2,258	2,322
Series A Redeemable Convertible Preferred Stock, \$.01 per share par value, 5,339,500 shares authorized; 5,339,500 shares issued and outstanding	43,971	43,898
Shareholders' equity:		
Common stock, \$.01 per share par value, 100,000,000 shares authorized; 33,550,834 and 34,070,422 shares issued and outstanding	336	341
Warrants to purchase 2,036,858 shares of common stock	12,041	12,041
Additional paid-in capital	271,856	274,172
Accumulated other comprehensive losses	(2,998)	(2,454)
Accumulated deficit	<u>(107,168)</u>	<u>(89,590)</u>
Total shareholders' equity	<u>174,067</u>	<u>194,510</u>
	<u>\$ 310,805</u>	<u>\$ 359,080</u>

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

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

	For the Three-Month Periods Ended	
	May 3, 2008	May 5, 2007
Net sales	\$ 156,288	\$ 188,109
Cost of sales (exclusive of depreciation and amortization shown below)	106,332	121,996
Operating expense:		
Distribution and selling	57,083	60,460
General and administrative	6,335	7,495
Depreciation and amortization	4,319	5,586
Restructuring costs	330	—
CEO transition costs	277	—
Total operating expense	<u>68,344</u>	<u>73,541</u>
Operating loss	<u>(18,388)</u>	<u>(7,428)</u>
Other income:		
Interest income	825	1,240
Total other income	<u>825</u>	<u>1,240</u>
Loss before income taxes and equity in income of affiliates	<u>(17,563)</u>	<u>(6,188)</u>
Gain on sale of RLM investment	—	40,240
Equity in income of affiliates	—	609
Income tax provision	<u>(15)</u>	<u>(281)</u>
Net income (loss)	<u>(17,578)</u>	<u>34,380</u>
Accretion of redeemable preferred stock	<u>(73)</u>	<u>(72)</u>
Net income (loss) available to common shareholders	<u>\$ (17,651)</u>	<u>\$ 34,308</u>
Net income (loss) per common share	<u>\$ (0.53)</u>	<u>\$ 0.80</u>
Net income (loss) per common share – assuming dilution	<u>\$ (0.53)</u>	<u>\$ 0.80</u>
Weighted average number of common shares outstanding:		
Basic	<u>33,577,899</u>	<u>42,938,624</u>
Diluted	<u>33,577,899</u>	<u>42,938,684</u>

VALUEVISION MEDIA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE THREE-MONTH PERIOD ENDED MAY 3, 2008

(Unaudited)

(In thousands, except share data)

	Comprehensive Loss	Common Stock		Common Stock Purchase Warrants	Additional Paid-In Capital	Accumulated Other Comprehensive Losses	Shareholders' Equity	Total Shareholders' Equity
		Number of Shares	Par Value					
BALANCE, February 2, 2008		34,070,422	\$ 341	\$ 12,041	\$ 274,172	\$ (2,454)	\$ 194,510	\$ 194,510
Net loss	\$ (17,578)	—	—	—	—	—	(17,578)	(17,578)
Other comprehensive loss, net of tax:								
Unrealized loss on securities	(544)	—	—	—	—	(544)	(544)	(544)
Comprehensive loss	<u>\$ (18,122)</u>							
Repurchase of common stock		(556,330)	(6)	—	(3,311)	—	(3,317)	(3,317)
Exercise of stock options and common stock issuances		36,742	1	—	—	—	1	1
Share-based payment compensation		—	—	—	1,068	—	1,068	1,068
Accretion on redeemable preferred stock		—	—	—	(73)	—	(73)	(73)
BALANCE, May 3, 2008		<u>33,550,834</u>	<u>\$ 336</u>	<u>\$ 12,041</u>	<u>\$ 271,856</u>	<u>\$ (2,998)</u>	<u>\$ 174,067</u>	<u>\$ 174,067</u>

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

VALUEVISION MEDIA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	For the Three Month Periods Ended	
	May 3, 2008	May 5, 2007
OPERATING ACTIVITIES:		
Net income (loss)	\$(17,578)	\$ 34,380
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,319	5,586
Share-based payment compensation	1,068	592
Common stock issued to employees	—	6
Equity in earnings of affiliates	—	(609)
Amortization of deferred revenue	(72)	(72)
Gain on sale of investments	—	(40,240)
Changes in operating assets and liabilities:		
Accounts receivable, net	37,669	8,088
Inventories	10,190	(5,834)
Prepaid expenses and other	(879)	(4)
Deferred revenue	37	502
Accounts payable and accrued liabilities	(27,825)	386
Net cash provided by operating activities	<u>6,929</u>	<u>2,781</u>
INVESTING ACTIVITIES:		
Property and equipment additions	(2,399)	(2,176)
Purchase of investments	—	(30,525)
Proceeds from sale of investments	17,549	4,877
Proceeds from sale of Ralph Lauren Media, Inc.	—	43,750
Net cash provided by investing activities	<u>15,150</u>	<u>15,926</u>
FINANCING ACTIVITIES:		
Payments for repurchases of common stock	(3,317)	—
Proceeds from exercise of stock options	—	361
Net cash provided by (used for) financing activities	<u>(3,317)</u>	<u>361</u>
Net increase in cash and cash equivalents	18,762	19,068
BEGINNING CASH AND CASH EQUIVALENTS	<u>25,605</u>	<u>41,496</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 44,367</u>	<u>\$ 60,564</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ —	\$ —
Income taxes paid	\$ 181	\$ 370
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment purchases included in accounts payable	\$ 478	\$ 32
Accretion of redeemable preferred stock	\$ 73	\$ 72

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

VALUEVISION MEDIA, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
May 3, 2008
(Unaudited)

(1) General

ValueVision Media, Inc. and subsidiaries (the “Company”) is an integrated direct marketing company that markets, sells and distributes its products directly to consumers through various forms of electronic media and direct-to-consumer mailings otherwise known as multi-channel retailing. The Company’s operating strategy incorporates television home shopping, internet e-commerce, direct mail and on-line marketing.

The Company’s television home shopping business uses on-air spokespersons to market brand name and private label consumer products at competitive prices. The Company’s live 24-hour per day television home shopping programming is distributed primarily through cable and satellite affiliation agreements and the purchase of month-to-month full and part-time lease agreements of cable and broadcast television time. In addition, the Company distributes its programming through one Company-owned full power television station in Boston, Massachusetts. The Company also markets a broad array of merchandise through its internet shopping websites, www.shopnbc.com and www.shopnbc.tv.

The Company has an exclusive license agreement with NBC Universal, Inc. (“NBCU”), for the worldwide use of an NBC-branded name and the peacock image through May 2011. Pursuant to the license, the Company operates its television home shopping network under the ShopNBC brand name and operates its internet website under the ShopNBC.com brand name.

The Company, through its wholly owned subsidiary, VVI Fulfillment Center, Inc. provides fulfillment and warehousing services for the fulfillment of merchandise sold by the Company.

(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 in the United States of America have been condensed or omitted in accordance with these 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 these financial statements. Although management believes the disclosures and information presented are adequate, 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 annual report on Form 10-K for the fiscal year ended February 2, 2008. Operating results for the three-month period ended May 3, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2009.

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year

The Company’s most recently completed fiscal year ended on February 2, 2008 and is designated “fiscal 2007”. The Company’s fiscal year ending January 31, 2009 is designated “fiscal 2008.” The Company reports on a 52/53 week fiscal year which ends on the Saturday nearest to January 31. The 52/53 week fiscal year allows for the weekly and monthly comparability of sales results relating to the Company’s television home-shopping business.

(3) Stock-Based Compensation

The Company accounts for stock-based compensation arrangements in accordance with Statement of Financial Accounting Standards No. 123(R) (revised 2004), “Share-Based Payment.” Compensation is recognized for all stock-based compensation arrangements by the Company, including employee and non-employee stock options granted after February 2, 2006 and all unvested stock-based compensation arrangements granted prior to February 2, 2006 as of such date, commencing with the quarter ended May 6, 2006. Stock-based compensation expense in the first quarter of fiscal 2008 and the first quarter of fiscal 2007 related to stock option awards was \$732,000 and \$459,000, respectively. The Company has not recorded any income tax benefit from the exercise of stock options due to the uncertainty of realizing income tax benefits in the future.

As of May 3, 2008, the Company had two active omnibus stock plans for which stock awards can be currently granted: the 2004 Omnibus Stock Plan (as amended and restated in fiscal 2006) which provides for the issuance of up to 4,000,000 shares of the Company’s common stock; and the 2001 Omnibus Stock Plan which provides for the issuance of up to 3,000,000 shares of the Company’s stock. These plans are administered by the human resources and compensation committee of the board of directors (“Compensation Committee”) and provide for awards for employees, directors and consultants. All employees and directors of the Company and its affiliates are eligible to receive awards under the plans. The types of awards that may be granted under these plans 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 employees at such exercise prices as the Compensation Committee may determine but not less than 100% of the fair market value of the underlying stock as of the date of grant. No incentive stock option may be granted more than ten years after the effective date of the respective plan’s inception or be exercisable more than ten years after the date of grant. Options granted to outside directors 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. Options granted under these plans are exercisable and generally vest over three years in the case of employee stock options and vest immediately on the date of grant in the case of director options, and generally have contractual terms of either five years from the date of vesting or ten years from the date of grant. Prior to the adoption of the 2004 and 2001 plans, the Company had other incentive stock option plans in place in which stock options were granted to employees under similar vesting terms. The Company has also granted non-qualified stock options to current and former directors and certain employees with similar vesting terms.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company’s stock. Expected term is calculated using the simplified method taking into consideration the option’s contractual life and vesting terms. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yields were not used in the fair value computations as the Company has never declared or paid dividends on its common stock and currently intends to retain earnings for use in operations.

	<u>Fiscal 2008</u>	<u>Fiscal 2007</u>
Expected volatility	41%	33% - 40%
Expected term (in years)	6 years	6 years
Risk-free interest rate	3.0% - 3.3%	3.2% - 5.1%

A summary of the status of the Company’s stock option activity as of May 3, 2008 and changes during the three months then ended is as follows:

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	2004 Incentive Stock Option Plan	Weighted Average Exercise Price	2001 Incentive Stock Option Plan	Weighted Average Exercise Price	1990 Incentive Stock Option Plan	Weighted Average Exercise Price	Other Non- Qualified Stock Options	Weighted Average Exercise Price
Balance outstanding, February 2, 2008	2,941,000	\$ 8.86	1,461,000	\$ 13.14	36,000	\$ 13.83	1,437,000	\$ 15.35
Granted	750,000	5.19	525,000	5.74	—	—	—	—
Exercised	—	—	—	—	—	—	—	—
Forfeited or canceled	(372,000)	10.86	(351,000)	13.22	(20,000)	14.38	(3,000)	14.38
Balance outstanding, May 3, 2008	<u>3,319,000</u>	<u>\$ 7.80</u>	<u>1,635,000</u>	<u>\$ 10.73</u>	<u>16,000</u>	<u>\$ 14.62</u>	<u>1,434,000</u>	<u>\$ 15.35</u>
Options exercisable at:								
May 3, 2008	<u>1,013,000</u>	<u>\$ 11.77</u>	<u>647,000</u>	<u>\$ 14.58</u>	<u>16,000</u>	<u>\$ 14.62</u>	<u>1,400,000</u>	<u>\$ 15.46</u>

The following table summarizes information regarding stock options outstanding at May 3, 2008:

Option Type	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value	Vested or Expected to Vest	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
2004 Incentive:	<u>3,319,000</u>	\$ 7.80	8.8	\$ 437,000	<u>3,088,000</u>	\$ 7.94	8.7	\$ 394,000
2001 Incentive:	<u>1,635,000</u>	\$ 10.73	7.4	\$ —	<u>1,537,000</u>	\$ 10.89	5.8	\$ —
1990 Incentive:	<u>16,000</u>	\$ 14.62	0.9	\$ —	<u>16,000</u>	\$ 14.62	0.9	\$ —
Other Non-qualified:	<u>1,434,000</u>	\$ 15.35	0.5	\$ —	<u>1,400,000</u>	\$ 15.46	0.5	\$ —

The weighted average grant-date fair value of options granted in the three months of fiscal 2008 and 2007 was \$2.38 and \$4.89, respectively. The total intrinsic value of options exercised during the first quarters of fiscal 2008 and 2007 was \$-0- and \$37,000, respectively. As of May 3, 2008, total unrecognized compensation cost related to stock options was \$8,399,000 and is expected to be recognized over a weighted average period of approximately 1.6 years.

(4) Short and Long-Term Investments

Short and long-term investments include the following available-for-sale securities at May 3, 2008 and February 2, 2008:

	May 3, 2008			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term:				
Corporate bonds	<u>\$ 4,058,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,058,000</u>
Long-term:				
Auction-rate securities	<u>\$26,800,000</u>	<u>\$ —</u>	<u>\$2,998,000</u>	<u>\$23,802,000</u>

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	February 2, 2008			Estimated Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Short-term:				
Auction-rate securities	\$ 6,502,000	\$ —	\$ —	\$ 6,502,000
Corporate bonds	4,088,000	—	—	4,088,000
	<u>\$10,590,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$10,590,000</u>

Long-term:				
Auction-rate securities	<u>\$26,800,000</u>	<u>\$ —</u>	<u>\$2,454,000</u>	<u>\$24,346,000</u>

Short and long-term investments include the following held-to-maturity securities at May 3, 2008 and February 2, 2008:

	May 3, 2008			Estimated Fair Value
	Carrying Amount	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	
Short-term:				
Corporate bonds	<u>\$13,828,000</u>	<u>\$ 56,000</u>	<u>\$ 154,000</u>	<u>\$13,730,000</u>

	February 2, 2008			Estimated Fair Value
	Carrying Amount	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	
Short-term:				
Corporate bonds	<u>\$22,883,000</u>	<u>\$ 122,000</u>	<u>\$ 87,000</u>	<u>\$22,918,000</u>
Long-term:				
Corporate bonds	<u>\$ 1,960,000</u>	<u>\$ —</u>	<u>\$ 28,000</u>	<u>\$ 1,932,000</u>

The following table summarizes the contractual maturities of the Company's short and long-term debt securities as of May 3, 2008:

Less than one year	\$17,886,000
Mature in 1-2 years	—
Mature after 5 years	<u>23,802,000</u>
	<u>\$41,688,000</u>

Proceeds from sales of available-for-sale and held-to-maturity securities were \$17,549,000 and \$4,877,000 during the three months ended May 3, 2008 and May 5, 2007, respectively. Sales of available-for-sale securities for the three months ended May 3, 2008 and May 5, 2007 resulted in no gains or losses recorded. The cost of all securities sold is based on the specific identification method. In the first quarter of fiscal 2008, the Company sold one of its held-to-maturity securities with a net carrying amount of \$2,910,000 due to the significant deterioration at the time of sale of the issuer's creditworthiness. The Company accrued and recorded a \$72,000 loss on the sale in the fourth quarter of fiscal 2007. As of May 3, 2008, all gross unrealized losses on the Company's auction rate security investments deemed to be temporarily impaired have been in an unrealized position for less than twelve months.

At May 3, 2008, the Company's investment portfolio included auction rate securities with an estimated fair value of \$23,802,000 (\$26,800,000 cost basis). The Company's auction rate securities are variable rate debt instruments that have underlying securities with contractual maturities greater than ten years. Holders of auction rate securities can either sell through the auction or bid based on a desired interest rate or hold and accept the reset rate. If there are insufficient buyers, then the auction fails and holders are unable to liquidate their investment through the auction. A failed auction is not a default of the debt instrument, but does set a new interest rate in accordance with the original terms of the debt instrument. The result of a failed auction is that the auction rate security continues to pay interest in accordance with its terms. Auctions continue to be held as scheduled until the auction rate security matures or until it is called. These mostly AAA-rated auction rate securities, which met the Company's investment guidelines at the time the investments were made,

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have failed to settle in auctions during fiscal 2007 and the first quarter of fiscal 2008. At this time, these investments are not liquid, and in the event the Company needs to access these funds, the Company will not be able to do so without a loss of principle.

The Company has reduced the carrying value of these investments by \$2,998,000 through other comprehensive income (loss) to reflect a temporary impairment on these securities. Currently, the Company believes these investments are temporarily impaired, but it is not clear in what period of time they will be settled. Due to the current lack of liquidity of these investments, they are classified as long-term investments on the Company's balance sheet.

(5) Fair Value Measurements

In the first quarter of fiscal 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157) with respect to the fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis and (b) all financial assets and liabilities. SFAS No. 157 establishes a single definition of fair value. It also provides a framework for measuring fair value and expands the disclosures of assets and liabilities measured at fair value. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value.

SFAS No. 157 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to observable quoted prices (unadjusted) in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The following is a brief description of those three levels:

- Level 1—Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2—Inputs based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly.
- Level 3—Unobservable inputs for the asset or liability that are significant to the fair value measurement.

Assets Measured at Fair Value – Recurring Basis

The Company holds available-for-sale marketable securities that are subject to fair valuation under SFAS No. 157. The Company does not have any liabilities subject to fair valuation under this statement. These investments were previously and will continue to be marked-to-market at each reporting period, however, the definition of fair value used for these investments are now applied using SFAS No. 157. The information in the following tables primarily addresses matters relative to these financial assets. The Company uses various valuation techniques, which are primarily based upon the market and income approaches, with respect to its financial assets. Available-for-sale marketable securities — except auction rate securities are valued utilizing quoted prices in active markets. Investments in available-for-sale auction rate securities are valued utilizing a discounted cash flow analysis. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, timing and amount of cash flows and expected holding periods of auction rate securities. The Company concluded that the inputs used in its auction rate securities fair valuation model are Level 3 inputs.

The following table provides information by level for assets that are measured at fair value, as defined by SFAS No. 157, on a recurring basis.

Description	Fair Value at May 3, 2008	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Assets:				
Available-for-sale:				
Marketable securities — except auction rate securities	\$ 4,058,000	\$4,058,000	\$—	\$ —
Marketable securities — auction rate securities only	23,802,000	—	—	23,802,000

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The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3).

