

# VALUEVISION MEDIA INC

## FORM 10-Q (Quarterly Report)

Filed 12/14/2006 For Period Ending 11/4/2006

Address	6740 SHADY OAK RD MINNEAPOLIS, Minnesota 55344-3433
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Industry	Retail (Catalog & Mail Order)
Sector	Services
Fiscal Year	01/31

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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 November 4, 2006

OR

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

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

*Commission File Number 0-20243*

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**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)

952-943-6000  
(Registrant's telephone number, including area code)

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

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

**Large Accelerated filer**  **Accelerated filer**  **Non-accelerated filer**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

As of December 12, 2006, there were 37,428,702 shares of the registrant's common stock, \$.01 par value per share, outstanding.

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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)

	NOVEMBER 4, 2006	FEBRUARY 4, 2006
	-----	-----
	(UNAUDITED)	
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 38,038	\$ 43,143
Short-term investments	28,885	39,207
Accounts receivable, net	97,289	87,478
Inventories	83,024	67,844
Prepaid expenses and other	8,497	8,357
	-----	-----
Total current assets	255,733	246,029
PROPERTY & EQUIPMENT, NET	42,926	46,958
FCC BROADCASTING LICENSE	31,943	31,943
NBC TRADEMARK LICENSE AGREEMENT, NET	13,041	15,461
CABLE DISTRIBUTION AND MARKETING AGREEMENT, NET	1,983	2,654
OTHER ASSETS	4,910	4,094
	-----	-----
	\$ 350,536	\$ 347,139
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 62,372	\$ 60,597
Accrued liabilities	49,337	40,223
	-----	-----
Total current liabilities	111,709	100,820
LONG-TERM CAPITAL LEASE OBLIGATIONS	141	130
DEFERRED REVENUE	805	--
SERIES A REDEEMABLE CONVERTIBLE PREFERRED STOCK, \$.01 PER SHARE PAR VALUE, 5,339,500 SHARES AUTHORIZED; 5,339,500 SHARES ISSUED AND OUTSTANDING	43,535	43,318
SHAREHOLDERS' EQUITY:		
Common stock, \$.01 per share par value, 100,000,000 shares authorized; 37,402,762 and 37,643,676 shares issued and outstanding	374	376
Warrants to purchase 6,036,858 and 6,380,583 shares of common stock	32,854	34,029
Additional paid-in capital	276,677	278,266
Deferred compensation	--	(154)
Accumulated deficit	(115,559)	(109,646)
	-----	-----
Total shareholders' equity	194,346	202,871
	-----	-----
	\$ 350,536	\$ 347,139
	=====	=====

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		FOR THE NINE MONTH PERIODS ENDED	
	NOVEMBER 4, 2006	OCTOBER 29, 2005	NOVEMBER 4, 2006	OCTOBER 29, 2005
Net sales	\$ 184,886	\$ 159,513	\$ 550,592	\$ 482,481
Cost of sales (exclusive of depreciation and amortization shown below)	121,311	105,026	358,588	317,002
Gross profit	63,575	54,487	192,004	165,479
OPERATING EXPENSE:				
Distribution and selling	55,069	51,630	165,470	152,248
General and administrative	7,476	5,816	21,339	18,255
Depreciation and amortization	5,777	4,979	16,527	15,110
Asset impairments and write offs	--	--	29	--
Employee termination costs	--	--	--	82
Total operating expense	68,322	62,425	203,365	185,695
OPERATING LOSS	(4,747)	(7,938)	(11,361)	(20,216)
OTHER INCOME:				
Other income	--	1	350	--
Interest income	990	716	2,951	2,122
Total other income	990	717	3,301	2,122
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN INCOME OF AFFILIATES	(3,757)	(7,221)	(8,060)	(18,094)
Equity in income of affiliates	646	382	2,192	396
Income tax (provision) benefit	(15)	(6)	(45)	813
LOSS FROM CONTINUING OPERATIONS DISCONTINUED OPERATIONS:	(3,126)	(6,845)	(5,913)	(16,885)
Loss from discontinued FanBuzz operations, net of tax (Note 13)	--	(221)	--	(2,296)
NET LOSS	(3,126)	(7,066)	(5,913)	(19,181)
Accretion of redeemable preferred stock	(73)	(72)	(217)	(215)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	\$ (3,199)	\$ (7,138)	\$ (6,130)	\$ (19,396)
NET LOSS PER COMMON SHARE:				
Continuing operations	\$ (0.09)	\$ (0.18)	\$ (0.16)	\$ (0.45)
Discontinued operations	--	(0.01)	--	(0.07)
Net loss	\$ (0.09)	\$ (0.19)	\$ (0.16)	\$ (0.52)
NET LOSS PER COMMON SHARE -- ASSUMING DILUTION:				
Continuing operations	\$ (0.09)	\$ (0.18)	\$ (0.16)	\$ (0.45)
Discontinued operations	--	(0.01)	--	(0.07)
Net loss	\$ (0.09)	\$ (0.19)	\$ (0.16)	\$ (0.52)
Weighted average number of common shares outstanding:				
Basic	37,628,215	37,120,384	37,700,351	37,099,953
Diluted	37,628,215	37,120,384	37,700,351	37,099,953

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

**VALUEVISION MEDIA, INC.  
AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**FOR THE NINE MONTH PERIOD ENDED NOVEMBER 4, 2006**  
(Unaudited)

(In thousands, except share data)