	Marketable securities — auction rate securities only
Beginning balance (February 2, 2008)	\$24,346,000
Total gains or losses:	
Included in earnings	—
Included in other comprehensive income	544,000
Purchases, issuances, and settlements	—
Transfers in and/or out of Level 3	—
Ending balance (May 3, 2008)	\$23,802,000

Assets Measured at Fair Value – Nonrecurring Basis

During the quarter ended May 3, 2008, the Company had no significant measurements of assets at fair value as defined in SFAS No. 157 on a nonrecurring basis subsequent to their initial recognition. The aspects of SFAS No. 157 for which the effective date for the Company was deferred under FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, until January, 2009 relate to non financial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or non financial long-lived asset groups measured at fair value for an impairment assessment.

(6) Net Income (Loss) Per Common Share

Basic earnings per share is computed by dividing reported earnings by the weighted average number of common shares outstanding for the reported period following the two-class method. The effect of the Company's participating convertible preferred stock is included in basic earnings per share under the two-class method if dilutive. Diluted earnings per share 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 earnings per share calculations and the number of shares used in the calculation of basic earnings per share under the two-class method and diluted earnings per share is as follows:

	Three-Month Periods Ended	
	May 3, 2008	May 5, 2007
Net income (loss) available to common shareholders	<u>\$(17,651,000)</u>	<u>\$34,308,000</u>
Weighted average number of common shares outstanding using two-class method	33,578,000	37,599,000
Effect of participating convertible preferred stock	—	5,340,000
Weighted average number of common shares outstanding using two-class method — Basic	33,578,000	42,939,000
Dilutive effect of stock options, non-vested shares and warrants	—	—
Weighted average number of common shares outstanding — Diluted	<u>33,578,000</u>	<u>42,939,000</u>
Net income (loss) per common share	<u>\$ (0.53)</u>	<u>\$ 0.80</u>
Net income (loss) per common share-assuming dilution	<u>\$ (0.53)</u>	<u>\$ 0.80</u>

For the three-month period ended May 3, 2008, approximately 114,000 in-the-money potentially dilutive common share stock options and warrants and 5,340,000 shares of convertible preferred stock have been excluded from the computation of diluted earnings per share, as the effect of their inclusion would be antidilutive.

(7) Comprehensive Income (Loss)

For the Company, comprehensive income (loss) is computed as net earnings plus other items that are recorded directly to shareholders' equity. Total comprehensive income (loss) was \$(18,122,000) and \$34,380,000 for the three-month periods ended May 3, 2008 and May 5, 2007, respectively.

(8) Segment Disclosures

The Company's reportable segments are based on the Company's method of internal reporting. The Company's primary business segment is its electronic media segment, which consists of the Company's television home shopping business and internet shopping website business. Management has determined that the Company's television and internet home shopping businesses meet the aggregation criteria since these two businesses have similar customers, products, economic characteristics and sales processes. Products sold through the Company's electronic media segment primarily include jewelry, watches, computers and other electronics, housewares, apparel, health and beauty aids, fitness products, giftware, collectibles, seasonal items and other merchandise. The Company's segments currently operate in the United States and no one customer represents more than 5% of the Company's overall revenue. There are no material intersegment product sales. Segment information as of and for the three-month periods ended May 3, 2008 and May 5, 2007 are as follows:

Three-Month Periods Ended (in thousands)	ShopNBC & ShopNBC.com	Fulfillment Services (a)	Equity Investments (b)	Total
May 3, 2008				
Revenues	\$ 154,261	\$ 2,027	\$ —	\$156,288
Operating (loss) income	(18,530)	142	—	(18,388)
Depreciation and amortization	4,199	120	—	4,319
Interest income	825	—	—	825
Income taxes	(15)	—	—	(15)
Net income (loss)	(17,630)	52	—	(17,578)
Identifiable assets	<u>305,543</u>	<u>5,262</u>	<u>—</u>	<u>310,805</u>
May 5, 2007				
Revenues	\$ 185,382	\$ 2,727	\$ —	\$188,109
Operating (loss) income	(7,663)	235	—	(7,428)
Depreciation and amortization	5,416	170	—	5,586
Interest income	1,240	—	—	1,240
Income taxes	491	(12)	(760)	(281)
Net income (loss)	(5,842)	133	40,089	34,380
Identifiable assets, February 2, 2008	<u>352,745</u>	<u>6,335</u>	<u>—</u>	<u>359,080</u>

- (a) Revenues from segments below quantitative thresholds are attributable to VVI Fulfillment Center, Inc., which provides fulfillment, warehousing and telemarketing services primarily to Ralph Lauren Media, Inc. ("RLM") and the Company. The services agreement with RLM ended in the first quarter of fiscal 2008 as RLM migrated to its own customer service, warehousing and fulfillment facilities.
- (b) Equity investment assets and net income and gains from equity investments consist of long-term investments and earnings from equity investments accounted for under the equity method of accounting and are not directly assignable to a business unit.

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Information on net sales from continuing operations by significant product groups are as follows (in thousands):

	Three-Month Periods Ended	
	May 3, 2008	May 5, 2007
Jewelry	\$ 66,296	\$ 76,467
Watches, coins & collectibles	30,686	25,273
Computers and electronics	22,238	35,239
Apparel and health & beauty	13,579	13,383
Home and all other merchandise categories	13,482	26,480
All other revenue, less than 10% each	10,007	11,267
Total	<u>\$ 156,288</u>	<u>\$ 188,109</u>

(9) Related Party Transactions

The Company entered into a Private Label Credit Card and Co-Brand Credit Card Consumer Program Agreement with GE Money Bank for the financing of private label credit card purchases from ShopNBC and for the financing of co-brand credit card purchases of products and services from other non-ShopNBC retailers. GE Money Bank, the issuing bank for the program, is indirectly wholly-owned by the General Electric Company ("GE"), which is also the parent company of NBC and GE Commercial Finance – Equity. NBCU and GE Commercial Finance – Equity have a substantial percentage ownership in the Company and together have the right to select three members of the Company's board of directors.

The Company and NBCU are partners in a ten-year Distribution and Marketing Agreement dated March 8, 1999 that provides that NBC shall have the exclusive right to negotiate on behalf of the Company for the distribution of its home shopping television programming service. As compensation for these services, the Company currently pays NBCU an annual fee of approximately \$930,000.

(10) Restricted Stock

The Company granted a total of 36,742 shares of restricted stock to its chairman of the board during the period of November 2007 through March 2008 as compensation for services he performed as the Company's interim chief executive officer. The aggregate market value of the restricted stock was \$223,000 and was amortized as compensation expense over the service period. On June 28, 2007, the Company granted a total of 40,000 shares of restricted stock from the Company's 2004 Omnibus Stock Plan to its five non-management directors elected by the holders of the Company's common stock (in contrast to the three directors elected by the holders of the Company's preferred stock) as part of the Company's annual director compensation program. The restricted stock vests on the first anniversary of the date of grant. The aggregate market value of the restricted stock at the date of award was \$459,000 and is being amortized as director compensation expense over the twelve-month vesting period. In the second quarter of fiscal 2004, the Company awarded 25,000 shares of restricted stock to certain employees. This restricted stock grant vests over different periods ranging from 17 to 53 months. The aggregate market value of the restricted stock at the award dates was \$308,000 and is being amortized as compensation expense over the respective vesting periods. Compensation expense recorded in the first three months of fiscal 2008 and the first three months of fiscal 2007 relating to restricted stock grants was \$336,000 and \$133,000, respectively. As of May 3, 2008, there was \$88,000 of total unrecognized compensation cost related to non-vested restricted stock granted. That cost is expected to be recognized over a weighted average period of 0.3 years. The total fair value of restricted stock vested during the first three months of fiscal 2008 and 2007 was \$205,000 and \$-0-, respectively.

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A summary of the status of the Company's non-vested restricted stock activity as of May 3, 2008 and changes during the three-month period then ended is as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested outstanding, February 2, 2008	82,000	\$ 9.88
Granted	9,000	\$ 5.25
Vested	(39,000)	\$ 6.51
Forfeited	—	—
Non-vested outstanding, May 3, 2008	<u>52,000</u>	<u>\$ 11.57</u>

(11) Common Stock Repurchase Program

In August 2006 the Company's board of directors authorized a common stock repurchase program. The program authorizes the Company's management, acting through an investment banking firm selected as the Company's agent, to repurchase up to \$10 million of the Company's common stock by open market purchases or negotiated transactions at prices and amounts as determined by the Company from time to time. In May 2007, the Company's board of directors authorized the repurchase of an additional \$25 million of the Company's common stock under its stock repurchase program. During the three months ended May 3, 2008, the Company repurchased a total of 556,000 shares of common stock for a total investment of \$3,317,000 at an average price of \$5.96 per share. During fiscal 2007, the Company repurchased a total of 3,618,000 shares of common stock for a total investment of \$26,985,000 at an average price of \$7.46 per share. In March 2008, Company's board of directors authorized the repurchase of an additional \$10 million of the Company's common stock under its stock repurchase program.

(12) Intangible Assets

Intangible assets have been recorded in connection with the Company's acquisition of the ShopNBC license and with the issuance of distribution warrants to NBCU. Intangible assets have also been recorded by the Company as a result of the acquisition of television station WWDP TV-46. Intangible assets in the accompanying consolidated balance sheets consist of the following:

	<u>Weighted Average Life (Years)</u>	<u>May 3, 2008</u>		<u>February 2, 2008</u>	
		<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortizable intangible assets:					
NBC trademark license agreement	10.5	\$34,437,000	\$(24,636,000)	\$34,437,000	\$(23,829,000)
Cable distribution and marketing agreement	9.5	8,278,000	(7,602,000)	8,278,000	(7,406,000)
		<u>\$42,715,000</u>	<u>\$(32,238,000)</u>	<u>\$42,715,000</u>	<u>\$(31,235,000)</u>
Unamortized intangible assets:					
FCC broadcast license		<u>\$31,943,000</u>		<u>\$31,943,000</u>	

Amortization expense for the NBCU intangible assets was \$1,003,000 for the quarters ended May 3, 2008 and May 5, 2007. Estimated amortization expense for the next five years is as follows: \$3,943,000 in fiscal 2008, \$3,383,000 in fiscal 2009, \$3,227,000 in fiscal 2010 and \$928,000 in fiscal 2011.

The FCC broadcasting license, which relates to the Company's acquisition of television station WWDP TV-46, is not subject to amortization as a result of its indefinite useful life. The Company tests the FCC license asset for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. There was no impairment as of February 2, 2008.

(13) ShopNBC Private Label and Co-Brand Credit Card Program

In the third quarter of fiscal 2006, the Company introduced and established a new private label and co-brand revolving consumer credit card program (the "Program"). The Program is made available to all qualified consumers for the financing of purchases of products from ShopNBC and for the financing of purchases of products and services from other non-ShopNBC retailers. The Program is intended to be used by cardholders for purchases made primarily for personal, family or household use. The issuing bank is the sole owner of the account issued under the Program and absorbs losses associated with non-payment by cardholders. The issuing bank pays fees to the Company based on the number of credit card accounts activated and on card usage. Once a customer is approved to receive a ShopNBC private label or co-branded credit card and the card is activated, the customer is eligible to participate in the Company's credit card rewards program. Under the original rewards program, points are earned on purchases made with the credit cards at ShopNBC and other retailers where the co-branded card is accepted. Cardholders who accumulate the requisite number of points are issued a \$50 certificate award towards the future purchase of ShopNBC merchandise. These certificate awards expire after twelve months if unredeemed. Beginning in the second quarter of fiscal 2008, the rewards program was modified whereby newly activated customers will obtain an immediate \$25 statement credit upon activation and first purchase and upon the accumulation of the requisite number of points card holders will be issued a \$25 certificate award towards the future purchase of ShopNBC merchandise. These certificate awards will expire after 90 days if unredeemed. The Company accounts for the rewards program in accordance with Emerging Issues Task Force issue No. 00-22, *Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future*. The value of points earned is included in accrued liabilities and recorded as a reduction in revenue as points are earned, based on the retail value of points that are projected to be redeemed. The Company accounts for the Private Label and Co-Brand Credit Card Agreement in accordance with EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*. In conjunction with the signing of the ShopNBC Private Label and Co-Brand Credit Card Agreement, the Company received from the issuing bank a non-refundable signing bonus as an incentive for the Company to enter into the agreement. The bonus has been recorded as deferred revenue in the accompanying financial statements and is being recognized as revenue over the term of the agreement.

(14) Sale of RLM Equity Investment

On March 28, 2007, the Company entered into a Membership Interest Purchase Agreement with Polo Ralph Lauren, NBCU and certain NBCU affiliates, pursuant to which the Company sold its 12.5% membership interest in RLM to Polo Ralph Lauren for an aggregate purchase price of \$43,750,000 in cash. As a result of this sales transaction, the Company recorded a pre-tax gain of \$40,240,000 on the sale of RLM in the first quarter of fiscal 2007.

(15) Restructuring Costs

On May 21, 2007, the Company announced the initiation of a restructuring of its operations that includes a 12% reduction in the salaried workforce, a consolidation of its distribution operations into a single warehouse facility, the exit and closure of a retail outlet store and other cost saving measures. On January 14, 2008, the Company announced additional organizational changes and cost-saving measures following a formal business review conducted by management and an outside consulting firm. As a result of the business review, the Company's organizational structure was simplified and streamlined to focus on profitability. As part of this restructuring, the Company reduced its salaried workforce by an additional 10%. As a result, the Company recorded a \$5,043,000 restructuring charge for the year ended February 2, 2008 and an additional \$330,000 charge for the three-month period ended May 3, 2008. Restructuring costs include employee severance and retention costs associated with the consolidation and elimination of approximately 80 positions across the Company including four officers. In addition, restructuring costs also include incremental charges associated with the Company's consolidation of its distribution and fulfillment operations into a single warehouse facility, the closure of a retail outlet store, fixed asset impairments incurred as a direct result of the operational consolidation and closures and restructuring advisory service fees.

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The table below sets forth for the three months ended May 3, 2008, the significant components and activity under the restructuring program:

	<u>Balance at February 2, 2008</u>	<u>Charges</u>	<u>Write-offs</u>	<u>Cash Payments</u>	<u>Balance at May 3, 2008</u>
Severance and retention	\$ 874,000	\$310,000	\$ —	\$ (936,000)	\$ 248,000
Asset impairments	—	—	—	—	—
Incremental restructuring charges	294,000	20,000	—	(302,000)	12,000
	<u>\$ 1,168,000</u>	<u>\$330,000</u>	<u>\$ —</u>	<u>\$(1,238,000)</u>	<u>\$ 260,000</u>

(16) Chief Executive Officer Transition Costs

On October 26, 2007, the Company announced that William J. Lansing, at the request of the board of directors, stepped down as president and chief executive officer and had left the Company's board of directors. In conjunction with Mr. Lansing's resignation, the Company recorded a charge to income of \$2,451,000 during fiscal 2007 and an additional \$277,000 for the three-month period ended May 3, 2008 relating primarily to severance payments which Mr. Lansing was entitled to in accordance with the terms of his employment agreement and costs associated with the hiring of the Company's new chief executive officer.

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our accompanying unaudited condensed consolidated financial statements and notes included herein and the audited consolidated financial statements and notes included in our annual report on Form 10-K for the fiscal year ended February 2, 2008.

Cautionary Statement Regarding Forward-Looking Statements

The following Management's Discussion and Analysis of Financial Condition and Results of Operations and other materials we file with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by us) contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects or future results of operations or financial position, made in this report are forward looking. We often use words such as anticipates, believes, expects, intends and similar expressions to identify forward-looking statements. 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; the general economic and credit environment; interest rates; seasonal variations in consumer purchasing activities; changes in the mix of products sold by us; competitive pressures on sales; pricing and sales margins; the level of cable and satellite distribution for our programming and the associated fees; the success of our e-commerce initiatives; the success of our strategic alliances and relationships; our ability to manage our operating expenses successfully; risks associated with acquisitions; changes in governmental or regulatory requirements; litigation or governmental proceedings affecting our operations; the risks identified under "Risk Factors" and "Critical Accounting Policies and Estimates" in our Form 10-K for our fiscal year ended February 2, 2008; significant public events that are difficult to predict, such as widespread weather catastrophes or other significant television-covering events causing an interruption of television coverage or that directly compete with the viewership of our programming; and our ability to obtain and retain key executives and employees. Investors are cautioned that all forward-looking statements involve risk and uncertainty. 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 the forward-looking statements obsolete. We are under no obligation (and expressly disclaims any obligation) to update or alter our forward-looking statements whether as a result of new information, future events or otherwise.

Overview

Company Description

We are an integrated direct marketing company that markets its products to consumers through various forms of electronic media and direct-to-consumer mailings otherwise known as multi-channel retailing. Our operating strategy incorporates television home shopping, internet e-commerce, direct mail and on-line marketing. Our live 24-hour per day television home shopping programming is distributed primarily through cable and satellite affiliation agreements and on-line through ShopNBC.TV. We have an exclusive license from NBC Universal, Inc., known as NBCU, for the worldwide use of an NBC-branded name and the peacock image for a period ending in May 2011. Pursuant to the license, we operate our television home shopping network under the ShopNBC brand name and operate our internet website under the ShopNBC.com brand name.

Products and Customers

Products sold on our television home shopping network and internet shopping website include jewelry, watches, computers and other electronics, housewares, apparel, cosmetics, seasonal items and other merchandise. Jewelry is our largest single category of merchandise, representing 44% of television home shopping and internet net sales for the three-month period ended May 3, 2008 and 40% of television and internet net sales for the three-month period ended May 5, 2007. Watches, coins & collectibles represented approximately 20% of television home shopping and internet net sales for the three-month period ended May 3, 2008 and approximately 15% of television home shopping and internet net sales for the three-month period ended May 5, 2007. Computers & electronics represented approximately 17% of television home shopping and internet net sales for the three-month period ended May 3, 2008 and approximately 23% of television home shopping and internet net sales for the three-month period ended May 5, 2007. Apparel, fashion accessories and health & beauty represented approximately 10% of television home shopping and internet net sales for the three-month period ended

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May 3, 2008 and approximately 9% of television home shopping and internet net sales for the three-month period ended May 5, 2007. Our strategy is to continue to develop new product offerings across multiple merchandise categories as needed in response to both customer demand and in order to maximize margin dollars per minute in our television home shopping and internet operations. Our customers are primarily women over the ages of 35 with average annual household incomes in excess of \$70,000 who make purchases based primarily on convenience, unique product offerings, value and quality of merchandise.

Company Strategy

We endeavor to be positioned as a profitable and innovative leader in multi-channel retailing in the United States. The following strategies were pursued during fiscal 2007 to increase revenues and profitability and grow our active customer base, for both television and internet sales: (i) continue to optimize our mix of product categories offered on television and the internet in order to appeal to a broader population of potential customers; (ii) continue the growth of our internet business through the innovative use of technology and marketing efforts, such as advanced search capabilities, personalization, internet video, affiliate agreements and internet-based auction capabilities; (iii) obtain cost-effective distribution agreements for our television programming with cable and satellite operators, as well as pursuing other means of reaching customers such as through webcasting, internet videos and internet-based broadcasting networks; (iv) increase the productivity of each hour of television programming, through a focus on television offers of merchandise that maximizes margin dollars per hour and marketing efforts to increase the number of customers within the households currently receiving our television programming; (v) continue to enhance our television broadcast quality, programming, website features and customer support; and (vi) leverage the strong brand recognition of the NBC brand name.

At the beginning of fiscal 2008, a new chief executive officer and three new industry-experienced senior executives joined our senior management team. These new executives are reviewing our strategy for long-term growth in revenues and profits, in conjunction with the board of directors and other members of management, and will develop a plan for improving our strategic focus during fiscal 2008. Some of the key focus areas include: improving the customer experience; retaining and growing the core customer base of repeat customers; shifting the merchandise mix and price points to appeal to the core female customer; broadening the vendor base; and improving business disciplines and execution.

Challenge

Our television home shopping business operates with a high fixed cost base, which is primarily due to fixed contractual fees paid to cable and satellite operators to carry our programming. In order to attain profitability, we must achieve sufficient sales volume through the acquisition of new customers and the increased retention of existing customers to cover our high fixed costs or reduce the fixed cost base for our cable and satellite distribution. Our growth and profitability could be adversely impacted if sales volume does not meet expectations, as we will have limited immediate capability to reduce our fixed cable and satellite distribution operating expenses to mitigate any potential sales shortfall.

Our Competition

The direct marketing and retail businesses are highly competitive. In our television home shopping and e-commerce operations, we compete for customers with other types of consumer retail businesses, including traditional “brick and mortar” department stores, discount stores, warehouse stores and specialty stores; other television home shopping and e-commerce retailers; infomercial companies; catalog and mail order retailers and other direct sellers.

In the competitive television home shopping sector, we compete with QVC Network, Inc. and HSN, Inc., both of whom are substantially larger than we are in terms of annual revenues and customers, and whose programming is carried more broadly to U.S. households than is our programming. Both QVC and HSN are owned by large, well-capitalized parent companies in the media business, who are also expanding into related e-commerce and web-based businesses. The American Collectibles Network, known as ACN, which operates Jewelry Television, also competes with us for television home shopping customers in the jewelry category. In addition, there are a number of smaller niche players and startups in the television home shopping arena who compete with our company.

The e-commerce sector is also highly competitive, and we are in direct competition with numerous other internet retailers, many of whom are larger, more well-financed and/or have a broader customer base. Certain of our competitors in the television home shopping sector have acquired internet businesses complementary to their existing internet sites, which may pose new competitive challenges for our company.

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We anticipate continuing competition for viewers and customers, for experienced home shopping personnel, for distribution agreements with cable and satellite systems, and for vendors and suppliers — not only from television home shopping companies, but also from other companies that seek to enter the home shopping and internet retail industries, including telecommunications and cable companies, television networks, and other established retailers. We believe that our success in the TV home shopping and e-commerce sectors is dependent on a number of key factors, including (i) obtaining more favorable terms in our cable and satellite distribution agreements, (ii) increasing the number of households who purchase products from us, and (iii) increasing the dollar value of sales per customer to our existing customer base.

Results for the First Quarter of Fiscal 2008 and Fiscal 2007

Consolidated net sales for the 2008 first quarter were \$156,288,000 compared to \$188,109,000 for the 2007 first quarter. The decrease in consolidated net sales from continuing operations is directly attributable to the decreased net sales from our television home shopping and internet operations. Net sales attributed to our television home shopping and internet operations decreased to \$154,261,000 for the 2008 first quarter from \$185,382,000 for the 2007 first quarter. We reported an operating loss of (\$18,388,000) and a net loss of (\$17,578,000) for the 2008 first quarter. We reported an operating loss of (\$7,428,000) and net income of \$34,380,000 for the 2007 first quarter.

Sale of Ralph Lauren Media Equity Investment

On March 28, 2007, we entered into a membership interest purchase agreement with Polo Ralph Lauren, NBCU and certain NBCU affiliates, pursuant to which we sold our 12.5% membership interest in Ralph Lauren Media, LLC, known as RLM to Polo Ralph Lauren for an aggregate purchase price of \$43,750,000 in cash. As a result of this transaction, we recorded a pre-tax gain of \$40,240,000 on the sale of RLM in the first quarter of fiscal 2007.

Restructuring Costs

On May 21, 2007, we announced the initiation of a restructuring of our operations that included a 12% reduction in the salaried workforce, a consolidation of its distribution operations into a single warehouse facility, the exit and closure of a retail outlet store and other cost saving measures. On January 14, 2008, we announced additional organizational changes and cost-saving measures following a formal business review conducted by management and an outside consulting firm. As a result of the business review, our organizational structure was simplified and streamlined to focus on profitability. As part of this restructuring, we reduced our salaried workforce by an additional 10%. As a result, we recorded a \$5,043,000 restructuring charge for fiscal 2007 and an additional \$330,000 charge for the three-month period ended May 3, 2008. Restructuring costs include employee severance and retention costs associated with the consolidation and elimination of approximately 80 positions across our company including four senior managers. In addition, restructuring costs also include incremental charges associated with the consolidation of our distribution and fulfillment operations into a single warehouse facility, the closure of a retail outlet store, fixed asset impairments incurred as a direct result of the operational consolidation and closures and restructuring advisory service fees.

Chief Executive Officer Transition Costs

On October 26, 2007, we announced that William J. Lansing, at the request of the board of directors, stepped down as president and chief executive officer and had left our board of directors. In conjunction with Mr. Lansing's resignation, we recorded a charge to income of \$2,451,000 during fiscal 2007 and an additional \$277,000 for the three-month period ended May 3, 2008 relating primarily to severance payments that Mr. Lansing was entitled to in accordance with the terms of his employment agreement and costs associated with the hiring of our new chief executive officer.

Limitation on Must-Carry Rights

The Federal Communications Commission, known as the FCC, issued a public notice on May 4, 2007 stating that it was updating the public record for a petition for reconsideration filed in 1993 and still pending before the FCC. The petition challenges the FCC's prior determination to grant the same mandatory cable carriage (or "must-carry") rights for TV broadcast stations carrying home shopping programming that the FCC's rules accord to other TV stations. The time period for comments and reply comments regarding the

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reconsideration closed in August 2007, and we submitted comments supporting the continuation of must-carry rights for home shopping stations. If the FCC decides to change its prior determination and withdraw must-carry rights for home shopping stations as a result of this updating of the public record, we could lose our current carriage distribution on cable systems in three markets: Boston, Pittsburgh and Seattle, which currently constitute approximately 3.2 million full-time equivalent households, or FTE's, receiving our programming. We own the Boston television station and have carriage contracts with the Pittsburg and Seattle television stations. In addition, if must-carry rights for home shopping stations are withdrawn, it may not be possible to replace these FTE's on commercially reasonable terms and the carrying value of our Boston television station (\$31.9 million) may become partially impaired. At this time, we cannot predict the timing or the outcome of the FCC's action to update the public record on this issue.

Results of Operations

Selected Condensed Consolidated Financial Data Continuing Operations (Unaudited)

	Dollar Amount as a Percentage of Net Sales for the	
	Three-Month Periods Ended	
	May 3, 2008	May 5, 2007
Net sales	100.0%	100.0%
Cost of sales (exclusive of depreciation and amortization)	68.0%	64.9%
Operating expenses:		
Distribution and selling	36.5%	32.1%
General and administrative	4.1%	4.0%
Depreciation and amortization	2.8%	3.0%
Restructuring costs	0.2%	—%
CEO transition costs	0.2%	—%
	<u>43.8%</u>	<u>39.1%</u>
Operating loss	<u>(11.8)%</u>	<u>(4.0)%</u>

Key Performance Metrics* (Unaudited)

	For the		Change
	Three-Month Periods Ended		
	May 3, 2008	May 5, 2007	
Program Distribution			
Cable FTE's (Average 000's)	42,361	40,379	5%
Satellite FTE's (Average 000's)	28,394	27,136	5%
Total FTEs (Average 000's)	70,755	67,515	5%
Net Sales per FTE (Annualized)	\$ 8.72	\$ 10.98	(21%)
Merchandise Mix			
Jewelry	44%	40%	
Computers & Electronics	17%	23%	
Watches, Coins & Collectibles	20%	15%	
Apparel, Fashion Accessories and Health & Beauty	10%	9%	
Home and All Other	9%	13%	
Shipped Units (000's)	1,004	1,149	(13%)
Average Selling Price – Shipped Units	\$ 228	\$ 225	1%

* Includes television home shopping and Internet sales only.

Program Distribution

Our television home shopping programming was available to approximately 70.8 million average full time equivalent, or FTE, households for the first quarter of fiscal 2008 and approximately 67.5 million average FTE households for the first quarter of fiscal 2007. Average FTE subscribers grew 5% in the first quarter of fiscal 2008, resulting in a 3.3 million increase in average FTE's versus the prior year comparable quarter. The increase was driven by continued strong growth in satellite distribution of our programming and increased distribution of our programming on digital cable. We anticipate that our cable programming distribution will increasingly shift towards a greater mix of digital as opposed to analog cable tiers, both through growth in the number of digital subscribers and through cable system operators moving programming that is carried on analog channels over to digital channels. Nonetheless, because of the broader universe of programming choices available for viewers in digital systems and the higher channel placements commonly associated with digital tiers, the shift towards digital systems may adversely impact our ability to compete for television viewers even if our programming is available in more homes. Our television home shopping programming is also simulcast live 24 hours a day, 7 days a week through our internet website, www.shopnbc.tv, which is not included in total FTE households.

Merchandise Mix

During the 2008 first quarter, jewelry net sales increased to 44% of total television home shopping and internet net sales from 40% during the prior year comparable quarter. Net sales from computers and electronics decreased to 17% of total television home shopping and internet net sales from 23% as compared to the prior year first quarter and net sales from watches, coins & collectibles categories increased to 20% of total television home shopping and internet net sales from 15% as compared to the prior year first quarter. Apparel, fashion accessories and health & beauty categories increased to 10% of total television home shopping and internet net sales from 9% as compared to the prior year first quarter and home and other products represented 9% of total television home shopping and internet net sales compared to 13% during the prior year comparable quarter.

Shipped Units

The number of units shipped during the 2008 first quarter decreased 13% from the prior year's comparable quarter to 1,004,000 from 1,149,000. The decrease in shipped units was directly related to the decrease in sales experienced during the first three months of fiscal 2008.

Average Selling Price

The average selling price, or ASP, per unit was \$228 in the 2008 first quarter, a 1% increase from the comparable prior year quarter. The year-to-date increase in the 2008 ASP was driven primarily by selling price increases within the jewelry category.

Net Sales

Consolidated net sales for the 2008 first quarter were \$156,288,000 as compared with consolidated net sales of \$188,109,000 for the 2007 first quarter, a 17% decrease. The overall decrease in consolidated net sales from prior year is directly attributed to decreases experienced in net sales from our television home shopping and internet operations. Net sales attributed to our television home shopping and internet operations decreased to \$154,261,000 for the 2008 first quarter from \$185,382,000 for the 2007 first quarter, a 17% decrease. Like similar experiences of other retailers, our television home shopping and internet net sales decreased during fiscal 2008 as a direct result of a continued slowing economy and a difficult environment with consumer confidence dropping to a 25-year low and a slowdown in overall discretionary spending. Our high end jewelry business, which has average selling prices of over \$500, was hit especially hard during the quarter. In addition, television home shopping and internet net sales decreased as we started to change the way in which we operate our business to better position our company for the future. We began reducing airtime devoted to high ticket

items such as consumer electronics, which drive top-line sales but not necessarily repeat business. This mix shift accounted for approximately 4% of the first quarter's net sales decrease. Going forward we intend to devote more airtime to key merchandise categories that may generate less top-line revenue, but more margin per hour and help us expand our core customer base. In addition, television and internet net sales also decreased due to decreased shipping and handling revenue resulting from decreased sales in the 2008 period compared to 2007.

Cost of Sales (exclusive of depreciation and amortization)

Cost of sales (exclusive of depreciation and amortization) for the 2008 first quarter and 2007 first quarter was \$106,332,000 and \$121,996,000, respectively, a decrease of \$15,664,000, or 13%. The decreases in cost of sales is directly attributable to decreased costs associated with decreased sales volume from our television home shopping and internet businesses and decreased shipping costs associated with decreases in shipping and handling revenues. Net sales less cost of sales (exclusive of depreciation and amortization) as a percentage of sales for the fiscal 2008 and fiscal 2007 quarters were 32.0% and 35.1%, respectively. The sales margin decrease from the prior year resulted primarily from our effort during the first quarter to reduce inventory levels of high-priced items by taking aggressive markdowns during our end of quarter clearance sale. In addition, first quarter gross margin was also impacted by a non-cash inventory write down of \$3.8 million recorded in the first quarter as a result of a strategic decision made during the quarter to significantly reduce our products' on-air life cycle going forward.

Operating Expenses

Total operating expenses for the 2008 first quarter were \$68,344,000 compared to \$73,541,000 for the comparable prior year period, a decrease of 7%. Distribution and selling expense decreased \$3,377,000, or 6%, to \$57,083,000, or 37% of net sales during the 2008 first quarter compared to \$60,460,000 or 32% of net sales for the comparable prior year quarter. Distribution and selling expense decreased over the prior year primarily due to a decrease in telemarketing and customer service costs of \$1,818,000 associated with decreased sales volume; decreases in salaries, accrued bonuses and other related personnel costs associated with merchandising, television production and show management personnel and on-air talent of \$1,203,000; decreases in internet, direct-mail and marketing expenses of \$704,000 and decreases in net collection fees and bad debt expense of \$785,000 due to the overall decrease in net sales and due to a lower percentage of and our reduced reliance during fiscal 2008 on net sales sold using the ValuePay installment program. These decreases were offset by an increase in net cable and satellite access fees of \$778,000 as a result of increased subscribers over prior year and increased stock option expense of \$137,000 associated with fiscal 2008 stock option grants. Distribution and selling expense increased to 37% of net sales during the 2008 first quarter compared to 32% of net sales for the comparable prior year quarter.

General and administrative expense for the 2008 first quarter decreased \$1,160,000, or 15%, to \$6,335,000, or 4% of net sales, compared to \$7,495,000, or 4% of net sales for the 2007 first quarter. General and administrative expense decreased on a year-to-date basis over the prior year primarily as a result of our restructuring initiative which included reductions in salaries, related benefits and accrued bonuses totaling \$1,245,000, offset by increases associated with stock option expense of \$137,000. General and Administrative expense remained constant at 4% of net sales in both the fiscal 2008 and fiscal 2007 first quarters.

Depreciation and amortization expense for the 2008 first quarter was \$4,319,000 compared to \$5,586,000 for the 2007 quarter, representing a decrease of \$1,267,000, or 23%, from the comparable prior year period. Depreciation and amortization expense as a percentage of net sales for the 2008 and 2007 quarters was constant at 3% for each period. The quarterly decrease in depreciation and amortization expense relates to the timing of fully depreciated assets quarter over quarter.

Operating Loss

For the 2008 first quarter, our operating loss was \$18,388,000 compared to an operating loss of \$7,428,000 for the 2007 first quarter. Our operating loss increased during fiscal 2008 from the comparable prior year period primarily as a result of our decrease in net sales due to a continued slowing economy and a difficult environment driven by a general softness in overall consumer demand. In addition, we experienced increases during the quarter in operating expenses, particularly (i) increases in costs associated with our restructuring initiative and (ii) additional expense associated with our chief executive officer departure. These operating expense increases were offset by decreases in distribution and selling expenses due primarily to decreased sales, decreases in general and administrative expense as a result of reduced headcount in the form of reduced salary and bonuses and a net decrease in depreciation and amortization expense as a result of the timing of fully depreciated assets year over year.

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Net Income (Loss)

For the 2008 first quarter, we reported a net loss available to common shareholders of (\$17,651,000) or (\$.53) per share on 33,578,000 weighted average common shares outstanding compared with net income available to common shareholders of \$34,308,000 or \$.80 per share on 42,939,000 weighted average common shares outstanding (42,939,000 diluted shares) for the 2007 first quarter. Net loss available to common shareholders for the first quarter of 2008 includes interest income totaling \$825,000 earned on our cash and investments. Net income available to common shareholders for the first quarter of 2007 includes the recording of a pre-tax gain of \$40,240,000 on the sale of RLM, the recording of \$609,000 of equity in earnings from RLM and interest income totaling \$1,240,000 earned on our cash and investments.

For the first quarter of fiscal 2008, we recorded state income taxes payable on certain income for which there is no loss carryforward benefit available. For the first quarter of 2007 we reported a net income tax provision of \$281,000, which was primarily attributable to the gain on the sale of RLM. The income tax provision recorded for the 2007 quarter reflects a 2% effective alternative minimum tax rate recorded on the gain recorded on the sale of RLM and state income taxes payable on certain income for which there is no loss carryforward benefit available for the 2007 quarter. We have not recorded any income tax benefit on the loss recorded in the 2008 quarter due to the uncertainty of realizing income tax benefits in the future as indicated by our recording of an income tax valuation reserve. We will continue to maintain a valuation reserve against our net deferred tax assets until we believe it is more likely than not that these assets will be realized in the future.

Adjusted EBITDA Reconciliation

Adjusted EBITDA (as defined below) for the 2008 first quarter was a loss of \$(12,394,000) compared with an Adjusted EBITDA loss of \$(1,249,000) for the 2007 first quarter.