	COMPREHENSIVE LOSS	COMMON STOCK		COMMON STOCK PURCHASE WARRANTS	ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPENSATION	ACCUMULATED DEFICIT	TOTAL SHAREHOLDERS' EQUITY
		NUMBER OF SHARES	PAR VALUE					
BALANCE, FEBRUARY 4, 2006		37,643,676	\$376	\$34,029	\$278,266	\$(154)	\$(109,646)	\$202,871
Net loss	\$(5,913)	--	--	--	--	--	(5,913)	(5,913)
Repurchases of common stock		(405,685)	(4)		(4,694)			(4,698)
Exercise of stock options and common stock issuances		164,771	2	--	952	--	--	954
Stock purchase warrants forfeited		--	--	(1,175)	1,175	--	--	--
Share-based payment compensation		--	--	--	1,349	--	--	1,349
Effect of accounting change (SFAS 123R)		--	--	--	(154)	154	--	--
Accretion on redeemable preferred stock		--	--	--	(217)	--	--	(217)
BALANCE, NOVEMBER 4, 2006		37,402,762	\$374	\$32,854	\$276,677	\$ --	\$(115,559)	\$194,346

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 NINE MONTH PERIODS ENDED	
	NOVEMBER 4, 2006	OCTOBER 29, 2005
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (5,913)	\$(19,181)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	16,527	15,412
Share-based payment compensation	1,349	--
Common stock issued to employees	15	25
Amortization of deferred compensation	--	146
Asset impairments and write offs	179	400
Equity in earnings of affiliates	(2,192)	(396)
Amortization of deferred revenue	(28)	--
Gain on sale of property and investments	(500)	(247)
Noncash tax benefit	--	(832)
Gain on long-term lease termination	--	(924)
Changes in operating assets and liabilities:		
Accounts receivable, net	(9,810)	(861)
Inventories	(15,180)	(24,366)
Prepaid expenses and other	377	(677)
Deferred revenue	1,000	
Accounts payable and accrued liabilities	10,621	13,995
	(3,555)	(17,506)
	-----	-----
<b>INVESTING ACTIVITIES:</b>		
Property and equipment additions	(8,641)	(7,332)
Purchase of short-term investments	(20,627)	(48,837)
Proceeds from sale of short-term investments	30,949	66,257
RLM dividends	250	--
Proceeds from sale of property	--	350
Proceeds from sale of investments	500	--
	2,431	10,438
	-----	-----
<b>FINANCING ACTIVITIES:</b>		
Repurchases of common stock	(4,698)	--
Proceeds from exercise of stock options	939	401
Payment of long-term obligation	(222)	(738)
	(3,981)	(337)
	-----	-----
Net decrease in cash and cash equivalents	(5,105)	(7,405)
BEGINNING CASH AND CASH EQUIVALENTS	43,143	62,640
	-----	-----
ENDING CASH AND CASH EQUIVALENTS	\$ 38,038	\$ 55,235
	=====	=====
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$ 14	\$ 111
	=====	=====
Income taxes paid	\$ 13	\$ 11
	=====	=====
<b>SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Common stock purchase warrants forfeited	\$ 1,175	\$ --
	=====	=====
Restricted stock forfeited	\$ --	\$ 9
	=====	=====
Property and equipment purchases included in accounts payable	\$ 335	\$ 149
	=====	=====
Accretion of redeemable preferred stock	\$ 217	\$ 215
	=====	=====

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

# VALUEVISION MEDIA, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 4, 2006

(Unaudited)

### (1) GENERAL

ValueVision Media, Inc. and its 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. The Company's operating strategy as a multi-channel retailer incorporates television home shopping, Internet e-commerce, direct mail marketing and fulfillment services.

The Company's television home shopping business uses on-air spokespersons to market brand name merchandise and private label consumer products at competitive prices. The Company's live 24-hour per day television home shopping programming is distributed primarily through long-term cable and satellite affiliation agreements and the purchase of month-to-month full and part-time 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 complements its television home shopping business by the sale of a broad array of merchandise through its Internet shopping website, [www.shopnbc.com](http://www.shopnbc.com).

The Company has an exclusive license agreement with NBC Universal, Inc. ("NBC"), pursuant to which NBC granted the Company worldwide use of an NBC-branded name and the Peacock image for a ten-year period. The Company rebranded its television home shopping network and companion Internet shopping website as "ShopNBC" and "ShopNBC.com", respectively, in fiscal 2001. This rebranding was intended to position the Company as a multimedia retailer, offering consumers an entertaining, informative and interactive shopping experience, and position the Company as a leader in the evolving convergence of television and the Internet.

The Company, through its wholly owned subsidiary, VVI Fulfillment Center, Inc. ("VVIFC"), provides fulfillment, warehousing, customer service and telemarketing services to Ralph Lauren Media, LLC ("RLM"), the operator of the Polo.com e-commerce business in which the Company holds a minority equity interest. VVIFC also provides fulfillment and warehousing services for the fulfillment of merchandise sold on the Company's television home shopping program and Internet website.

### (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 such rules and regulations. The information furnished in the interim condensed consolidated financial statements includes normal recurring accruals and reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate, 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 4, 2006. Operating results for the nine-month period ended November 4, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending February 3, 2007.

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 4, 2006 and is designated "fiscal 2005". The Company's fiscal year ending February 3, 2007 is designated "fiscal 2006". On April 29, 2005, the Company elected to change its fiscal year from a fiscal year ending January 31 to a 52/53 week fiscal year ending on the first Saturday in February of each calendar year. This change was effective beginning with the Company's 2005 fiscal year. The Company made this change in order to align its fiscal year more closely to its retail seasonal merchandising plan. The change also enhanced the weekly and monthly comparability of sales results relating to the Company's television home-shopping business. As a result of the fiscal year change, the fourth quarter of fiscal 2006 will have 13 weeks as compared to the fourth quarter of fiscal 2005 which had 14 weeks. The change did not have a significant impact on the Company's fiscal 2005 annual consolidated financial statements.

### (3) STOCK OPTION COMPENSATION

Effective February 5, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R) (revised 2004), "Share-Based Payment" ("SFAS No.

123(R)"), which revised SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). This standard requires compensation costs related to share-based payment transactions to be recognized in the financial statements. The Company adopted the standard using the modified prospective transition method, which requires the application of the accounting standard to all share-based awards issued on or after the date of adoption and any outstanding share-based awards that were issued but not vested as of the date of adoption. Accordingly, the Company did not restate the financial statements for periods prior to the first quarter of fiscal 2006 as a result of the adoption.