A reconciliation of EBITDA, as adjusted, to its comparable GAAP measurement, net income (loss) follows, in thousands:

	Three-Month Periods Ended	
	May 3, 2008	May 5, 2007
EBITDA, as adjusted	\$ (12,394)	\$ (1,249)
Less:		
Non-operating gains and equity in income of RLM	—	40,849
Restructuring costs	(330)	—
CEO transition costs	(277)	—
Non-cash share-based compensation	(1,068)	(593)
EBITDA (as defined)	(14,069)	39,007
A reconciliation of EBITDA to net income (loss) is as follows:		
EBITDA, as defined	(14,069)	39,007
Adjustments:		
Depreciation and amortization	(4,319)	(5,586)
Interest income	825	1,240
Income taxes	(15)	(281)
Net income (loss)	\$ (17,578)	\$ 34,380

EBITDA represents net income (loss) from continuing operations for the respective periods excluding depreciation and amortization expense, interest income (expense) and income taxes. We define EBITDA, as adjusted, as EBITDA excluding non-recurring non-operating gains (losses) and equity in income of Ralph Lauren Media, LLC; non-recurring restructuring and chief executive officer transition costs; and non-cash share-based compensation expense.

We have included the term EBITDA, as adjusted, in our EBITDA reconciliation in order to adequately assess the operating performance of our “core” television and internet businesses and in order to maintain comparability to our analyst’s coverage and financial guidance. Management believes that EBITDA, as adjusted, allows investors to make a more meaningful comparison between our core business operating results over different periods of time with those of other similar companies. In addition, management uses

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EBITDA, as adjusted, as a metric measure to evaluate operating performance under its management and executive incentive compensation programs. EBITDA, as adjusted, should not be construed as an alternative to operating income (loss) or to cash flows from operating activities as determined in accordance with generally accepted accounting principles and should not be construed as a measure of liquidity. EBITDA, as adjusted, may not be comparable to similarly entitled measures reported by other companies.

Critical Accounting Policies, Estimates and Risk Factors

A discussion of the critical accounting policies related to accounting estimates and assumptions and specific risks and uncertainties are discussed in detail in our fiscal 2007 annual report on Form 10-K under the captions entitled “Risk Factors” and “Critical Accounting Policies and Estimates.”

We have entered into affiliation agreements that represent approximately 1,400 cable systems that require each operator to offer our television home shopping programming substantially on a full-time basis over their systems. The stated terms of the affiliation agreements typically ranged originally from three to twelve years. Under certain circumstances, the television operators may cancel the agreements prior to their expiration. If these agreements are terminated, the termination may materially or adversely affect our business. Cable and satellite distribution agreements representing a majority of the total cable and satellite households who currently receive our television programming are scheduled to expire at the end of 2008. While we and NBCU, as our agent, have begun discussions with certain cable and satellite system operators regarding extensions or renewals of these agreements, no assurance can be given that we will be successful in negotiating renewal contracts with all the existing systems, or that the financial and other terms of renewal will be on acceptable terms. Failure to successfully renew carriage agreements covering a material portion of our existing cable and satellite households on acceptable financial and other terms could adversely affect our future growth, sales revenues and earnings unless we were able to arrange for alternative means of broadly distributing our television programming. In addition, unless we and NBCU mutually agree on an extension of the distribution and marketing agreement under which NBCU acts as our agent, this agreement will expire in March 2009 and this could adversely affect our ability to increase our program distribution.

Financial Condition, Liquidity and Capital Resources

As of May 3, 2008, cash and cash equivalents and short-term investments were \$62,253,000, compared to \$59,078,000 as of February 2, 2008, a \$3,175,000 increase. For the quarter, working capital decreased \$16,103,000 to \$117,730,000. The current ratio was 2.3 at May 3, 2008 compared to 2.1 at February 2, 2008.

Sources of Liquidity

Our principal sources of liquidity are our available cash, cash equivalents and short and long-term investments, accrued interest earned from our short and long-term investments and our operating cash flow, which is primarily generated from credit card receipts from sales transactions and the collection of outstanding customer accounts receivables. The timing of customer collections made pursuant to our ValuePay installment program and the extent to which we extend credit to our customers is important to our short-term liquidity and cash resources. A significant increase in our accounts receivable aging or credit losses could negatively impact our source of cash from operations in the short term. During fiscal 2007, we experienced a \$7.2 million increase in bad debt expense over fiscal 2006 due to recent up-trends experienced in customer account delinquencies, costs of collection and write offs during fiscal 2007, all associated with increased exposure relating to the current consumer credit environment. While credit losses have historically been within our estimates for these losses, there is no guarantee that we will continue to experience the same credit loss rate that we have had in the past or that the recent increase in bad debt losses will not continue. Historically, we have also been able to generate additional cash sources from the proceeds of stock option exercises and from the sale of equity investments and other properties; however, these sources of cash are neither relied upon nor controllable by us. We have no debt other than fixed capital lease obligations and believe we have the ability to obtain additional financing if necessary. At May 3, 2008, short and long-term investments and cash equivalents were invested primarily in money market funds, high quality commercial paper with original maturity dates of less than 270 days and investment grade corporate and auction rate securities with original tender option terms ranging from one month to one year. Although we believe our short and long-term investment policy is conservative in nature, certain short-term investments in commercial paper can be exposed to the credit risk of the underlying companies to which they relate and interest earned on these investments is subject to interest rate fluctuations. The maturities and tender option terms within our investment portfolio generally range from 30 to 180 days.

At May 3, 2008, our investment portfolio included auction rate securities with an estimated fair value of \$23,802,000 (\$26,800,000 cost basis). Our auction rate securities are variable rate debt instruments that have underlying securities with contractual maturities

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greater than ten years. Holders of auction rate securities can either sell through the auction or bid based on a desired interest rate or hold and accept the reset rate. If there are insufficient buyers, then the auction fails and holders are unable to liquidate their investment through the auction. A failed auction is not a default of the debt instrument, but does set a new interest rate in accordance with the original terms of the debt instrument. The result of a failed auction is that the auction rate security continues to pay interest in accordance with its terms. Auctions continue to be held as scheduled until the auction rate security matures or until it is called. These mostly AAA-rated auction rate securities, which met our investment guidelines at the time the investments were made, have failed to settle in auctions during fiscal 2007 and fiscal 2008. At this time, these investments are not liquid, and in the event we need to access these funds, we will not be able to do so without a loss of principle. We have reduced the carrying value of these investments by \$2,998,000 through other comprehensive income (loss) to reflect a temporary impairment on these securities. Currently, we believe these investments are temporarily impaired, but it is not clear in what period of time they will be settled. Due to the current lack of liquidity of these investments, they are classified as long-term investments on our balance sheet.

Cash Requirements

Our principal use of cash is to fund our business operations, which consist primarily of purchasing inventory for resale, funding account receivables growth in support of sales growth and funding operating expenses, particularly our contractual commitments for cable and satellite programming and the funding of capital expenditures. Expenditures made for property and equipment in fiscal 2008 and 2007 and for expected future capital expenditures include the upgrade and replacement of computer software and front-end merchandising systems, expansion of capacity to support our growing business, continued improvements and modifications to our owned headquarter buildings and the upgrade and digitalization of television production and transmission equipment and related computer equipment associated with the expansion of our home shopping business and e-commerce initiatives. Historically, we have also used our cash resources for various strategic investments and for the repurchase of stock under stock repurchase programs but are under no obligation to continue doing so if protection of liquidity is desired. In March 2008, we authorized an additional \$10 million under our stock repurchase program and have the discretion to repurchase stock under the program and make strategic investments consistent with our business strategy.

We ended May 3, 2008 with cash and cash equivalents and short-term investments of \$62,253,000 and no long-term debt obligations. In addition, we have \$23,802,000 of auction rate security investments which are currently illiquid and classified as long-term. We expect future growth in working capital as revenues grow beyond fiscal 2008 but expect cash generated from operations to offset the expected use. We believe our existing cash balances and our ability to raise additional financing will be sufficient to fund our obligations and commitments as they come due on a long-term basis and sufficient to fund potential foreseeable contingencies. These estimates are subject to business risk factors including those identified under "Risk Factors" in our fiscal 2007 annual report on Form 10-K. In addition to these risk factors, a significant element of uncertainty in future cash flows arises from potential strategic investments we may make, which are inherently opportunistic and difficult to predict.

Our preferred stock issued to GE Equity may be redeemed upon certain changes in control of our company and, in any event, may be redeemed on March 8, 2009 upon the ten-year anniversary of its issuance (unless previously converted into common stock). If we are unable to generate positive cash flow or obtain additional capital prior to any such redemption, the requirement that we pay cash in connection with the redemption may have a material impact on our liquidity and cash resources. The aggregate redemption cost of all the preferred stock is \$44,264,000. The preferred stock has a redemption price of \$8.29 per share and is convertible on a one-for-one basis into our common stock, and accordingly, if the market value of our stock is higher than the redemption price immediately prior to the redemption date, GE Equity may choose to convert its shares of preferred stock to common stock rather than exercise its right to redemption and not impact our cash liquidity position. We believe that existing cash balances, our ability to raise financing and our ability to structure transactions in a manner reflective of capital availability will be sufficient to fund any investments while maintaining sufficient liquidity for our normal business operations even if we are required to pay cash in connection with the preferred stock redemption.

Total assets at May 3, 2008 were \$310,805,000, compared to \$359,080,000 at February 2, 2008, a \$48,275,000 decrease. Shareholders' equity was \$174,067,000 at May 3, 2008, compared to \$194,510,000 at February 2, 2008, a \$20,443,000 decrease. The decrease in shareholders' equity for first quarter of fiscal 2008 resulted primarily from the net loss of \$17,578,000 recorded during the period, repurchases of common stock totaling \$3,317,000, the unrealized loss of \$544,000 recorded on our auction rate security investments and accretion on redeemable preferred stock of \$73,000. These decreases were offset by increases in shareholders' equity of \$1,068,000 related to the recording of share-based compensation.

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For the three months ended May 3, 2008, net cash provided by operating activities totaled \$6,929,000 compared to net cash provided by operating activities of \$2,781,000 for the three months ended May 5, 2007. Net cash provided by operating activities for the 2008 and 2007 quarters reflects net income (loss), as adjusted for depreciation and amortization, share-based payment compensation, common stock issued to employees, equity in earnings of affiliates, amortization of deferred revenue and gain on sale of investments. In addition, net cash provided by operating activities for the three months ended May 3, 2008 reflects primarily a decrease in accounts receivable, inventories and deferred revenue offset by an increase in prepaid expenses and other and a decrease in accounts payable and accrued liabilities. Accounts receivable decreased primarily due to a decrease from sales made during the first quarter of fiscal 2008 utilizing extended payment terms over the first quarter of fiscal 2007 as we continue to tighten up our customer credit offerings. Inventories decreased during the first quarter as a result of our first quarter clearance promotions and the \$3,840,000 inventory write down taken during the fiscal 2008 first quarter. The increase in prepaid expenses and other relates primarily to increases in prepaid cable access fees and prepaid expenses incurred in connection with the hiring of four new senior executive officers. The decrease in accounts payable and accrued liabilities relates primarily to the timing of vendor merchandise payments following our fourth quarter seasonal inventory purchases and the timing of our quarterly cable and satellite carriage payments. In addition, we experienced reductions in accrued liabilities associated with accrued cable access and marketing fees and the reserve for product returns due to lower sales.

Net cash provided by investing activities totaled \$15,150,000 for the first quarter of fiscal 2008 compared to net cash provided by investing activities of \$15,926,000 for the first quarter of fiscal 2007. For the three months ended May 3, 2008 and May 5, 2007, expenditures for property and equipment were \$2,399,000 and \$2,176,000, respectively. Expenditures for property and equipment during the 2008 and 2007 periods primarily include capital expenditures made for the development, upgrade and replacement of computer software and front-end ERP, customer care management and merchandising systems, related computer equipment, digital broadcasting equipment and other office equipment, warehouse equipment, production equipment and building improvements. Principal future capital expenditures are expected to include the development, upgrade and replacement of various enterprise software systems, continued improvements and modifications to our owned headquarter buildings, the expansion of warehousing capacity and security in our Bowling Green distribution facility, the upgrade and digitalization of television production and transmission equipment and related computer equipment associated with the expansion of our home shopping business and e-commerce initiatives. In the three months ended May 3, 2008, we received proceeds of \$17,549,000 from the sale of short-term investments. In the three months ended May 5, 2007, we invested \$30,525,000 in various short-term investments, received proceeds of \$4,877,000 from the sale of short-term investments and received proceeds of \$43,750,000 from the sale of our RLM investment.

Net cash used for financing activities totaled \$3,317,000 for the three months ended May 3, 2008 and related to payments made in conjunction with the repurchase of 556,000 shares of our common stock. Net cash provided by financing activities totaled \$361,000 for the comparable prior year period and related to cash proceeds received from the exercise of stock options.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not enter into financial instruments for trading or speculative purposes and do not currently utilize derivative financial instruments as a hedge to offset market risk. In past years, we held certain equity investments in the form of common stock purchase warrants in public companies and accounted for these investments in accordance with the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. We no longer have investments of that nature. Our operations are conducted primarily in the United States and are not subject to foreign currency exchange rate risk. However, some of our products are sourced internationally and may fluctuate in cost as a result of foreign currency swings. We currently have no long-term debt, and accordingly, are not significantly exposed to interest rate risk, although changes in market interest rates do impact the level of interest income earned on our substantial cash and short-term investment portfolio.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the periods covered by this report, management conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 (e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the officers concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by us in the reports we

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file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Controls over Financial Reporting

Our management, with the participation of the chief executive officer and chief financial officer, performed an evaluation as to whether any change in the internal controls over financial reporting (as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934) occurred during the periods covered by this report. Based on that evaluation, the chief executive officer and chief financial officer concluded that no change occurred in the internal controls over financial reporting during the period covered by this report that materially affected, or were reasonably likely to materially affect, the internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved from time to time in various claims and lawsuits in the ordinary course of business. In the opinion of management, these claims and suits individually and in the aggregate have not had a material adverse effect on our operations or consolidated financial statements.

ITEM 1A. RISK FACTORS

A majority of our cable and satellite distribution agreements are scheduled to expire at the end of 2008 and it may be difficult or more costly to renew these agreements.

We entered into affiliation agreements that represent approximately 1,400 cable systems that require each operator to offer our television home shopping programming substantially on a full-time basis over their systems. The stated terms of the affiliation agreements typically ranged originally from three to twelve years. Under certain circumstances, the television operators may cancel the agreements prior to their expiration. If these agreements are terminated, the termination may materially or adversely affect our business. Cable and satellite distribution agreements representing a majority of the households who currently receive our television programming are scheduled to expire at the end of 2008. While we and NBCU, as our agent, have begun discussions with certain cable and satellite system operators regarding extensions or renewals of these agreements, no assurance can be given that we will be successful in negotiating renewal contracts with any or all of the existing systems, or that the financial and other terms of renewal will be acceptable. Failure to successfully renew carriage agreements covering a material portion of our existing cable and satellite households on acceptable financial and other terms could adversely affect our future growth, sales revenues and earnings unless we were able to arrange for alternative means of broadly distributing our television programming. In addition, unless we and NBCU mutually agree on an extension of the distribution and marketing agreement under which NBCU acts as our agent, this agreement will expire in March 2009 and this could adversely affect our ability to increase our program distribution.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents information with respect to purchases of our common stock made during the three months ended May 3, 2008, by our company or by any “affiliated purchaser” of our company, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
February 3, 2008 through March 1, 2008	556,000	\$ 5.96	4,580,000	\$10,000,000
March 2, 2008 through April 5, 2008	—	—	4,580,000	\$10,000,000
April 6, 2008 through May 3, 2008	—	—	4,580,000	\$10,000,000
Total	<u>556,000</u>	\$ 5.96	4,580,000	\$10,000,000

(1) On March 6, 2008, our board of directors authorized an additional \$10 million for stock repurchases under its stock repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. Exhibits

The exhibits filed with this Quarterly Report on Form 10-Q are set forth on the Exhibit Index filed as a part of this report beginning immediately following the signatures.

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 MEDIA, INC. AND SUBSIDIARIES

June 12, 2008

/s/ RENE G. AIU

Rene G. Aiu
Chief Executive Officer, President and Director
(Principal Executive Officer)

June 12, 2008

/s/ FRANK P. ELSENBAST

Frank P. Elsenbast
Senior Vice President Finance, Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit	Filed by
3.1	Articles of Incorporation of the Registrant	Filed Electronically
3.2	Bylaws of the Registrant	Filed Electronically
31.1	Rule 13a-14(a)/15d-14(a) Certification by Principal Executive Officer	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principle Financial and Accounting Officer	Filed Electronically
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer	Filed Electronically

**ARTICLES OF INCORPORATION
OF
VALUEVISION MEDIA, INC.
(Conformed Copy — Includes all amendments through June 1, 2008)**

**ARTICLE 1
NAME**

The name of the Corporation is ValueVision Media, Inc.

**ARTICLE 2
REGISTERED OFFICE**

The address of the registered office of the Corporation is 6740 Shady Oak Road, Minneapolis, Minnesota 55344-3433.

**ARTICLE 3
CAPITAL**

- A. The Corporation is authorized to issue Fifty Million (50,000,000) shares of capital stock, having a par value of one cent (\$.01) per share in the case of common stock, and having a par value as determined by the Board of Directors in the case of preferred stock, to be held, sold and paid for at such times and in such manner as the Board of Directors may from time to time determine in accordance with the laws of the State of Minnesota.
- B. In addition to any and all powers conferred upon the Board of Directors by the laws of the State of Minnesota, the Board of Directors shall have the authority to establish by resolution more than one class or series of shares, either preferred or common, and to fix the relative rights, restrictions and preferences of any such different classes or series, and the authority to issue shares of a class or series to another class or series to effectuate share dividends, splits or conversion of the Corporation's outstanding shares.
- C. The Board of Directors shall also have the authority to issue rights to convert any of the Corporation's securities into shares of stock of any class or classes, the authority to issue options to purchase or subscribe for shares of stock of any class or classes, and the authority to issue share purchase or subscription warrants or any other evidence of such option rights which set forth the terms, provisions and conditions thereof, including the price or prices at which such shares may be subscribed for or purchased. Such options, warrants and rights, may be transferable or nontransferable and separable or inseparable from other securities of the Corporation. The Board of Directors is authorized to fix the terms, provisions and conditions of such options, warrants and rights, including the conversion basis or bases and the option price or prices at which shares may be subscribed for or purchased.
- D. Any provisions herein to the contrary notwithstanding, except as otherwise provided by law, not more than twenty percent (20%) of the aggregate voting power of all shares outstanding entitled to vote on any matter shall be at any time voted by or for the account of aliens or their representatives, or by or for the account of a foreign government or representative thereof, or by or for the account of any corporation organized under the laws of foreign country.