Stock-based compensation expense from continuing operations in the third quarter of fiscal 2006 and the third quarter of fiscal 2005 related to stock option awards was \$393,000 and \$-0-, respectively. Stock-based compensation expense from continuing operations for the nine-month periods ended November 4, 2006 and October 29, 2005 related to stock option awards was \$1,138,000 and \$-0-, respectively. The adoption of SFAS No. 123(R) in fiscal 2006 resulted in the recognition of incremental pre-tax stock-based compensation expense and an increase in the year to date net loss of \$1,138,000 and a \$.03 negative impact on basic and fully diluted loss per share. 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. Additionally, the Company reclassified unearned compensation on restricted stock awards of \$154,000 to additional paid in capital. The cumulative effect adjustment for forfeitures related to non-vested stock-based awards was not material.

As of November 4, 2006, 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 Company's Human Resources and Compensation Committee ("Compensation Committee") and provide for awards for employees, directors and consultants. All employees and directors of the Company or its affiliates are eligible to receive awards under the plans. The types of awards that may be granted under these plans include restricted (unvested shares) 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 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 no longer makes any further grants from these other plans. 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.

	FISCAL 2006	FISCAL 2005
Expected volatility .....	33%-35%	36%
Expected term (in years) ...	6 years	6 years
Risk-free interest rate ...	4.7%-5.12%	4.7%

A summary of the status of the Company's stock option activity as of November 4, 2006 and changes during the nine months then ended is as follows:

	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	1994 EXECUTIVE STOCK OPTION PLAN	WEIGHTED AVERAGE EXERCISE PRICE
Balance outstanding, February 4, 2006 .....	1,776,000	\$12.09	2,124,000	\$14.78	900,000	\$18.16	2,551,000	\$16.50	648,000	\$16.68
Granted .....	75,000	11.37	--	--	--	--	--	--	--	--
Exercised .....	(12,000)	10.83	(28,000)	12.35	(31,000)	10.66	(40,000)	10.69	(100,000)	3.38
Forfeited or canceled .....	(95,000)	12.44	(335,000)	14.97	(196,000)	23.08	(590,000)	17.80	--	--
Balance outstanding, November 4, 2006 .....	1,744,000	\$12.05	1,761,000	\$14.79	673,000	\$17.07	1,921,000	\$16.22	548,000	\$19.11
Options exercisable at: November 4, 2006 .....	1,397,000	\$12.22	1,744,000	\$14.82	673,000	\$17.07	1,871,000	\$16.36	548,000	\$19.11

The following table summarizes information regarding stock options outstanding at November 4, 2006:

OPTION TYPE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	AGGREGATE INTRINSIC VALUE	OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	AGGREGATE INTRINSIC VALUE
2004 Incentive: .....	1,744,000	\$12.05	8.1	\$1,590,000	1,397,000	\$12.22	7.9	\$1,038,000
2001 Incentive: .....	1,761,000	\$14.79	5.0	\$ 196,000	1,744,000	\$14.82	5.0	\$ 173,000
1990 Incentive: .....	673,000	\$17.07	1.7	\$ 60,000	673,000	\$17.07	1.7	\$ 60,000
Other Non-qualified: ...	1,921,000	\$16.22	5.3	\$ 99,000	1,871,000	\$16.36	5.2	\$ --
1994 Executive: .....	548,000	\$19.11	2.5	\$1,826,000	548,000	\$19.11	2.5	\$1,826,000

The weighted average grant date fair value of options granted in the nine months of fiscal 2006 and 2005 was \$4.88 and \$6.57, respectively. The total intrinsic value of options exercised during the first nine months of fiscal 2006 and 2005 was \$1,124,000 and \$188,000, respectively. As of November 4, 2006, total unrecognized compensation cost related to stock options was \$1,721,000 and is expected to be recognized over a weighted average period of approximately 0.8 years.

Prior to fiscal 2006, the Company accounted for its stock option plans under the recognition and measurement principles of APB No. 25, and the disclosure-only provisions of SFAS 123. No employee stock option compensation cost was reflected in the net loss, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	THREE MONTHS ENDED OCTOBER 29, 2005	NINE MONTHS ENDED OCTOBER 29, 2005
Net loss available to common shareholders:		
As reported .....	\$(7,138,000)	\$(19,396,000)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects .....	(2,453,000)	(9,311,000)
Pro forma .....	\$(9,591,000)	\$(28,707,000)
Net loss per share:		
Basic:		

As reported ..... \$ (0.19) \$ (0.52)

Pro forma .....		(0.26)		(0.77)
Diluted:				
As reported .....	\$	(0.19)	\$	(0.52)
Pro forma .....		(0.26)		(0.77)

In December 2005, the Company's board of directors approved the acceleration and vesting of approximately 1,200,000 outstanding unvested stock options with an exercise price greater than \$11.78 per share as of December 19, 2005 under the Company's stock-based incentive compensation plans. The options affected are held by executive officers, directors and employees of the Company and had a range of exercise prices between \$11.80 and \$19.26 per share and a weighted average exercise price of \$15.06 per share. The board accelerated the vesting period to eliminate the Company's future recognition of compensation expense associated with these out-of-the money stock options required under SFAS No. 123(R), which became effective for the Company beginning in the first quarter of fiscal 2006.