The Board of Directors shall make such rule and regulations as it shall deem necessary or appropriate to enforce the provisions of this paragraph D.

- E. Except as otherwise provided by law, aliens, foreign governments, or corporations organized under the laws of a foreign country, or the representatives of such aliens, foreign governments, or corporations organized under the laws of a foreign country, shall not own, directly or through a third party who holds the stock for the account of such alien, foreign government, or corporation organized under the laws of a foreign country: (1) more than twenty percent (20%) of the number of shares of outstanding stock of the Corporation, or (2) shares representing more than twenty

percent (20%) of the aggregate voting power of all outstanding shares of voting stock of the Corporation.

Shares of stock shall not be transferable on the books of the Corporation to aliens, foreign governments, or corporations organized under the laws of foreign countries, or to the representatives of, or persons holding for the account of, such aliens, foreign governments, or corporations organized under the laws of foreign countries, unless, after giving effect to such transfer, the aggregate number of shares of stock owned by or for the account of aliens, foreign governments, and corporations organized under the laws of foreign countries, and any representatives thereof, will not exceed twenty percent (20%) of the number of shares of outstanding stock of the Corporation, and the aggregate voting power of such shares will not exceed twenty percent (20%) of the aggregate voting power of all outstanding shares of voting stock of the Corporation.

If, notwithstanding the restriction on transfer set forth in this Article 3E, the aggregate number of shares of stock owned by or for the account of aliens, foreign governments, and corporations organized under the laws of foreign countries, exceed twenty percent (20%) of the number of shares of outstanding stock of the Corporation, or if the aggregate voting power of such shares exceed twenty percent (20%) of the aggregate voting power of all outstanding shares of voting stock of the Corporation, the Corporation shall have the right to redeem shares of all classes of capital stock, at their then fair market value, on a pro rata basis, owned by or for the account of all aliens, foreign governments, and corporations organized under the laws of foreign countries, in order to reduce the number of shares and/or percentage of voting power held by or for the account of aliens, foreign governments, and corporations organized under the laws of foreign countries, and their representatives to the maximum number or percentage allowed under these Articles of Incorporation or as otherwise required by applicable federal law.

The Board of Directors shall make such rules and regulations as it deems necessary or appropriate to enforce the foregoing provisions of this Article 3E.

ARTICLE 4 **SHAREHOLDER RIGHTS**

- A. No shareholder of the Corporation shall have any preemptive rights.
- B. No shareholder of the Corporation shall have any cumulative voting rights.

ARTICLE 5 **WRITTEN ACTION BY LESS THAN ALL OF THE DIRECTORS**

Any action required or permitted to be taken at a Board meeting, other than an action requiring shareholder approval, may be taken by written action of the Board of Directors if signed by the number of directors that would be required to take the same action at a meeting at which all directors were present.

ARTICLE 6 **LIMITED LIABILITY OF DIRECTORS**

To the fullest extent permitted by law, a director shall have no personal liability to the Corporation or its shareholders for breach of fiduciary duty as a director. Any amendment to or repeal of this Article 6 shall not adversely affect any right or protection of a director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

ARTICLE 7

No officer or director of the Corporation shall be an alien, or a representative of a foreign government.

The term "alien" as used in these Articles of Incorporation shall have the meaning assigned to such term in the Communications Act of 1934, as amended.

**CERTIFICATE OF DESIGNATION OF
SERIES A REDEEMABLE CONVERTIBLE PREFERRED STOCK**

Pursuant to Section 302A.401 of the Minnesota Business Corporation Act, ValueVision International, Inc., a Minnesota corporation (the "Corporation"), hereby certifies that the following resolutions were duly adopted by its Board of Directors on March 8, 1999 to set forth the powers, designations, preferences and relative, participating, optional or other rights of its Redeemable Convertible Preferred Stock:

RESOLVED, that, pursuant to the authority granted to the Board of Directors in the Articles of Incorporation, there is hereby created, and the Corporation is hereby authorized to issue, a series of Preferred Stock (as defined in the Articles of Incorporation) having the following powers, designations, preferences and rights:

I. Designation of Series and Number of Shares . This series of the Preferred Stock shall be designated the "Series A Redeemable Convertible Preferred Stock" (the "Convertible Preferred Stock") and shall consist of 5,339,500 shares, par value \$.01 per share. The stated value of the Convertible Preferred Stock shall be \$8.288 per share (the "Stated Value"). The number of shares of Convertible Preferred Stock may be decreased from time to time, as such shares are converted or redeemed as provided herein, by a resolution of the Board of Directors filed with the Secretary of State of the State of Minnesota.

II. Rank .

(a) All shares of Convertible Preferred Stock shall rank prior, both as to payment of dividends and as to distributions of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, to all of the Corporation's now or hereafter issued Common Stock, par value \$0.01 per share ("Common Stock"), and to all of the Corporation's now existing or hereafter issued capital stock which by its terms ranks junior to the Convertible Preferred Stock both as to the payment of dividends and as to distributions of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, when and if issued (the Common Stock and any such other capital stock being herein referred to as "Junior Stock").

(b) No payment on account of the purchase, redemption, retirement or other acquisition of shares of Junior Stock or any class or series of the Corporation's capital stock which by its terms ranks junior to the Convertible Preferred Stock as to distributions of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary (the Junior Stock and any such other class or series of the Corporation's capital stock being herein referred to as "Junior Liquidation Stock"), shall be made directly or indirectly by the Corporation unless and until all the Convertible Preferred Stock shall have been converted into Common Stock or redeemed as provided for herein or otherwise reacquired by the Corporation.

III. Dividends .

(a) In the event that the Corporation declares and pays any dividend on the Common Stock while any shares of Convertible Preferred Stock are outstanding, dividends shall be paid on the outstanding shares of Convertible Preferred Stock on the same basis as if such Convertible Preferred Stock had been converted to Common Stock pursuant to Section VI hereof prior to the date fixed for determination of the holders of Common Stock entitled to such dividend. Holders of Convertible Preferred Stock will not be entitled to any dividends, whether payable in cash, property or stock, in excess of the dividends provided for herein. Such dividends shall be payable to holders of record at the close of business on the date specified by the Board of Directors (or, to the extent permitted by applicable law, a duly authorized committee thereof) at the time such dividend is declared (the "Dividend Payment Date")(with such record date and Dividend Payment Date being the same as the record date and dividend payment date, respectively, of the Common Stock), in preference to dividends on the Junior Stock and any other capital stock of the Corporation which by its terms ranks junior as to dividends to the Convertible Preferred Stock (the Junior Stock and any such other class or series of the Corporation's capital stock being herein referred to as "Junior Dividend Stock"). All dividends paid with respect to shares of Convertible Preferred Stock pursuant to this Section III shall be paid pro rata to the holders entitled thereto.

(b) No dividend or other distribution, other than dividends payable solely in shares of Junior Stock, shall be declared, paid or set apart for payment on shares of Junior Dividend Stock, unless and until all accrued and unpaid dividends on the Convertible Preferred Stock shall have been paid or declared and set apart for

payment and, to the extent required by paragraph III(a), the related dividend is declared and paid on the Convertible Preferred Stock.

(c) No dividends shall be declared, paid or set apart for payment on shares of any class or series of the Corporation's capital stock whether now existing or hereafter issued which by its terms ranks, as to dividends, on a parity with the Convertible Preferred Stock (any such class or series of the Corporation's capital stock being herein referred to as "Parity Dividend Stock") for any period unless dividends have been, or contemporaneously are, paid or declared and set apart for payment on the Convertible Preferred Stock. No dividends shall be paid on Parity Dividend Stock except on dates on which dividends are paid on the Convertible Preferred Stock. All dividends paid or declared and set apart for payment on the Convertible Preferred Stock and any Parity Dividend Stock shall be paid or declared and set apart for payment pro rata so that the amount of dividend paid or declared and set apart for payment per share on the Convertible Preferred Stock and the Parity Dividend Stock on any date shall in all cases bear to each other the same ratio that accrued and unpaid dividends on the Convertible Preferred Stock and the Parity Dividend Stock bear to each other.

IV. Liquidation Preference. In the event of a liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the then outstanding shares of Convertible Preferred Stock shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders an amount in cash equal to the Stated Value for each share outstanding, plus an amount equal to the dividends accrued and unpaid, if any, on such shares on the date of final distribution to such holders without interest before any payment shall be made or any assets distributed to the holders of shares of Junior Liquidation Stock. The entire assets of the Corporation available for distribution to holders of Convertible Preferred Stock and any class or series of the Corporation's capital stock which by its terms ranks on a parity with the Convertible Preferred Stock as to distributions of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary (any such class or series of the Corporation's capital stock being herein referred to as "Parity Liquidation Stock") shall be distributed ratably among the holders of the Convertible Preferred Stock and any Parity Liquidation Stock in proportion to the respective preferential amounts (including accrued and unpaid dividends, if any) to which each is entitled (but only to the extent of such preferential amounts). After payment in full of the liquidation preferences of the shares of the Convertible Preferred Stock, the holders of such shares shall not be entitled to any further participation in any distribution of assets by the Corporation.

V. Redemption .

(a) Mandatory Redemption. On the tenth anniversary of the date of issuance of the Convertible Preferred Stock (the "Issue Date"), the Corporation shall redeem for cash, out of any source of funds legally available therefor, all of the outstanding shares of Convertible Preferred Stock, at a redemption price equal to 100% of the Stated Value per share, plus an amount in cash equal to all declared and unpaid dividends, if any, thereon outstanding to the redemption date.

(b) Redemption Upon Change in Control. Upon the occurrence of a Change in Control, the Convertible Preferred Stock shall be redeemable at the option of the holders thereof, in whole or in part, at a redemption price per share equal to 100% of the Stated Value plus declared and unpaid dividends, if any, thereon outstanding to the redemption date. The Corporation shall redeem the number of shares specified in the holders' notices of election to redeem pursuant to Section V(c)(ii) hereof on the date fixed for redemption. A "Change of Control" shall mean (i) the consummation by the Corporation of a merger, consolidation or other business combination in a transaction or series of transactions as a result of which the holders of the Common Stock immediately prior to such transaction or series of transactions will hold less than 50% of the voting power of all outstanding voting securities of the surviving entity, (ii) the consummation of a sale or other disposition in one or more transactions by the Corporation or its subsidiaries of all or substantially all of the Corporation's consolidated assets other than among the Corporation and its subsidiaries, (iii) the acquisition by any person or entity, together with its affiliates (as defined in Rule 12b-2 under the Exchange Act of 1934, as amended (the "Exchange Act")), or any other group (as defined in Section 13(d) of the Exchange Act), including through the formation of any such group or the affiliation of any such persons or entities other than any Restricted Party (as defined in the Shareholder Agreement) or an Affiliate thereof or any 13D Group (as defined in the Shareholder Agreement) of which any of them is a member, of beneficial ownership of a majority of the voting power of all the then outstanding voting securities of the Corporation entitled to vote generally in the election of directors or (iv) Continuing Directors no longer constitute a majority of the Board of Directors of the Corporation. For purposes of this paragraph (b), "Continuing Directors" shall mean (i) each director who is a member of the Board of Directors of the Corporation

on the date hereof and (ii) each other director whose initial nomination as a director was approved by a majority of the Continuing Directors as of the time of such nomination (including, without limitation, director designees of the Restricted Parties pursuant to the Shareholder Agreement).

(c) Procedure for Mandatory Redemption. In the event that the Corporation shall redeem shares of Convertible Preferred Stock pursuant to Section V(a) hereof, notice of such redemption shall be mailed by first-class mail, postage prepaid, and mailed not less than 30 days nor more than 90 days prior to the redemption date to the holders of record of the shares to be redeemed at their respective addresses as they shall appear in the records of the Corporation; provided, however, that failure to give such notice or any defect therein or in the mailing thereof shall not affect the validity of the proceeding for the redemption of any shares so to be redeemed except as to the holder to whom the Corporation has failed to give such notice or except as to the holder to whom notice was defective. Each such notice shall state: (A) the redemption date; (B) the number of shares of Convertible Preferred Stock to be redeemed; (C) the redemption price; (D) the place or places where certificates for such shares are to be surrendered for payment of the redemption price (which place shall be the principal place of business of the Corporation); and (E) that the holder's right to convert such shares into shares of Common Stock shall terminate on the close of business on the tenth business day preceding such redemption date.

(d) Procedure for Change in Control Redemption. (i) If a Change in Control should occur, then, in any one or more of such events the Corporation shall give written notice by first-class mail, postage prepaid, to each holder of Convertible Preferred Stock at its address as it appears in the records of the Corporation, which notice shall describe such Change in Control and shall state the date on which the Change in Control is expected to take place, and shall be mailed within 10 business days following the occurrence of the Change in Control. Such notice shall also set forth (in addition to the information required by the next succeeding paragraph): (A) each holder's right to require the Corporation to redeem shares of Convertible Preferred Stock held by such holder as a result of such Change in Control; (B) the redemption price; (C) the optional redemption date (which date shall be no earlier than 30 days and no later than 90 days from the date of such Change in Control); (D) the procedures to be followed by such holder in exercising its right of redemption, including the place or places where certificates for such shares are to be surrendered for payment of the redemption price (which place shall be the principal place of business of the Corporation); and (E) that the holder's right to convert such shares into shares of Common Stock shall terminate on the close of business on the tenth business day preceding such redemption date with respect to any shares of Convertible Preferred Stock with respect to which the holder thereof has exercised its right to require the Corporation to redeem pursuant to Section V(d). In the event a holder of shares of Convertible Preferred Stock shall elect to require the Corporation to redeem any or all of such shares of Convertible Preferred Stock, such holder shall deliver, within 20 days of the mailing to it of the Corporation's notice described in this Section V(c)(ii), a written notice stating such holder's election and specifying the number of shares to be redeemed pursuant to Section V(b) hereof.

(ii) In the case of any redemption pursuant to Section V(b) hereof, the notice by the Corporation shall describe the Change in Control, including a description of the Surviving Person and, if applicable, the effect of the Change in Control on the Common Stock. The notice shall be accompanied by (A) the consolidated balance sheet of the Corporation and its Subsidiaries as of the end of the most recent fiscal year of the Corporation for which such information is available and the related consolidated statements of operations and cash flows for such fiscal year, in each case setting forth the comparative figures for the preceding fiscal year, accompanied by an opinion of independent public accountants of nationally recognized standing selected by the Corporation as to the fair presentation in accordance with generally accepted accounting principles of such financial statements, and (B) a consolidated balance sheet of the Corporation and its Subsidiaries as of the end of the most recent fiscal quarter of the Corporation for which such information is available and the related consolidated statements of operations and cash flows for such quarter and for the portion of the Corporation's fiscal year ended at the end of such fiscal quarter, in each case setting forth in comparative form the figures for the corresponding quarter and the corresponding portion of the Corporation's preceding fiscal year. For so long as the Corporation is subject to the periodic reporting requirements of the Exchange Act and makes timely filings thereunder, the delivery requirements of the preceding sentence shall be satisfied by the Corporation's most current report, schedule, registration statement, definitive proxy statement or other document on file with the United States Securities and Exchange Commission.

(e) Notice by the Corporation having been mailed as provided in Section V(c) hereof, or notice of election having been mailed by the holders as provided in Section V(d) hereof, and provided that on or before the applicable redemption date funds necessary for such redemption shall have been set aside by the

Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for or entitled to redemption, so as to be and to continue to be available therefor, then, from and after the redemption date (unless the Corporation defaults in the payment of the redemption price, in which case such rights shall continue until the redemption price is paid), such shares shall no longer be deemed to be outstanding and shall not have the status of shares of Convertible Preferred Stock, and all rights of the holders thereof as shareholders of the Corporation (except the right to receive the applicable redemption price and any accrued and unpaid dividends, if any, from the Corporation and the right to convert such shares into shares of Common Stock, which shall continue until the close of business on the tenth business day preceding the date of redemption in accordance with Section VI hereof) shall cease. Upon surrender of the certificates for any shares so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of the Corporation shall so require and a notice by the Corporation shall so state), such shares shall be redeemed by the Corporation at the applicable redemption price as aforesaid. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares without cost to the holder thereof.

VI. Conversion .

(a) Conversion . Subject to adjustments as provided herein, each full share of Convertible Preferred Stock shall be convertible at the option of the holder thereof, at any time (including upon a Change of Control) from the Issue Date until the close of business on the tenth business day prior to any date fixed for redemption of such share as herein provided, into a number of fully paid and nonassessable shares of Common Stock equal to the Stated Value of each full share of the Convertible Preferred Stock to be converted divided by a conversion price (the "Conversion Price"), which initially shall be \$8.288.

(b) Conversion Procedures . (i) Any holder of shares of Convertible Preferred Stock desiring to convert any or all of such shares into Common Stock shall surrender the certificate or certificates evidencing such shares of Convertible Preferred Stock at the principal office of the Corporation, as transfer agent (in such capacity, the "Transfer Agent") for the Convertible Preferred Stock which certificate or certificates, if the Corporation shall so require, shall be duly endorsed to the Corporation or in blank, or accompanied by proper instruments of transfer to the Corporation or in blank, accompanied by irrevocable written notice to the Corporation that the holder elects, as of the date of surrender of such Convertible Preferred Stock, to convert such shares of Convertible Preferred Stock and specifying the name or names (with address or addresses) in which a certificate or certificates evidencing shares of Common Stock are to be issued. Any transfer taxes shall be paid in accordance with Section XI hereof.