#### (4) NET LOSS PER COMMON SHARE

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

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

	THREE MONTH PERIODS ENDED		NINE MONTH PERIODS ENDED	
	NOVEMBER 4, 2006	OCTOBER 29, 2005	NOVEMBER 4, 2006	OCTOBER 29, 2005
Net loss available to common shareholders ...	\$(3,199,000)	\$(7,138,000)	\$(6,130,000)	\$(19,396,000)
Weighted average number of common shares outstanding - Basic .....	37,628,000	37,120,000	37,700,000	37,100,000
Dilutive effect of convertible preferred stock .....	--	--	--	--
Dilutive effect of stock options and warrants .....	--	--	--	--
Weighted average number of common shares outstanding - Diluted .....	37,628,000	37,120,000	37,700,000	37,100,000
Net loss per common share .....	\$ (0.09)	\$ (0.19)	\$ (0.16)	\$ (0.52)
Net loss per common share- assuming dilution .....	\$ (0.09)	\$ (0.19)	\$ (0.16)	\$ (0.52)

In accordance with SFAS No. 128, for the three-month periods ended November 4, 2006 and October 29, 2005, approximately 206,000 and 760,000, respectively, 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. For the nine-month periods ended November 4, 2006 and October 29, 2005, approximately 235,000 and 711,000, respectively, 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.

#### (5) COMPREHENSIVE LOSS

The Company reports comprehensive loss in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for reporting in the financial statements all changes in equity during a period, except those resulting from investments by and distributions to owners. For the Company, comprehensive loss includes net loss and other comprehensive income (loss). Total comprehensive loss was \$3,126,000 and \$7,066,000 for the three-month periods ended November 4, 2006 and October 29, 2005, respectively. Total comprehensive loss was \$5,913,000 and \$19,181,000 for the nine-month periods ended November 4, 2006 and October 29, 2005, respectively. The Company no longer has any long-term equity investments classified as "available-for-sale."

(6) SEGMENT DISCLOSURES

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), requires the disclosure of certain information about operating segments in financial statements. The Company's reportable segments are based on the Company's method of internal reporting. 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 reviewed the provisions of SFAS No. 131 and has determined that the Company's television and Internet home shopping businesses meet the aggregation criteria as outlined in SFAS No. 131 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 and nine-month periods ended November 4, 2006 and October 29, 2005 are as follows:

THREE-MONTH PERIODS ENDED (IN THOUSANDS)	SHOPNBC & SHOPNBC.COM	FULFILLMENT SERVICES (A)	EQUITY INVESTMENTS (B)	CONTINUING OPERATIONS	FANBUZZ, INC. (DISCONTINUED)	TOTAL
NOVEMBER 4, 2006						
Revenues .....	\$182,312	\$ 2,574	\$ --	\$184,886	\$ --	\$
Operating (loss) income .....	(4,785)	38	--	(4,747)	--	
Depreciation and amortization .....	5,607	170	--	5,777	--	
Interest income .....	990	--	--	990	--	
Income taxes .....	15	--	--	15	--	
Net income (loss) .....	(3,735)	(37)	646	(3,126)	--	(3,126)
Identifiable assets .....	341,873	5,338	3,325	350,536	--	350,536
OCTOBER 29, 2005						
Revenues .....	\$156,899	\$ 2,614	\$ --	\$159,513	\$ 521	\$
Operating (loss) income .....	(8,028)	90	--	(7,938)	(181)	
Depreciation and amortization .....	4,767	212	--	4,979	41	
Interest income (expense) .....	716	--	--	716	(40)	
Income taxes .....	6	--	--	6	--	
Net income (loss) .....	(7,317)	90	382	(6,845)	(221)	(7,066)
Identifiable assets, February 4, 2006 ...	338,939	6,461	1,383	346,783	356	347,139
NINE-MONTH PERIODS ENDED (IN THOUSANDS)						
NOVEMBER 4, 2006						
Revenues .....	\$ 543,083	\$ 7,509	\$ --	\$ 550,592	\$ --	\$
Operating (loss) income .....	(11,780)	419	--	(11,361)	--	
Depreciation and amortization .....	16,007	520	--	16,527	--	
Interest income .....	2,951	--	--	2,951	--	
Income taxes .....	45	--	--	45	--	
Net income (loss) .....	(8,301)	196	2,192	(5,913)	--	(5,913)
Identifiable assets .....	341,873	5,338	3,325	350,536	--	350,536
OCTOBER 29, 2005						
Revenues .....	\$ 475,603	\$ 6,878	\$ --	\$ 482,481	\$ 5,384	\$
Operating (loss) income .....	(20,672)	456	--	(20,216)	(2,235)	
Depreciation and amortization .....	14,438	672	--	15,110	302	
Interest income (expense) .....	2,122	--	--	2,122	(62)	
Income tax provision (benefit) .....	(813)	--	--	(813)	--	
Net income (loss) .....	(17,735)	454	396	(16,885)	(2,296)	(19,181)
Identifiable assets, February 4, 2006 ...	338,939	6,461	1,383	346,783	356	347,139

(a) Revenue from segments below quantitative thresholds are attributable to VVIFC, which provides fulfillment, warehousing and telemarketing services primarily to RLM and the Company.

(b) Equity investment assets and net income 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.

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

	THREE-MONTH PERIODS ENDED		NINE-MONTH PERIODS ENDED	
	NOVEMBER 4, 2006	OCTOBER 29, 2005	NOVEMBER 4, 2006	OCTOBER 29, 2005
Jewelry .....	\$ 61,633	\$ 61,305	\$211,057	\$199,178
Electronics .....	48,556	33,366	122,124	99,997
Watches, Apparel and Health & Beauty .....	42,228	33,519	121,811	92,251
Home .....	21,043	19,779	60,406	56,465
All others, less than 10% each ...	11,426	11,544	35,194	34,590
Total .....	\$184,886	\$159,513	\$550,592	\$482,481

#### (7) RELATED PARTY TRANSACTIONS

In conjunction with its services agreement with RLM, the Company records revenue for amounts billed to RLM for customer service and fulfillment services. Revenues recorded from these services were \$2,574,000 and \$2,614,000 for the quarters ended November 4, 2006 and October 29, 2005, respectively, and were \$7,509,000 and \$6,878,000 for the nine-month periods ended November 4, 2006 and October 29, 2005, respectively. Amounts due from RLM were \$174,000 and \$923,000 as of November 4, 2006 and February 4, 2006, respectively. In the third quarter of fiscal 2006, RLM notified the Company that it had elected to extend the term of its existing services agreement with the Company to at least August 31, 2008.