(ii) The Corporation shall, as soon as practicable after such surrender of certificates evidencing shares of Convertible Preferred Stock accompanied by the written notice and compliance with any other conditions herein contained, deliver at such office of the Transfer Agent to the holder for whose account such shares of Convertible Preferred Stock were so surrendered, or to the nominee of such entity, certificates evidencing the number of full shares of Common Stock to which such holder shall be entitled as aforesaid, together with a cash adjustment in respect of any fraction of a share of Common Stock as hereinafter provided. Such conversion shall be deemed to have been made as of the date of the surrender of certificates evidencing shares of Convertible Preferred Stock accompanied by the written notice and compliance with any other conditions herein contained and the entity or entities entitled to receive the Common Stock deliverable upon conversion of such Convertible Preferred Stock shall be treated for all purposes as the record holder or holders of such Common Stock on such date (the "Conversion Date"). The holder of record of any share of Convertible Preferred Stock on any record date for the holders entitled to receive any dividend or distribution in respect of the Convertible Preferred Stock will be entitled to receive such dividend or distribution on the date specified for payment thereof notwithstanding that such share of Convertible Preferred Stock may be converted prior to such payment's date but after such record date.

(c) Adjustment of Conversion Price . The Conversion Price at which a share of Convertible Preferred Stock is convertible into Common Stock shall be subject to adjustment from time to time as follows:

(i) In case the Corporation shall, after the Issue Date, pay a dividend or make a distribution on its Common Stock or on any other class or series of capital stock of the Corporation which dividend or distribution includes or is convertible (without the payment of any consideration other than surrender of such convertible security) into Common Stock, the Conversion Price in effect at the opening of business on the day following the date fixed for determination of the holders of Common Stock or capital stock entitled to such payment

or distribution (the "Record Date") shall be reduced by multiplying such Conversion Price by a fraction of which (A) the numerator shall be the number of shares of Common Stock outstanding at the close of business on the Record Date and (B) the denominator shall be the sum of such number of shares and the total number of shares constituting or included in such dividend or other distribution (or in the case of a dividend consisting of securities convertible into Common Stock, the number of shares of Common Stock into which such securities are convertible), such reduction to become effective immediately after the opening of business on the day following the Record Date; provided, however, that if any such dividend or distribution is rescinded and not paid, then the Conversion Price shall, as of the date when it is determined that such dividend or distribution price will be rescinded, revert back to the Conversion Price in effect prior to the adjustment made pursuant to this paragraph.

(ii) In case the Corporation shall issue or sell (a) Common Stock, (b) rights, warrants or options entitling the holders thereof to subscribe for or purchase shares of Common Stock or (c) any security convertible into Common Stock, in each case at a price, or having an exercise or conversion price, per share less than the then-current Market Price per share of Common Stock on (x) the date of such issuance or sale or (y) in the case of a dividend or distribution of such rights, warrants, options or convertible securities to the holders of Common Stock, the date fixed for determination of the holders of such Common Stock entitled to such dividend or distribution (the date specified in clause (x) or (y) being the "Relevant Date") (excluding any issuance for which an appropriate and full adjustment has been made pursuant to the preceding subparagraph (i)), the Conversion Price shall be reduced by multiplying the then-current Conversion Price by a fraction of which (A) the numerator shall be the number of shares of Common Stock outstanding at the open of business on the Relevant Date plus the number of shares of Common Stock which the aggregate consideration received or receivable (I) for the total number of shares of Common Stock, rights, warrants or options or convertible securities so issued or sold, and (II) upon the exercise or conversion of all such rights, warrants, options or securities, would purchase at the then-current Market Price per share of Common Stock and (B) the denominator shall be the number of shares of Common Stock outstanding at the close of business on the Relevant Date plus (without duplication) the number of shares of Common Stock subject to all such rights, warrants, options and convertible securities, such reduction of the Conversion Price to be effective at the opening of business on the day following the Relevant Date; provided, however, that if any such dividend or distribution is rescinded and not paid, then the Conversion Price shall, as of the date when it is determined that such dividend or distribution will be rescinded, revert back to the Conversion Price in effect prior to the adjustment made pursuant to this paragraph. The issuance of any shares of Common Stock or other rights, warrants, options or convertible securities pursuant to (a) any restricted stock or stock option plan or program of the Corporation involving the grant of options or rights solely to officers, directors, employees and/or consultants of the Corporation or its Subsidiaries at below the then-current Market Price per share of Common Stock (provided, that any such options or rights were initially granted with an exercise or conversion price of not less than 85% of the then-current Market Price per share of Common Stock), (b) any option, warrant, right, or convertible security outstanding as of the date hereof, (c) the terms of a firmly committed bona fide underwritten public offering, or (d) any merger, acquisition, consolidation, or similar transaction, shall not be deemed to constitute an issuance or sale to which this clause (ii) applies. Upon the expiration unexercised of any rights, warrants, options or rights to convert any convertible securities for which an adjustment has been made pursuant to this clause (ii), the adjustments shall forthwith be reversed to effect such rate of conversion as would have been in effect at the time of such expiration or termination had such rights, warrants, options or rights to convertible securities, to the extent outstanding immediately prior to such expiration or termination, never been issued.

(iii) In case the Common Stock shall be subdivided into a greater number of shares of Common Stock or combined into a smaller number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision or combination becomes effective shall be adjusted so that the holder of any shares of Convertible Preferred Stock thereafter surrendered for conversion into shares of Common Stock shall be entitled to receive the number of shares of Common Stock which such holder would have owned or been entitled to receive after the happening of such events had such shares of Convertible Preferred Stock been surrendered for conversion immediately prior to such event. Such adjustment shall become effective at the close of business on the day upon which such subdivision or combination becomes effective.

(iv) Subject to the last sentence of this subparagraph (iv), in case the Corporation shall, by dividend or otherwise, distribute to all holders of its Common Stock evidences of its indebtedness, shares of any class or series of capital stock, cash or assets (including securities, but excluding any shares of Common Stock, rights, warrants, options or convertible securities for which an appropriate and full adjustment has been made pursuant to subparagraph (i) or (ii) above), the Conversion Price in effect on the day

immediately preceding the date fixed for the payment of such distribution (the date fixed for payment being referred to as the "Reference Date") shall be reduced by multiplying such Conversion Price by a fraction of which the numerator shall be the current Market Price per share of the Common Stock on the Reference Date less the fair market value (as determined in good faith by the Board of Directors, whose determination shall be mailed to the holders of the Convertible Preferred Stock) on the Reference Date of the portion of the evidences of indebtedness, shares of capital stock, cash and assets so distributed applicable to one share of Common Stock, and the denominator shall be such current Market Price per share of the Common Stock, such reduction to become effective immediately prior to the opening of business on the day following the Reference Date; provided, however, that if such dividend or distribution is rescinded and not paid, then the Conversion Price shall, as of the date when it is determined that such dividend or distribution will be rescinded, revert back to the Conversion Price in effect prior to the adjustment made pursuant to this paragraph. If the Board of Directors determines the fair market value of any distribution for purposes of this subparagraph (iv) by reference to the actual or when issued trading market for any securities comprising such distribution, it must in doing so consider, to the extent possible, the prices in such market over the same period used in computing the current Market Price per share of Common Stock pursuant to this Section VI(c). Notwithstanding the foregoing, if the holders of a majority of the outstanding Convertible Preferred Stock shall dispute the fair market determination of the Board of Directors, an investment banking firm (an "Independent Expert") mutually agreeable to the Corporation and such majority holders shall be selected to determine the fair market value of the Common Stock as of the Reference Date, and such Independent Expert's determination shall be final, binding and conclusive. All costs and expenses of such Independent Expert shall be borne by the holders of the then outstanding Convertible Preferred Stock unless the determination of fair market value is more favorable to such holders by 5% or more, in which case, all such costs and expenses shall be borne by the Corporation. For purposes of this subparagraph (iv), any dividend or distribution that also includes shares of Common Stock or rights, warrants or options to subscribe for or purchase shares of Common Stock shall be deemed to be (1) a dividend or distribution of the evidences of indebtedness, cash, assets or shares of capital stock other than such shares of Common Stock or rights, warrants, options or convertible securities (making any Conversion Price reduction required by this subparagraph (iv)) immediately followed by (2) a dividend or distribution of such shares of Common Stock or such rights, warrants, options or convertible securities (making any further Conversion Price reduction required by subparagraph (i) or (ii) of this Section VI(c)), except (A) the Reference Date of such dividend or distribution as defined in this subparagraph (iv) shall be substituted as "the date fixed for the determination of shareholders entitled to receive such dividend or other distribution" and the "Relevant Date" within the meaning of subparagraphs (i) and (ii) of this Section VI(c) and (B) any shares of Common Stock included in such dividend or distribution shall not be deemed "outstanding at the close of business on the date fixed for such determination" within the meaning of subparagraph (i) of this Section VI(c)).

(v) No adjustment in the Conversion Price shall be required if (A) the holders of the outstanding Convertible Preferred Stock receive the dividend or distribution otherwise giving rise to such adjustment or (B) such adjustment would require an increase or decrease of less than 1% in the Conversion Price; provided, however, that any adjustments which by reason of this subparagraph (v)(B) are not required to be made shall be carried forward and taken into account in any subsequent adjustment or in any conversion pursuant to this Section VI.

(vi) Whenever the Conversion Price is adjusted as herein provided:

(1) the Corporation shall compute the adjusted Conversion Price and shall prepare a certificate signed by the Chief Financial Officer of the Corporation setting forth the adjusted Conversion Price and showing in reasonable detail the facts upon which such adjustment is based, and such certificate shall forthwith be filed with the Transfer Agent for the Convertible Preferred Stock; and

(2) as soon as reasonably practicable after the adjustment, the Corporation shall mail to all record holders of Convertible Preferred Stock at their last address as they shall appear upon the stock transfer books of the Corporation a notice stating that the Conversion Price has been adjusted and setting forth the adjusted Conversion Price.

(vii) The Corporation from time to time may reduce the Conversion Price by any amount for any period of time if the period is at least 20 days, the reduction is irrevocable during the period, subject to any conditions that the Board of Directors may deem relevant, and the Board of Directors of the Corporation shall have made a determination that such reduction would be in the best interest of the Corporation, which determination shall be conclusive. Whenever the Conversion Price is reduced pursuant to the preceding

sentence, the Corporation shall mail to holders of record of the Convertible Preferred Stock a notice of the reduction at least fifteen days prior to the date the reduced Conversion Price takes effect, and such notice shall state the reduced Conversion Price and the period it will be in effect. If the Corporation shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or other distribution, and shall thereafter and before the distribution to shareholders thereof legally abandon its plan to pay or deliver such dividend or distribution, then thereafter no adjustment in the number of shares of Common Stock issuable upon exercise of the right of conversion granted by this paragraph (c) or in the Conversion Price then in effect shall be required by reason of the taking of such record.

(viii) Anything in this Section VI(c) to the contrary notwithstanding, in the event that a record date is established for a dividend or distribution that gives rise to an adjustment to the Conversion Price pursuant to this Section VI(c), if any share of Convertible Preferred Stock is converted into shares of Common Stock between such record date and the date such dividend or distribution is paid then (x) the number of shares of Common Stock issued at the time of such conversion will be determined by reference to the Conversion Price as in effect without taking into account the adjustment resulting from such dividend or distribution and (y) on the date that such dividend or distribution is actually paid there shall be issued in respect of such conversion such number of additional shares of Common Stock as is necessary to reflect the Conversion Price in effect after taking into account the adjustment resulting from the dividend or distribution.

(d) No Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of Convertible Preferred Stock. If more than one certificate evidencing shares of Convertible Preferred Stock shall be surrendered for conversion at such time by the holder, the number of full shares issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Convertible Preferred Stock so surrendered. Instead of any fractional share of Common Stock that would otherwise be issuable to a holder upon conversion of any shares of Convertible Preferred Stock, the Corporation shall pay a cash adjustment in respect of such fractional share in an amount equal to the fraction of the then-current Market Price per share of Common Stock on the day of conversion or, if the day of conversion is not a Trading Day, on the next preceding Trading Day.

(e) Reclassification, Consolidation, Merger or Sale of Assets. In the event that the Corporation shall be a party to any transaction pursuant to which the Common Stock is converted into the right to receive other securities, cash or other property (including without limitation any capitalization or reclassification of the Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination of the Common Stock), any consolidation of the Corporation with, or merger of the Corporation into, any other entity, any merger of another entity into the Corporation (other than a merger which does not result in a reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock), any sale or transfer of all or substantially all of the assets of the Corporation or any share exchange), then lawful provisions shall be made as part of the terms of such transaction whereby the holder of each share of Convertible Preferred Stock then outstanding shall have the right thereafter to convert such share only into the kind and amount of securities, cash and other property receivable upon such transaction by a holder of the number of shares of Common Stock into which such share of Convertible Preferred Stock might have been converted immediately prior to such transaction. The Corporation or the entity formed by such consolidation or resulting from such merger or which acquires such shares or which acquires the Corporation's shares, as the case may be, shall make provisions in its certificate or articles of incorporation or other constituting document to establish such right. Adjustments for events subsequent to the effective date of such a consolidation, merger, sale or transfer of assets shall be as nearly equivalent as may be reasonably practicable to the adjustments provided for herein. In any such event, effective provisions shall be made in the certificate or articles of incorporation of the resulting or surviving corporation, in any contract of sale, conveyance, lease, transfer or otherwise so that the provisions set forth herein for the protection of the rights of the holder of Convertible Preferred Stock shall thereafter continue to be applicable, and any such resulting or surviving corporation shall expressly assume the obligation to pay dividends and deliver, upon conversion, such shares of common stock, other securities, or cash as set forth herein. The above provisions shall similarly apply to successive transactions of the foregoing type.

(f) Reservation of Shares, Etc. The Corporation shall at all times reserve and keep available, free from preemptive rights, out of its authorized and unissued stock, solely for the purpose of effecting the conversion of the Convertible Preferred Stock, such number of shares of its Common Stock as shall from time to time be sufficient to permit the conversion of all shares of Convertible Preferred Stock from time to time outstanding. Without limitation of the foregoing, the Corporation shall from time to time, in accordance with the laws of the State of Minnesota, in good faith and as expeditiously as practicable endeavor to cause the authorized

number of shares of Common Stock to be increased if at any time the number of shares of authorized and unissued Common Stock shall not be sufficient to permit the conversion of all the then outstanding shares of Convertible Preferred Stock.

If any shares of Common Stock required to be reserved for purposes of conversion of the Convertible Preferred Stock hereunder require registration with or approval of any governmental authority under any Federal or State law before such shares may be issued upon conversion, the Corporation will in good faith and as expeditiously as possible endeavor to cause such shares to be duly registered or approved as the case may be. If the Common Stock is listed on any national securities exchange, the Corporation will, prior to the issuance of shares of Common Stock upon conversion of the Convertible Preferred Stock, if permitted by the rules of such exchange, list and keep listed on such exchange, upon official notice of issuance, all shares of Common Stock issuable upon conversion of the Convertible Preferred Stock, for so long as the Common Stock continues to be so listed.

(g) Prior Notice of Certain Events . In case:

(i) the Corporation shall (1) declare any dividend (or any other distribution) on its Common Stock, other than (A) a dividend payable in shares of Common Stock or (B) a dividend payable in cash out of its retained earnings other than any special or nonrecurring or other extraordinary dividend or (2) declare or authorize a redemption or repurchase of in excess of 5% of the then outstanding shares of Common Stock;

(ii) the Corporation shall authorize the granting to all holders of Common Stock of rights or warrants to subscribe for or purchase any shares of stock of any class or series or of any other rights or warrants;

(iii) of any reclassification of Common Stock (other than a subdivision or combination of the outstanding Common Stock, or a change in par value, or from par value to no par value, or from no par value to par value), or of any consolidation or merger to which the Corporation is a party and for which approval of any shareholders of the Corporation shall be required, or of the sale of all or substantially all of the assets of the Corporation or of any share exchange whereby the Common Stock is converted into other securities, cash or other property;

(iv) of the voluntary or involuntary dissolution, liquidation or winding up of the Corporation; or

(v) of any other event which would require an adjustment to the Conversion Price under subparagraph VI(c); then the Corporation shall cause to be filed with the Transfer Agent for the Convertible Preferred Stock, and shall cause to be mailed to the holders of record of the Convertible Preferred Stock, at their last addresses as they shall appear upon the stock transfer books of the Corporation, at least ten days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record (if any) is to be taken for the purpose of such dividend, distribution, redemption, repurchase, or grant of rights or warrants or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, redemption, repurchase, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer, share exchange, dissolution, liquidation, winding up or other event is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer, share exchange, dissolution, liquidation, winding up or other event (but no failure to mail such notice or any defect therein or in the mailing thereof shall affect the validity of the corporate action required to be specified in such notice).

(h) Definitions . The following definitions shall apply to terms used in this Section VI:

(i) "Closing Price" of any security on any day shall mean the last reported sale price regular way on such day or, in case no such sale takes place on such day, the average of the reported closing bid and asked prices regular way of such security in each case as reported in the consolidated transaction reporting system with respect to securities quoted on Nasdaq or, if the shares of such security are not quoted on Nasdaq, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of such security are listed or admitted to trading or, if the shares of such security are not quoted on Nasdaq and not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices on such other

nationally recognized quotation system then in use, or, if on any such day the shares of such security are not quoted on any such quotation system, the average of the closing bid and asked prices as furnished by a professional market maker selected by the Board of Directors making a market in the shares of such security. Notwithstanding the foregoing, if the shares of such security are not publicly held or so listed, quoted or publicly traded, the "Closing Price" means the fair market value of a share of such security, as determined in good faith by the Board of Directors, provided, however, that if the holders of a majority of outstanding Convertible Preferred Stock shall dispute the fair market value as determined by the Board, such majority holders and the Corporation may retain an Independent Expert. The determination of fair market value by the Independent Expert shall be final, binding and conclusive. All costs and expenses of the Independent Expert shall be borne by the holders of the outstanding Convertible Preferred Stock unless the determination of fair market value is more favorable to such holders by 5% or more, in which case, all such costs and expenses shall be borne by the Corporation.