The Company entered into an agreement with RightNow Technologies, Inc. ("RightNow") in 2005 under which the Company purchased software applications which enable the Company to utilize certain customer services technologies developed by RightNow. The Company's President and Chief Executive Officer, William J. Lansing, serves on the board of directors of RightNow. The Company made payments totaling approximately \$165,000 during fiscal 2006 (as of November 4, 2006) and \$48,000 during fiscal 2005, respectively, for this technology and annual software maintenance fees relating to this technology and other services.

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. NBC and GE Commercial Finance -- Equity have a substantial percentage ownership in the Company and together have the right to select three of the nine members of the Company's Board of Directors.

#### (8) RESTRICTED STOCK

On June 21, 2006, 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 \$468,000 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 nine months of fiscal 2006 and the first nine months of fiscal 2005 relating to restricted stock grants was \$211,000 and \$146,000,

respectively. As of November 4, 2006, there was \$409,000 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 1.0 years. The total fair value of restricted stock vested during the first nine months of fiscal 2006 and 2005 was \$26,000 and \$464,000, respectively.

A summary of the status of the Company's non-vested restricted stock activity as of November 4, 2006 and changes during the nine-month period then ended is as follows:

	SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
	-----	-----
Non-vested outstanding,		
February 4, 2006 .....	23,000	\$12.28
Granted .....	40,000	11.69
Vested .....	(3,000)	12.75
Forfeited .....	--	--
	-----	-----
Non-vested outstanding,		
November 4, 2006 .....	60,000	\$11.87
	=====	=====

#### (9) 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 through August 2007 by open market purchases or negotiated transactions at prices and amounts as determined by the Company from time to time. During the third quarter of fiscal 2006, the Company repurchased a total of 406,000 shares of common stock for a total investment of \$4,682,000 at an average price of \$11.54 per share. The Company did not repurchase any shares under any stock repurchase programs during the three and nine-month periods ended October 29, 2005.

#### (10) GOODWILL AND OTHER INTANGIBLE ASSETS

Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), addresses the financial accounting and reporting standards for the acquisition of intangible assets outside of a business combination and for goodwill and other intangible assets subsequent to their acquisition. The accounting standard requires that goodwill be separately disclosed from other intangible assets in the statement of financial position, and no longer be amortized but tested for impairment annually or whenever an event has occurred that would more likely than not reduce the fair value of the asset below its carrying amount.

Intangible assets have been recorded by the Company as a result of the acquisition of FanBuzz in fiscal 2002 and television station WWDP TV-46 in fiscal 2003. The components of amortized and unamortized intangible assets in the accompanying condensed consolidated balance sheets consist of the following:

		NOVEMBER 4, 2006		FEBRUARY 4, 2006	
	AVERAGE LIFE (YEARS)	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	-----	-----	-----	-----	-----
Amortized intangible assets:					
Website address .....	3			\$ 1,000,000	\$(1,000,000)
Partnership contracts .....	2			280,000	(280,000)
Non-compete agreements .....	3			230,000	(230,000)
Favorable lease contracts .....	13			200,000	(200,000)
Other .....	2			290,000	(290,000)
				-----	-----
Total .....				\$ 2,000,000	\$(2,000,000)
				=====	=====
Unamortized intangible assets:					
FCC broadcast license .....		\$31,943,000		\$ 31,943,000	
		=====		=====	

Amortization expense for intangible assets for the nine months ended October 29, 2005 was \$68,000. As of November 4, 2006, intangible assets relating to FanBuzz had a remaining carrying value of \$-0-. The results of operations for FanBuzz are classified as discontinued operations in the accompanying condensed consolidated statements of operations. See Note 13 for a discussion of the discontinued operations of FanBuzz.

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.

#### (11) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), to establish a consistent framework for measuring fair value and expand disclosures on fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect that the adoption of SFAS No. 157 will have on its consolidated results of operations and financial condition.

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes -- an interpretation of FASB Statement No. 109. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including a decision whether to file or not to file a tax return in a particular jurisdiction. FIN 48 is effective for fiscal years beginning after December 15, 2006. If there are changes in net assets as a result of the application of FIN48, these will be accounted for as an adjustment to retained earnings. The Company does not expect the impact of FIN 48 to have a material effect on its consolidated results of operations or financial position.

In May 2005, the FASB, as part of an effort to conform to international accounting standards, issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"). SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 requires that all voluntary changes in accounting principles be retrospectively applied to prior financial statements as if that principle had always been used, unless it is impracticable to do so. When it is impracticable to calculate the effects on all prior periods, SFAS No. 154 requires that the new principle be applied to the earliest period practicable. SFAS No. 154 also redefines "restatement" as the revising of previously issued financial statements to reflect the correction of an error. The adoption of SFAS No. 154 did not have a material effect on the Company's financial position or results of operations.

#### (12) ASSET IMPAIRMENT AND EMPLOYEE TERMINATION COSTS

During the quarter ended April 30, 2005, a number of FanBuzz customers notified the Company that they had elected not to renew the term of their e-commerce services agreements with FanBuzz or had decided to terminate their agreements as permitted in the agreement. Following these notifications, the Company assessed whether there had been an impairment of the FanBuzz long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). The Company performed a cash flow analysis and concluded that the book value of certain long-lived assets at FanBuzz was significantly higher than their probability-weighted expected future cash flows and that an impairment had occurred. Accordingly, the Company recorded a non-cash impairment loss and related charge of \$400,000 in the first quarter of fiscal 2005. The impairment charge is included in loss from discontinued operations in the accompanying consolidated statement of operations for the nine-month period ended October 29, 2005.