(ii) "Market Price" with respect to a share of Common Stock on any day means, except as set forth below in the case that the shares of Common Stock are not publicly held or listed, the average of the "quoted prices" of the Common Stock for 30 consecutive Trading Days commencing 45 Trading Days before the date in question; provided that if during such 30 consecutive Trading Day period (the "valuation period"), there shall occur a record date for determining holders of Common Stock entitled to receive a dividend or distribution on the Common Stock, the "Market Price" shall be reduced by subtracting the amount obtained by multiplying (a) the value of such dividend or distribution per share of Common Stock by (b) a fraction (i) the numerator of which shall be the number of Trading Days from the beginning of such valuation period to and including the record date for such dividend or distribution and (ii) the denominator of which shall be the number of Trading Days in such valuation period. The term "quoted prices" of the Common Stock shall mean the last reported sale price on that day or, in case no such reported sale takes place on such day, the average of the last reported bid and asked prices, regular way, on that day, in either case, as reported in the consolidated transaction reporting system with respect to securities quoted on Nasdaq or, if the shares of Common Stock are not quoted on Nasdaq, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if the shares of Common Stock are not quoted on Nasdaq and not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices on such other nationally recognized quotation system then in use, or, if on any such day the shares of Common Stock are not quoted on any such quotation system, the average of the closing bid and asked prices as furnished by a professional market maker selected by the Board of Directors making a market in the shares of Common Stock. Notwithstanding the foregoing, if the shares of Common Stock are not publicly held or so listed, quoted or publicly traded, the "Market Price" means the fair market value of a share of Common Stock, as determined in good faith by the Board of Directors provided, however, that if the holders of a majority of outstanding Convertible Preferred Stock shall dispute the fair market value as determined by the Board, such majority holders and the Corporation may retain an Independent Expert. The determination of fair market value by the Independent Expert shall final, binding and conclusive. All costs and expenses of the Independent Expert shall be borne by the holders of the then outstanding Convertible Preferred Stock unless the determination of fair market value is more favorable to such holders by 5% or more, in which case, all such costs and expenses shall be borne by the Corporation.

(iii) "Nasdaq" shall mean the National Association of Securities Dealers Automatic Quotation System.

(iv) "Trading Day" shall mean a day on which securities are traded on the national securities exchange or quotation system or in the over-the-counter market used to determine the Closing Price.

VII. Voting Rights . (a) General . Subject to Section XI(d) and except as set forth below or as otherwise from time to time required by law, the holders of shares of Convertible Preferred Stock shall vote as a class together with the holders of the Common Stock on all matters with respect to which the holders of Common Stock have the right to vote. In connection with any right to vote, each share of Convertible Preferred Stock shall be entitled to a number of votes which is equal to the whole number of shares of Common Stock that could be obtained upon conversion of one share of Convertible Preferred Stock at the Conversion Price applicable on the record date set with respect to such vote. Any shares of Convertible Preferred Stock owned, directly or indirectly, by any entity of which the Corporation owns, directly or indirectly, a majority of the shares entitled to vote for directors shall not have voting rights hereunder and shall not be counted in determining the presence of a quorum.

(b) Voting Rights for Directors.

(i) On the Issue Date, the number of directors constituting the Board of Directors shall, without further action, be increased to seven. For so long as the Restricted Parties (as defined in the Shareholders Agreement (as defined below)) own a majority of the outstanding shares of Convertible Preferred Stock and the Investor (as defined in the Shareholder Agreement) is entitled to designate at least one nominee (a "Designee") for election to the Board of Directors of the Corporation pursuant to Section 2.1 of the Shareholder Agreement, subject to Section XI(d), the holders of the outstanding shares of Convertible Preferred Stock shall have the right, voting separately as a class and to the exclusion of the holders of all other classes of stock of the Corporation, to (A) initially elect two directors (who are reasonably acceptable to the Corporation) and (B) thereafter, as long as the Investor is entitled to designate at least one Designee for election to the Board of Directors pursuant to Section 2.1 of the Shareholder Agreement, elect that number of directors equal to the number of Designees that the Investor is entitled to so designate (with each Designee being reasonably acceptable to the Corporation if such Designee has not previously been a member of the Board of Directors). For as long as the holders of Convertible Preferred Stock voting separately as a class are entitled to elect one or more directors pursuant to this Section VII(b)(i), holders of the outstanding Convertible Preferred Stock shall not be entitled to vote in the election of any other directors of the Corporation.

(ii) The right to elect directors as described in Section VII(b)(i) hereof may be exercised initially either at a special meeting of the holders of Convertible Preferred Stock, called as hereinafter provided in Section VII(b)(iii) hereof, at any annual meeting of shareholders held for the purpose of electing directors, or by the written consent of the holders of Convertible Preferred Stock without a meeting pursuant to Section 302A.441 of the Minnesota Business Corporation Act and thereafter at such annual meeting (or by written consent in lieu thereof). For so long as the Restricted Parties own a majority of the outstanding shares of Convertible Preferred Stock and the Investor is entitled to designate at least one Designee for election to the Board of Directors of the Corporation pursuant to Section 2.1 of the Shareholder Agreement and subject to Section XI(d) hereof, such voting right shall continue until such time as all outstanding shares of Convertible Preferred Stock shall have been redeemed or otherwise retired. If the Restricted Parties own less than a majority of the outstanding shares of Convertible Preferred Stock or if the Investor is no longer entitled to designate at least one Designee for election to the Board of Directors pursuant to Section 2.1 of the Shareholder Agreement, the holders of the Convertible Preferred Stock shall, in any election of directors, vote as a single class together with the holders of the Common Stock for the election of directors and each share of Convertible Preferred Stock will be entitled to the number of votes determined pursuant to Section VII(a).

(iii) The Secretary of the Corporation may, and upon the written request of the holders of record of at least 10% of the outstanding shares of Convertible Preferred Stock (addressed to the Secretary of the Corporation at the principal office of the Corporation) shall, call a special meeting of the holders of Convertible Preferred Stock for the election (and, if applicable, removal) of the directors to be elected by them as herein provided. Such call shall be made by notice to each holder by first-class mail, postage prepaid at its address as it appears in the records of the Corporation, and such notice shall be mailed at least 10 days but no more than 20 days before the date of the special meeting, or as required by law. Such meeting shall be held at the earliest practicable date upon the notice required for special meetings of shareholders at the place designated by the Secretary of the Corporation. If such meeting shall not be called by a proper officer of the Corporation within 15 days after receipt of such written request by the Secretary of the Corporation, then the holders of record of at least 10% of the shares of Convertible Preferred Stock then outstanding may call such meeting at the expense of the Corporation, and such meeting may be called by such holders upon the notice required for special meetings of shareholders and shall be held at the place designated in such notice. Any holder of Convertible Preferred Stock that would be entitled to vote at any such meeting shall have access to the stock books of the Corporation for the purpose of causing a meeting of holders of Convertible Preferred Stock to be called pursuant to the provisions of this Section VII(b)(iii).

(iv) At any meeting held for the purpose of electing directors at which the holders of Convertible Preferred Stock shall have the right to elect directors as a class as provided in this Section VII(b), the presence in person or by proxy of the holders of a majority of the then outstanding shares of Convertible Preferred Stock shall be required and be sufficient to constitute a quorum of such class for the election of directors by such class. At any such meeting or adjournment thereof, (x) the absence of a quorum of the holders of Convertible Preferred Stock shall not prevent the election of directors other than the directors to be elected by the holders of Convertible Preferred Stock as a class, and the absence of a quorum or quorums of the holders of capital

stock entitled to elect such other directors shall not prevent the election of the directors to be elected by the holders of Convertible Preferred Stock, and (y) in the absence of a quorum of the holders of Convertible Preferred Stock, a majority of the holders of Convertible Preferred Stock present in person or by proxy shall have the power to adjourn the meeting for the election of directors which such holders are entitled to elect as a class, from time to time, without notice (except as required by law) other than announcement at the meeting, until a quorum shall be present.

(v) Except as provided in Section XI(d) hereof and this paragraph (v), the term of office of any director elected by the holders of Convertible Preferred Stock pursuant to Section VII(b)(i) hereof shall terminate upon the expiration of his term and the election of his successor. Directors elected by the holders of Convertible Preferred Stock pursuant to Section VII(b) may be removed with or without cause by the holders of a majority of the outstanding shares of Convertible Preferred Stock and shall not otherwise be subject to removal other than upon election of their successor or the Convertible Preferred Stock voting separately as a class no longer being entitled to elect directors as provided herein.

(vi) For so long as the holders of Convertible Preferred Stock are entitled, voting separately as a class, to elect at least one member of the Board of Directors and the Restricted Parties own a majority of the outstanding Convertible Preferred Stock, in case of a vacancy occurring in the office of any director so elected pursuant to Section VII(b)(i) hereof, the holders of a majority of the Convertible Preferred Stock then outstanding may, at a special meeting of the holders or by written consent as provided above, elect a successor to hold office for the unexpired term of such director.

(vii) Unless otherwise agreed to by the holders of a majority of the outstanding shares of Convertible Preferred Stock, for so long as the holders of Convertible Preferred Stock are entitled, voting separately as a class, to elect at least one member of the Board of Directors and the Restricted Parties own a majority of the outstanding Convertible Preferred Stock, (A) the number of directors constituting the Board of Directors shall remain at seven, (B) each of the Audit Committee and the Compensation Committee of the Board of Directors shall contain at least one director elected by the holders of Convertible Preferred Stock and (C) with respect to each other committee of the Board of Directors, the percentage of directors on such committee designated by the holders of Convertible Preferred Stock shall, at all times, be at least equal to the percentage of the Board of Directors elected by the holders of Convertible Preferred Stock; provided, that, if under applicable law, such committee can only be comprised of disinterested directors, then the provisions of this clause (C) shall not apply to the holders of the Convertible Preferred Stock unless each director so designated by such holders is a disinterested director for purposes of such committee.

(c) Class Voting. So long as any shares of the Corporation's Convertible Preferred Stock are outstanding the Corporation shall not, without the affirmative vote or consent of the holders of at least a majority of all outstanding shares of the Corporation's Convertible Preferred Stock, voting or consenting separately as a class without regard to series:

(i) create any class of stock that by its terms ranks senior to or on a parity with the Convertible Preferred Stock as to dividends or upon liquidation, dissolution or winding up of the Corporation or increase the authorized number of shares of, or issue any additional shares of or any securities convertible into shares of, or reclassify any Junior Stock into shares of, any such class;

(ii) alter or change any of the provisions of the Corporation's Articles of Incorporation (whether by merger, consolidation or other business combination with another person or by any other means) so as to adversely affect the relative rights and preferences of any outstanding Convertible Preferred Stock of the Corporation; provided, however, that neither (A) the creation, amendment or reclassification of any class of stock that following such creation, amendment or reclassification by its terms ranks junior to shares of Convertible Preferred Stock of the Corporation as to dividends and upon liquidation, dissolution or winding up, nor (B) an increase in the authorized number of shares of any such class, nor (C) any merger, consolidation or other business combination subject to the provisions of paragraph VI(e), shall give rise to any such voting right;

(iii) issue any additional shares of Convertible Preferred Stock.

(d) Additional Class Voting. Unless otherwise agreed to by the holders of a majority of the outstanding shares of Convertible Preferred Stock, for so long as the Restricted Parties own a majority of the outstanding shares of Convertible Preferred Stock, the Corporation shall not, without the express written consent of the holders of a majority of the shares of Preferred Stock, take any action, requiring the approval of the "Investor" pursuant to Sections 3.2, 3.3 or 3.4 of the Shareholder Agreement. The provisions of this paragraph (d) will

terminate with respect to such Sections 3.2, 3.3 or 3.4, as applicable, when the obligations of the Corporation under such Sections terminate under the Shareholder Agreement.

VIII. Status of Acquired Shares . For purposes hereof, all shares of Convertible Preferred Stock owned, directly or indirectly, by any entity of which the Corporation owns, directly or indirectly, a majority of the shares entitled to vote for directors shall be deemed not outstanding. Shares of Convertible Preferred Stock redeemed by the Corporation, received upon conversion pursuant to Section VI or otherwise acquired by the Corporation shall be restored to the status of authorized but unissued shares of capital stock, without designation as to series, and, subject to the other provisions hereof, may thereafter be issued, but not as shares of Convertible Preferred Stock.

IX. Modification and Waiver . The Corporation may not, without the consent of each holder affected thereby, (a) change the stated redemption date of the Convertible Preferred Stock, (b) reduce the Stated Value or liquidation preference of, or dividend on, the Convertible Preferred Stock, (c) change the place or currency of payment of the Stated Value or liquidation preference of, or dividend on, the Convertible Preferred Stock or (d) reduce the percentage of outstanding Convertible Preferred Stock necessary to modify or amend the terms thereof or to grant waivers in respect thereto.

X. Severability of Provisions . Whenever possible, each provision hereof shall be interpreted in a manner as to be effective and valid under applicable law, but if any provision hereof is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating or otherwise adversely affecting the remaining provisions hereof. If a court of competent jurisdiction should determine that a provision hereof would be valid or enforceable if a period of time were extended or shortened or a particular percentage were increased or decreased, then such court may make such change as shall be necessary to render the provision in question effective and valid under applicable law.

XI. Miscellaneous . (a) Transfer Taxes . The Corporation shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance of delivery of shares of Convertible Preferred Stock or shares of Common Stock or other securities issued on account of Convertible Preferred Stock pursuant hereto or certificates or instruments evidencing such shares or securities. The Corporation shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issuance or delivery of shares of Convertible Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Convertible Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any entity with respect to any such shares or securities other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the entity otherwise entitled to such issuance, delivery or payment has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or is not payable.

(b) Failure to Designate Shareholder or Payee . In the event that a holder of shares of Convertible Preferred Stock shall not by written notice designate the name in which shares of Common Stock to be issued upon conversion of such shares should be registered or to whom payment upon redemption of shares of Convertible Preferred Stock should be made, or the address to which the certificates or instruments evidencing such shares or such payment should be sent, the Corporation shall be entitled to register such shares and or such payment in the name of the holder of such Convertible Preferred Stock as shown on the records of the Corporation and to send the certificates or instruments evidencing such shares or such payment, to the address of such holder shown on the records of the Corporation.

(c) Registration Rights Agreement . Reference is made to the Registration Rights Agreement, dated on or about April 15, 1999 (as the same may be amended, supplemented or modified from time to time pursuant to the terms thereof, the "Registration Rights Agreement"), among the Corporation, the Investor and National Broadcasting Company, Inc. So long as any shares of Convertible Preferred Stock constitute "Registrable Securities" as defined in the Registration Rights Agreement, each holder shall be entitled to the rights granted by the Corporation thereunder and shall be bound by the restrictions therein.

(d) Shareholder Agreement . Reference is made to the Shareholder Agreement, dated on or about April 15, 1999 (as the same may be amended, supplemented or modified from time to time pursuant to the terms thereof, the "Shareholder Agreement"), among the Corporation, the Investor and National Broadcasting

Company, Inc. The Convertible Preferred Stock shall be subject to the terms and conditions set forth in the Shareholder Agreement, including without limitation, the voting, transfer and standstill restrictions set forth therein.

(e) Documents on File. Copies of each of the Registration Rights Agreement and Shareholder Agreement shall be kept on file at the principal place of business of the Corporation at 6740 Shady Oak Road, Eden Prairie, MN 55344-3433.

BY-LAWS OF VALUEVISION MEDIA, INC.
(Conformed Copy — Includes all amendments through June 1, 2008)

ARTICLE 1
OFFICES

1.1 Registered Office. The registered office of the Corporation shall be located within the State of Minnesota as set forth in the Articles of Incorporation. The Board of Directors shall have authority to change the registered office of the Corporation and a statement evidencing any such change shall be filed with the Secretary of State of Minnesota as required by law.

1.2 Offices. The Corporation may have other offices, including its principal business office, either within or without the State of Minnesota.

ARTICLE 2
CORPORATE SEAL

2.1 Corporate Seal. The Board of Directors shall determine whether or not the Corporation will adopt a corporate seal. If a corporate seal is adopted, inscribed on the corporate seal shall be the name of the Corporation and the words "Corporate Seal," and when so directed by the Board of Directors, a duplicate of the seal may be kept and used by the Secretary of the Corporation.

ARTICLE 3
SHAREHOLDERS

3.1 Regular Meetings. Regular meetings of the shareholders shall be held at the Corporation's registered office or at such other place within or without the State of Minnesota as is designated by the Board of Directors. Regular meetings may be held annually or on a less frequent periodic basis, as established by a resolution of the Board of Directors, or may be held on call by the Board of Directors from time to time as and when the Board determines. At each regular meeting, the shareholders shall elect qualified successors for directors who serve for an indefinite term or whose terms have expired or are due to expire within six (6) months after the date of the meeting, and may transact such other business which properly comes before them. Notwithstanding the foregoing, if a regular meeting of the shareholders has not been held for a period of fifteen (15) months, a shareholder or group of shareholders holding three percent (3%) or more of the issued and outstanding voting shares of the Corporation may demand that a regular meeting of the shareholders be held by giving written notice to the Chief Executive Officer or Treasurer of the Corporation. Within thirty (30) days after receipt of the notice, the Board shall cause a regular meeting of the shareholders to be called and held within ninety (90) days after receipt of the notice. Any regular meeting held pursuant to such a demand by a shareholder or shareholders shall be held within the county where the principal executive office of the Corporation is located.

3.2 Special Meeting. Special meetings of the shareholders may be called by the Chief Executive Officer, by a Vice-President in the absence of the Chief Executive Officer, by the Treasurer, or by the Board of Directors or any two or more members thereof. Special meetings may also be called by one or more shareholders holding ten percent (10%) or more of the issued and outstanding voting shares of the Corporation by delivering to the President or Treasurer a written demand for a special meeting, which demand shall state the purposes of such meeting. Within thirty (30) days after receipt of the written demand, the Board of Directors shall call a special meeting of the shareholders to be held within ninety (90) days after receipt of the written demand. Any special meeting held pursuant to such written demand shall be held within the county where the principal executive office of the Corporation is located.

3.3 Quorum. Business may be transacted at any duly held meeting of the shareholders at which a quorum is present. The holders of a majority of the voting power of the shares entitled to vote at a meeting are a quorum. The shareholders present at the meeting may continue to transact business until adjournment, even though a number of shareholders withdraw leaving less than a quorum. If a quorum is not present at any meeting, those shareholders present have the power to adjourn the meeting from time to time until the requisite number of voting shares are present. The date, time and place of the reconvened meeting shall be announced at the time of adjournment and notice of the reconvened meeting shall be given to all shareholders who were not present at the time of adjournment. Any business which might have been transacted at the meeting which was adjourned may be transacted at the reconvened meeting.