During the quarter ended April 30, 2005, the Company also recorded an additional \$528,000 charge to earnings and established a related accrual primarily in connection with the downsizing of the FanBuzz operations. The charge consisted primarily of severance pay and related benefit costs associated with the elimination of approximately twelve positions. The severance was paid out over periods ranging from one to twelve months. Of this charge, \$446,000 is included in loss from discontinued operations in the accompanying consolidated statement of operations for the nine-month period ended October 29, 2005.

#### (13) DISCONTINUED FANBUZZ OPERATIONS

In the second quarter of fiscal 2005, the Company decided to close its FanBuzz subsidiary operations. The shut down was completed in the third quarter of fiscal 2005. FanBuzz was an e-commerce and fulfillment solutions provider for a number of sports, media, entertainment and retail companies. The decision to shut down FanBuzz was made after continued operating losses were experienced following the loss of its NHL contract in September 2004 and after a number of other FanBuzz customers notified the Company in the first quarter of fiscal 2005 that they elected not to renew the term of their e-commerce services agreements. FanBuzz ceased business operations as of October 29, 2005 and was a reportable segment under SFAS No. 131. The results of operations for FanBuzz have been classified as discontinued operations in the accompanying condensed consolidated statements of operations for all applicable periods presented. Net sales from discontinued operations were \$521,000 and \$5,384,000, respectively, for the three and nine-month periods ended October 29, 2005. Losses from discontinued operations were \$221,000 and \$2,296,000, respectively, for



the three and nine-month periods ended October 29, 2005. The Company's consolidated balance sheet as of November 4, 2006 includes \$-0- in current assets, \$161,000 in current liabilities and \$-0- in long-term assets and long-term liabilities related to FanBuzz. The Company's consolidated balance sheet as of February 4, 2006 included \$356,000 in current assets, \$276,000 in current liabilities and \$-0- in long-term assets and long-term liabilities related to FanBuzz.

#### (14) 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. 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 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 coupon towards the future purchase of ShopNBC merchandise. The coupon expires after twelve months if unredeemed. The Company accrues for the cost of merchandise related to the \$50 coupon as the points are being earned and estimates coupon expirations based on its historical coupon redemption rates.

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 six-year term of the agreement.

## **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 the Company's accompanying unaudited condensed consolidated financial statements and notes included herein and the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended February 4, 2006.

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

Information contained in this Form 10-Q and in other materials filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company) contain certain "forward-looking statements" within the meaning of federal securities laws that represent management's expectations or beliefs concerning future events. These statements are based on management's current expectations and are accordingly subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained herein due to various important factors, including (but not limited to): consumer spending and debt levels; interest rates; seasonal variations in consumer purchasing activities; changes in the mix of products sold by the Company; competitive pressures on sales; pricing and gross profit margins; the level of cable and satellite distribution for the Company's programming and the associated fees; the success of the Company's e-commerce initiatives; the success of the Company's strategic alliances and relationships; the ability of the Company to manage its operating expenses successfully; risks associated with acquisitions; changes in governmental or regulatory requirements; litigation or governmental proceedings affecting the Company's operations; the risks identified under "Business Risk Factors" in the Company's Form 10-K for the fiscal year ended February 4, 2006; 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 competes with the viewership of the Company's programming; and the ability of the Company to obtain and retain key executives and employees. Investors are cautioned that all forward-looking statements involve risk and uncertainty and the Company is under no obligation (and expressly disclaims any such obligation) to update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

In addition to any specific risks and uncertainties discussed in this Form 10-Q, the risks and uncertainties discussed in detail in the Company's Form 10-K for the fiscal year ended February 4, 2006, specifically under the captions entitled "Risk Factors" and "Critical Accounting Policies and Estimates," provide information that should be considered in evaluating any of the Company's forward-looking statements. In addition, the facts and circumstances that exist when any forward-looking statements are made and on which those forward-looking statements are based may significantly change in the future, thereby rendering obsolete the forward-looking statements on which such facts and circumstances were based. The Company is under no obligation (and expressly disclaims any such obligation) to update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

## **OVERVIEW**

### **Company Description**

ValueVision Media, Inc. is an integrated direct marketing company that markets its products to consumers through various forms of electronic media and direct-to-consumer mailings. The Company's operating strategy as a multi-channel retailer incorporates television home shopping, Internet e-commerce, direct mail marketing and fulfillment services. The Company's live 24-hour per day television home shopping programming is distributed primarily through long-term cable and satellite affiliation agreements.

### **Products and Customers**

Products sold on the Company's television home shopping network and Internet shopping website include jewelry, watches, computers and other electronics, housewares, apparel, cosmetics, fitness products, giftware, collectibles, seasonal items and other merchandise. Jewelry represents the Company's largest single category of merchandise, representing 35% and 40% of television home shopping and Internet net sales for the three and nine-month respective periods ended November 4, 2006 and 42% and 45% of television and Internet net sales for the three and nine-month respective periods ended October 29, 2005. Home products, including electronics product categories, represented approximately 41% and 37% of television home shopping and Internet net sales for the three and nine-month respective periods ended November 4, 2006 and approximately 37% and 36% of television home shopping and Internet net sales for the three and nine-month respective periods ended October 29, 2005. Watches, apparel and health and beauty product categories represented approximately 24% and 23% of television home shopping and Internet net sales for the three and nine-

month respective periods ended November 4, 2006 and approximately 21% and 19% of television home shopping and Internet net sales for the three and nine-month respective periods ended October 29, 2005. The Company believes that having a broad diversity of products appeals to a broader segment of potential customers and is important to growing the Company's business. The Company's product diversification strategy is to continue to develop new product offerings primarily in the home, apparel and accessories, cosmetics, fitness and consumer electronics categories to supplement the existing jewelry and computer businesses. The Company believes that its customers are primarily women between the ages of 35 and 55 with annual household incomes between \$50,000 and \$75,000 and believes its customers make purchases based primarily on convenience, unique product offerings, value and quality of merchandise.

### **Company Strategy**

The Company's strategy is to be a leader in multi-channel retailing, offering consumers an entertaining, informative and interactive shopping experience. The following business strategies are intended to continue the growth and the maximization of gross margin dollars per hour of the Company's television home shopping business and complementary website: (i) offer a diversity of merchandise categories that maximize gross margin dollars per hour;

(ii) increase program distribution in the United States through new or expanded broadcast agreements with cable and satellite operators and other creative means for reaching consumers, such as webcasting on ShopNBC.com; (iii) increase average net sales per home by increasing penetration within existing homes receiving the Company's programming and by attracting new customers through a broader merchandise mix and targeted marketing efforts; (iv) continue to grow the Company's Internet business through the innovative use of marketing and technology, such as advanced search strategies, personalization, Internet video presentation and auction capabilities; (v) upgrade the overall quality of the Company's network, programming and customer support infrastructure consistent with expectations associated with the NBC brand name; (vi) increase the average order size through various sales initiatives including add-on sales, continuity programs and warranty sales; and (vii) leverage the strong brand recognition of the NBC name and associated peacock symbol to achieve greater brand recognition with the ShopNBC television channel and ShopNBC.com website.

### **Challenge**

The Company's 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 the Company's programming. In order to attain profitability, the Company must achieve sufficient sales volume through the acquisition of new customers, the increased retention of existing customers and increased sales to existing customers, to cover its high fixed costs. The Company's growth and profitability could be adversely impacted if sales volume does not meet expectations, as the Company will have limited immediate capability to reduce its fixed cable and satellite distribution operating expenses to mitigate any potential sales shortfall.

### **Competition**

The direct marketing and retail businesses are highly competitive. In its television home shopping and e-commerce operations, the Company competes 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 retailers; e-commerce retailers; infomercial companies; catalog and mail order retailers; and other direct sellers.

In the competitive television home shopping sector, the Company competes with QVC Network, Inc. and HSN, Inc., both of whom are substantially larger than the Company in terms of annual revenues and customers, whose programming is carried more broadly to U.S. households than is the Company's programming, and who have achieved higher customer penetration levels than the Company has. Both QVC and HSN are owned by large, well-capitalized parent companies in the media business, who have also expanded into related e-commerce and web-based businesses. The American Collectibles Network ("ACN"), the operator of Jewelry Television, also competes with the Company for television home shopping customers in the jewelry category, and ACN has recently acquired the assets of Shop At Home from E. W. Scripps Company and is operating a second channel of programming in a number of non-jewelry categories, including collectible coins and knives. In addition, there are a number of smaller niche players and startups in the television home shopping arena who compete with the Company.

The e-commerce sector is also highly competitive, and the Company is in direct competition with numerous other Internet retailers, many of whom are larger, well-financed and/or have a broader customer base. Certain of the Company's competitors in the television home shopping sector have acquired Internet businesses complementary to their existing Internet sites, which may pose new competitive challenges for the Company. For example, the parent company of HSN has acquired the Internet search business, Ask Jeeves (now known as Ask.com), and the parent company of QVC acquired Provide Commerce, an operator of retail websites.

The Company anticipates 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. The Company believes that its success in the TV home shopping and e-commerce sectors is dependent on a number of key factors, including (i) obtaining carriage on additional cable systems on favorable terms, (ii) increasing the number of households who purchase products from the Company, (iii) increasing the size and reach of the ShopNBC Internet business, and (iv) increasing the dollar value of sales per customer to its existing customer base.

### **Results for the Third Quarter of Fiscal 2006**

Consolidated net sales from continuing operations for the quarter ended November 4, 2006 were \$184,886,000 compared to \$159,513,000 for the quarter ended October 29, 2005, a 16% increase. The increase in consolidated net sales from continuing operations is directly attributable to the increased net sales from the Company's television home shopping and Internet operations. Net sales attributed to the Company's television home shopping and Internet operations increased to \$182,312,000 for the quarter ended November 4, 2006 from \$156,899,000 for the quarter ended October 29, 2005. Consolidated gross margins from continuing operations were 34.4% for the quarter ended November 4, 2006 compared to 34.2% for the quarter ended October 29, 2005. The Company reported an operating loss of \$4,747,000 from continuing operations and a net loss of \$3,126,000 for the third quarter of fiscal 2006. The Company reported an operating loss of \$7,938,000 from continuing operations and a net loss of \$7,066,000, which included a net loss of \$221,000 from discontinued operations, for the third quarter of fiscal 2005. Effective in the third quarter of fiscal 2005, the results of operations of FanBuzz have been presented as loss from discontinued operations in the accompanying consolidated statements of operations for all applicable periods presented.

### **DISCONTINUED FANBUZZ OPERATIONS**

In the second quarter of fiscal 2005, the Company decided to wind down its FanBuzz subsidiary operations and finalized the shut down in the third fiscal quarter of 2005. FanBuzz, acquired by the Company in fiscal 2002, was an e-commerce and fulfillment solutions provider for a number of sports, media, entertainment and retail companies. The decision to shut down FanBuzz was made after continued operating losses were experienced following the loss of its NHL contract in September 2004 and after a number of other FanBuzz customers notified the Company in the first quarter of fiscal 2005 that they had elected not to renew the term of their e-commerce services agreements. FanBuzz ceased business operations as of October 29, 2005 and was a reportable segment under SFAS No. 131. The results of operations for FanBuzz have been classified as discontinued operations in the accompanying consolidated statements of operations for all applicable periods presented. See Note 13 to the condensed consolidated financial statements.