3.4 Voting. At each shareholders' meeting, every shareholder having the right to vote is entitled to vote in person or by proxy. Shareholders have one (1) vote for each share having voting power standing in their name on the books of the Corporation, unless otherwise provided in the Articles of Incorporation, or these By-laws, or in the terms of the shares. All elections and questions shall be decided by a majority vote of the number of shares entitled to vote and represented at any meeting at which there is a quorum, except as otherwise required by statute, the Articles of Incorporation, these By-Laws, or by agreement among the shareholders.

3.5 Notice of Meeting. Notice of regular or special meetings of the shareholders shall be given by an officer or agent of the Corporation to each shareholder shown on the books of the Corporation to be the holder of record of shares entitled to vote at the meeting. If the notice is to be mailed, then the notice must be mailed to each shareholder at the shareholder's address as shown on the books of the Corporation at least five (5) calendar days prior to the meeting. If the notice is not mailed, then the notice must be given at least forty-eight (48) hours prior to the meeting. The notice must contain the date, time and place of the meeting, and in the case of a special meeting must also contain a statement of the purpose of the meeting. In no event shall notice be given more than sixty (60) days prior to the meeting. If a plan of merger, exchange, sale or other disposition of all or substantially all of the assets of the Corporation is to be considered at a meeting of shareholders, notice of such meeting shall be given to every shareholder, whether or not entitled to vote, not less than fourteen (14) days prior to the date of such meeting.

3.6. Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his duly authorized attorney-in-fact. Such proxies must be filed with an officer of the Corporation before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

3.7. Closing Transfer Books. The Board of Directors may close the stock transfer books for a period of time which does not exceed sixty (60) days preceding any of the following: the date of any meeting of shareholders; the payment of dividends; the allotment of rights; or the change, conversion, or exchange of shares.

3.8. Record Date. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date not exceeding sixty (60) days preceding the date of any of the events described in Section 3.7, as a record date for the determination of which shareholders are entitled (i) to notice of and to vote at any meeting and any meeting subsequent to adjournment, (ii) to receive any dividend or allotment or rights, or (iii) to exercise the rights in respect to any change, conversion, or exchange of shares. If a record date is fixed by the Board of Directors, only those shareholders of record on the record date shall be entitled to receive notice of and to vote at the meeting and any meeting subsequent to adjournment or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date so fixed. If the share transfer books are net closed and no record date is fixed for determination of the shareholders of record, then the date on which notice of the meeting is mailed or the date of adoption of a resolution of the Board of Directors declaring a dividend, allotment or rights, change, conversion or exchange of shares, as the case may be, shall be the record date for such determination.

3.9. Presiding Officer. The Chief Executive Officer of the Corporation shall preside over all meetings of the shareholders. In the absence of the Chief Executive Officer, the shareholders may choose any person present to act as presiding officer.

3.10. Written Action by Shareholders. Any action which may be taken at a meeting of the shareholders may be taken without a meeting and notice if a consent in writing, setting forth the action so taken, is signed by all of the shareholders entitled to notice of a meeting for such purpose.

ARTICLE 4 DIRECTORS

4.1 General Powers. The property, affairs and business of the Corporation shall be managed by the Board of Directors which shall initially consist of five (5) directors. In addition to the powers and authorities by these By-Laws expressly conferred upon it, the Board may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law, the Articles of Incorporation or these By-Laws directed or required to be exercised or done by the shareholders.

4.2 Number. The number of directors may be either increased or decreased by resolution of the shareholders at their regular meeting or at a special meeting called for that purpose. The number of directors also may be either increased or decreased by resolution adopted by the affirmative vote of a majority of the Board of

Directors. Any newly created directorships established by the Board of Directors shall be filled by a majority vote of the directors serving at the time of increase.

4.3 Qualifications and Term of Office . Directors need not be shareholders or residents of the State of Minnesota. The Board of Directors shall be elected by the shareholders at their regular meeting and at any special shareholders' meeting called for that purpose. A director shall hold office until the annual meeting for the year in which his or her term expires and until the director's successor is elected and qualifies, or until the earlier death, resignation, removal, or disqualification of the director.

4.4 Quorum . A majority of the Board of Directors constitutes a quorum for the transaction of business; provided, however, that if any vacancies exist by reason of death, resignation, or otherwise, a majority of the remaining directors constitutes a quorum. If less than a quorum is present at any meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

4.5 Action of Directors . The acts of a majority of the directors present at a meeting at which a quorum is present are the acts of the Board of Directors.

4.6 Meetings . Meetings of the Board of Directors may be held from time to time at any place, within or without the State of Minnesota, that the Board of Directors may select. If the Board of Directors fails to select a place for a meeting, the meeting shall be held at the principal executive office of the Corporation. The President or any director may call a meeting of the Board of Directors by giving notice to all directors of the date, time and place of the meeting. If the notice is to be mailed, then the notice must be mailed to each director at least five (5) calendar days prior to the meeting. If the notice is not to be mailed, then the notice must be given at least forty-eight (48) hours prior to the meeting. If the date, time and place of the meeting of the Board of Directors has been announced at a previous meeting of the Board of Directors, no additional notice of such meeting is required, except that notice shall be given to all directors who were not present at the previous meeting. Notice of the meeting of the Board of Directors need not state the purpose of the meeting. A director may orally or in writing waive notice of the meeting. Attendance by a director at a meeting of the Board of Directors also constitutes a waiver of notice of such meeting, unless the director objects at the beginning of the meeting to the transaction of business because the meeting allegedly is not lawfully called or convened and such director does not participate thereafter in the meeting.

4.7 Meeting by Electronic Communication . A conference among directors by any means of communication through which the directors may simultaneously hear each other during the conference constitutes a meeting of the Board of Directors if the number of directors participating in the conference would be sufficient to constitute a quorum at a meeting, and if the same notice is given of the conference as would be required for a Board of Directors meeting under these By-Laws. In any Board of Directors meeting, a director may participate by any means of communication through which the director, other directors so participating, and all directors physically present at the meeting may simultaneously hear each other during the meeting.

4.8 Compensation . Directors may receive such compensation as may be determined from time to time by resolution of the Board of Directors.

4.9 Committee . By the affirmative vote of a majority of the directors, the Board of Directors may establish a committee or committees having the authority of the Board of Directors in the management of the business of the Corporation to the extent provided in the resolution adopted by the Board of Directors. A committee shall consist of one or more persons, who need not be directors, that have been appointed by affirmative vote of a majority of the directors present. A majority of the members of the committee present at any meeting of the committee is a quorum for the transaction of business, unless a larger or smaller proportion or number is provided in the resolution approved by the Board of Directors. Minutes of any meetings of committees created by the Board of Directors shall be available upon request to members of the committee and to any director.

4.10 Action by Absent Director . A director may give advance written consent or opposition to a proposal to be acted upon at a Board of Directors meeting by giving a written statement to the Chief Executive Officer, Chief Financial Officer, or any director which sets forth the proposal to be voted on and contains a statement of the director's voting preference with regard to the proposal. An advance written statement does not constitute presence of the director for purposes of determining a quorum, but the advance written statement shall be counted in the vote on the subject proposal provided that the proposal acted on at the meeting is substantially the same or has substantially the same effect as the proposal set forth in the advance written statement. The advance written statement by a director on a proposal shall be included in the records of the Board of Directors' action on the proposal.

4.11 Removal of Directors by Board of Directors . Any director may be removed by a majority vote of all directors constituting the Board, exclusive of the director whose removal is proposed, with or without cause.

4.12 Vacancies . Any vacancy on the Board of Directors may be filled by vote of the remaining directors, even though less than a quorum.

4.13 Written Action by Less Than All of the Directors . Any action which may be taken at a meeting of the Board of Directors may be taken without a meeting and notice thereof if a consent in writing setting forth the action taken is signed by the number of directors required to take the same action at a duly held meeting of the Board of Directors at which all of the directors are present. If a written action is signed by less than all the directors, any director not signing the action will be notified as soon as reasonably possible of the content of the action and the effective date of the action. Failure to provide the notice does not invalidate the written action. A director who does not sign or consent to the written action has no liability for the action or actions so taken.

4.14 Dissent from Action . A director of the Corporation who is present at a meeting of the Board of Directors at which any action is taken shall be presumed to have assented to the action taken unless the director objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened and does not participate thereafter, or unless the director votes against the action at the meeting, or is prohibited from voting on the action.

ARTICLE 5

OFFICERS

5.1 Election of Officers . The Board of Directors shall from time to time, elect a Chief Executive officer, who may also be designated as President, if a specific person is not elected to fill that office, and a Chief Financial Officer, who may also be designated as Treasurer. The Board of Directors may elect, but shall not be required to elect a President, a Secretary, one or more Vice Presidents, and a Chairman of the Board. In addition the Board of Directors may elect such other officers and agents as it may deem necessary. The officers shall exercise such powers and perform such duties as are prescribed by applicable statutes, the Articles of Incorporation, the By-Laws, or as may be determined from time to time by the Board of Directors. Any number of offices may be held by the same person.

5.2 Term of Office . The officers all hold office until their successors are elected and qualify; provided, however, that any officer may be removed with or without cause by the affirmative vote of a majority of the directors present at a Board of Directors meeting at which a quorum is present.

5.3 Chief Executive Officer. The Chief Executive Officer shall:

- (a) Have general active management of the business of the Corporation;
- (b) When present, preside at all meetings of the shareholders;
- (c) When present, and if there is not a Chairman of the Board, preside at all meetings of the Board of Directors;
- (d) See that all orders and resolutions of the Board of Directors are carried into effect;
- (e) Sign and deliver in the name of the Corporation any deeds, mortgages, bonds, contracts or other instruments pertaining to the business of the Corporation, except in cases in which the authority to sign and deliver is required by law to be exercised by another person or is expressly delegated by the Articles of Incorporation or By-Laws or by the Board of Directors to some other officer or agent of the Corporation;
- (f) Maintain records of and, whenever necessary, certify all proceedings of the Board of Directors and the shareholders; and
- (g) Perform all other duties prescribed by the Board of Directors.

All other officers shall be subject to the direction and authority of the Chief Executive Officer.

5.4 President . The President shall:

- (a) Assist the Chief Executive Officer in the general active management of the business of the Corporation;

- (b) In the absence of the Chief Executive Officer perform the duties of the Chief Executive Officer; and
- (c) Perform all other duties prescribed by the Board of Directors or by the Chief Executive Officer.

5.5 Chief Financial Officer. The Chief Financial Officer shall:

- (a) Keep accurate financial records for the Corporation;
- (b) Deposit all money, drafts and checks in the name of and to the credit of the Corporation in the banks and depositories designated by the Board of Directors;
- (c) Endorse for deposit all notes, checks and drafts received by the Corporation as ordered by the Board of Directors, making proper vouchers therefor;
- (d) Disburse corporate funds and issue checks and drafts in the name of the Corporation, as ordered by the Board of Directors;
- (e) Render to the Chief Executive Officer and the Board of Directors, whenever requested, an account of all transactions by the Chief Financial Officer and of the financial condition of the Corporation; and
- (f) Perform all other duties prescribed by the Board of Directors or by the Chief Executive Officer.

5.5 Vice President. Each Vice President, if any, shall have such powers and perform such duties as may be specified in these By-Laws or prescribed by the Board of Directors. If the Chief Executive Officer and the President are absent or disabled, the Vice President shall succeed to the President's powers and duties. If there are two or more Vice Presidents, the order of succession shall be determined by seniority of election or as otherwise prescribed by the Board of Directors.

5.6. Secretary. The Secretary, if any, shall attend all meetings of the shareholders and the Board of Directors. The Secretary shall act as clerk and shall record all the proceedings of the meetings in the minute book of the Corporation and shall give proper notice of meetings of shareholders and the Board of Directors. The Secretary shall keep the seal of the Corporation, if any, and shall affix the seal to any instrument requiring it and shall attest the seal, and shall perform such other duties as may be prescribed from time to time by the Board of Directors.

5.7 Chairman of the Board. The Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and shall perform such other duties as may from time to time be assigned by the Board of Directors.

5.8 Assistant Officers. In the event of absence or disability of any Vice President, Secretary or the Chief Financial Officer, the assistant to such officer, if any, shall succeed to the powers and duties of the absent officer until the principal officer resumes his duties or a replacement is elected by the Board of Directors. If there are two or more assistants, the order of succession shall be determined through seniority by the order in which elected or as otherwise prescribed by the Board of Directors. The assistant officers shall exercise such other powers and duties as may be delegated to them from time to time by the Board of Directors or the principal officer under whom they serve, but at all times shall remain subordinate to the principal officers they are designated to assist.

ARTICLE 6

INDEMNIFICATION

The Corporation shall indemnify its officers, directors, employees and agents to the full extent permitted by the laws of the State of Minnesota, as now in effect, or as the same may be hereafter modified.

ARTICLE 7

SHARES AND THEIR TRANSFER

7.1 Certificates of Shares. Unless the Board of Directors has provided that the Corporation's shares are to be uncertified, every owner of shares of the Corporation shall be entitled to a certificate, to be in such form as the Board of Directors prescribes, certifying the number of shares owned by such shareholder. The certificates for shares shall be numbered in the order in which they are issued and shall be signed in the name of the Corporation by the Chief Executive Officer or a Vice President and by the Secretary or Assistant Secretary, or the Chief Financial Officer, or any other officer of the Corporation authorized by the Board of Directors and shall have the corporate seal, if any, affixed thereto. A record shall be kept of the name of the person owning the shares represented by each

certificate, the respective issue dates thereof, and in the case of cancellation, the respective dates of cancellation. Except as provided in Section 7.4 of this Article 7, every certificate surrendered to the Corporation for exchange or transfer shall be canceled, and no other certificate shall be issued in exchange for any existing certificate until such existing certificate is canceled.

7.2 Issuance of Shares . The Board of Directors is authorized to issue shares of the capital stock of the Corporation up to the number of shares authorized by the Articles of Incorporation. Shares may be issued for any consideration (including, without limitation, money or other tangible or intangible property received by the Corporation or to be received by the Corporation under a written agreement) which is authorized by a resolution approved by the affirmative vote of a majority of the directors present, valuing all nonmonetary consideration and establishing a price in money or other consideration, or a minimum price, or a general formula or method by which the price will be determined. Upon authorization by resolution approved by the affirmative vote of a majority of the directors present, the Corporation may, without any new or additional consideration, issue shares of its authorized and unissued capital stock in exchange for or in conversion of its outstanding shares, or issue its own shares pro rata to its shareholders or the shareholders of one or more classes or series, to effectuate share dividends or splits, including reverse share splits. No shares of a class or series shall be issued to the holder of the shares of another class or series, unless issuance is either expressly provided for in the Articles of Incorporation or is approved at a meeting by the affirmative vote of the holders of a majority of the voting power of all shares of the same class or series as the shares to be issued.

7.3 Transfer of Shares . Transfer of shares on the books of the Corporation may be authorized only by the shareholder named in the certificates or the shareholder's representative or duly authorized attorney-in-fact and only upon surrender for cancellation of the certificate for such shares. The shareholder in whose name shares stand on the books of the Corporation shall be considered the owner thereof for all purposes regarding the Corporation.

7.4 Lost Certificates . Any shareholder claiming a certificate for shares which have been lost or destroyed shall make an affidavit or affirmation of that fact in such form as the Board of Directors may require and shall, if the directors so require, give the Corporation a bond of indemnity in form and with one or more sureties satisfactory to the Board of Directors and in an amount determined by the Board of Directors, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss or destruction of the certificate. A new certificate may then be issued in the same tenor for the same number of shares as the one alleged to have been lost or destroyed.

7.5 Transfer Agent and Registrar . The Board of Directors may appoint one or more transfer agents or transfer clerks and one or more registrars and may require all certificates for shares to bear the signature or signatures of any of them.

7.6 Facsimile Signature . When any certificate is manually signed by a transfer agent, a transfer clerk, or a registrar appointed by the Board of Directors to perform such duties, a facsimile or engraved signature of the officers and a facsimile corporate seal, if any, may be inscribed on the certificate in lieu of the actual signatures and seal.

ARTICLE 8

FINANCIAL AND PROPERTY MANAGEMENT

8.1 Checks . All checks, drafts, other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by the Chief Executive Officer or Chief Financial Officer, or any other officer or officers, agent or agents of the Corporation, as may from time to time be determined by resolution of the Board of Directors.

8.2 Deposits . All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board of Directors may select.

8.3 Voting Securities Held by Corporation . The Chief Executive Officer, or other officer or agent designated by the Board of Directors, shall have full power and authority on behalf of the Corporation to attend, act at, and vote at any meeting of security or interest holders of other corporations or entities in which the Corporation may hold securities or interests. At the meeting, the Chief Executive Officer or other designated agent shall possess and exercise any and all rights and powers incident to the ownership of the securities or interest which the Corporation holds.

ARTICLE 9
AMENDMENTS

The Board of Directors of the Corporation is expressly authorized to make By-Laws of the Corporation and from time to time to adopt, amend or repeal By-Laws so made to the extent and in the manner prescribed in the Minnesota Statutes. The Board of Directors shall not adopt, amend or repeal a By-Law fixing a quorum for meetings of shareholders, prescribing procedures for removing directors or filling vacancies in the Board of Directors, or fixing the number of directors or their classifications, qualifications, or terms of office, but may adopt or amend a By-Law to increase the number of directors. The authority in the Board of Directors is subject to the power of the voting shareholders to adopt, change or repeal the By-Laws by a vote of shareholders holding a majority of the shares entitled to vote and present or represented at any regular meeting or special meeting called for that purpose.

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Rene G. Aiu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ValueVision Media, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 12, 2008

/s/ Rene G. Aiu

Rene G. Aiu
Chief Executive Officer and President (principal executive officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Frank P. Elsenbast, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ValueVision Media, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 12, 2008

/s/ Frank P. Elsenbast

Frank P. Elsenbast
Senior Vice President, Chief Financial Officer (principal financial officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of ValueVision Media, Inc., a Minnesota corporation (the “*Company*”), for the quarter ended May 3, 2008, as filed with the Securities and Exchange Commission on or about the date hereof (the “*Report*”), the undersigned officers of the Company certify pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: June 12, 2008

/s/ Rene G. Aiu

Rene G. Aiu
Chief Executive Officer and President (principal executive officer)

Date: June 12, 2008

/s/ Frank P. Elsenbast

Frank P. Elsenbast
Senior Vice President, Chief Financial Officer (principal financial officer)