### **ASSET IMPAIRMENT AND EMPLOYEE TERMINATION COSTS**

During the quarter ended April 30, 2005, a number of FanBuzz customers notified the Company that they had elected not to renew the term of their e-commerce services agreements with FanBuzz or had decided to terminate their agreements. Following these notifications, the Company assessed whether there had been an impairment of the FanBuzz long-lived assets in accordance with SFAS No. 144. The Company performed a cash flow analysis and concluded that the book value of certain long-lived assets at FanBuzz was significantly higher than their probability-weighted expected future cash flows and that an impairment had occurred. Accordingly, the Company recorded a non-cash impairment loss and related charge of \$400,000 in the first quarter of fiscal 2005. The impairment charge is included in loss from discontinued operations in the accompanying consolidated statement of operations for the nine-month period ended October 29, 2005.

During the quarter ended April 30, 2005, the Company also recorded an additional \$528,000 charge to earnings and established a related accrual primarily in connection with the downsizing of the FanBuzz operations. The charge consisted primarily of severance pay and related benefit costs associated with the elimination of approximately twelve positions. The severance was paid out over periods ranging from one to twelve months. Of this charge, \$446,000 is included in loss from discontinued operations in the accompanying condensed consolidated statement of operations for the nine-month period ended October 29, 2005.

**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		DOLLAR AMOUNT AS A PERCENTAGE OF NET SALES FOR THE NINE-MONTH PERIODS ENDED	
	NOVEMBER 4, 2006	OCTOBER 29, 2005	NOVEMBER 4, 2006	OCTOBER 29, 2005
NET SALES	100.0%	100.0%	100.0%	100.0%
GROSS MARGIN	34.4%	34.2%	34.9%	34.3%
Operating expenses:				
Distribution and selling	29.8%	32.4%	30.1%	31.6%
General and administrative	4.1%	3.7%	3.9%	3.8%
Depreciation and amortization	3.1%	3.1%	3.0%	3.1%
Employee termination costs	--%	--%	--%	--%
	37.0%	39.2%	37.0%	38.5%
Operating loss	(2.6)%	(5.0)%	(2.1)%	(4.2)%

**KEY PERFORMANCE METRICS\*  
(UNAUDITED)**

	FOR THE THREE-MONTH PERIODS ENDED			FOR THE NINE-MONTH PERIODS ENDED		
	NOVEMBER 4, 2006	OCTOBER 29, 2005	%	NOVEMBER 4, 2006	OCTOBER 29, 2005	%
PROGRAM DISTRIBUTION						
Cable FTE's (Average 000's)	39,854	38,011	5%	39,055	37,816	3%
Satellite FTE's (Average 000's)	26,019	24,293	7%	25,691	23,827	8%
Total FTEs (Average 000's)	65,873	62,304	6%	64,746	61,643	5%
Net Sales per FTE (Annualized)	\$ 11.07	\$ 10.07	10%	\$ 11.18	\$ 10.29	9%
Active Customers -- 12 month rolling	834,701	778,896	7%	n/a	n/a	
% New Customers -- 12 month rolling	54%	58%		n/a	n/a	
% Reactivated & Retained -- 12 month rolling	46%	42%		n/a	n/a	
Customer Penetration -- 12 month rolling	1.3%	1.3%		n/a	n/a	
MERCHANDISE MIX						
Jewelry	35%	42%		40%	45%	
Watches, Apparel, Health & Beauty	24%	21%		23%	19%	
Home and All Other	41%	37%		37%	36%	
Shipped Units (000's)	1,098	1,113	(1)%	3,648	3,468	5%
Average Selling Price -- Shipped Units	\$ 225	\$ 197	14%	\$ 208	\$ 195	7%

\* Includes television home shopping and Internet sales only.

## **PROGRAM DISTRIBUTION**

The Company's television home shopping programming was available to approximately 65.9 million average full time equivalent ("FTE") households for the three months ended November 4, 2006 and approximately 62.3 million average FTE households for the three months ended October 29, 2005. Average FTE subscribers grew 6% in the third quarter ended November 4, 2006, resulting in a 3.6 million increase in average FTE's versus the prior year comparable quarter. For the nine-month period ended November 4, 2006, average FTE's grew 5% to 64.7 million from 61.6 million, an increase of 3.1 million versus the prior year comparable period. The increases were driven by continued strong growth in satellite distribution of the Company's programming and increased distribution of the Company's programming on digital cable. The Company anticipates that its cable programming distribution will increasingly shift towards a greater mix of digital as opposed to analog cable tiers, both through growth of the number of digital subscribers and through cable system operators moving programming that is carried on analog channels over to digital channels. 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 the Company's ability to compete for television viewers.

## **NET SALES PER FTE**

Net sales per FTE for the third quarter ended November 4, 2006 increased 10%, or \$1.00 per FTE, compared to the prior year's comparable quarter. For the nine-month period ended November 4, 2006, net sales per FTE increased 9%, or \$0.89 per FTE, versus the prior year's comparable period. The increase in the third quarter and year-to-date net sales per FTE was primarily the result of strong third quarter and year-to-date television home shopping and Internet sales growth over the prior year.

## **CUSTOMERS**

The Company added 55,805 active customers over the twelve-month period ended November 4, 2006, a 7% increase over active customers added in the prior year comparable twelve-month period. The increase in active customers resulted from the increase in household distribution, product diversification efforts and increases in marketing and promotional efforts aimed at attracting new customers.

## **CUSTOMER PENETRATION**

Customer penetration measures the total number of customers who purchased from the Company over the past twelve months divided by the Company's average FTE's for that same period. This measure was 1.3% for the three-month period ended November 4, 2006 and for the three-month period ended October 29, 2005. The Company includes in its customer penetration calculations all of its customers during the applicable time period, whether they become customers as a result of the Company's television programming, through direct-mail campaigns, or because of its e-commerce marketing efforts.

## **MERCHANDISE MIX**

During the quarter ended November 4, 2006, jewelry net sales decreased to 35% of total television home shopping and Internet net sales from 42% during the prior year comparable quarter. Net sales from home products, including electronics categories, increased to 41% of total television home shopping and Internet net sales from 37% as compared to the prior year third quarter and net sales from watches, apparel and health and beauty product categories increased to 24% of total television home shopping and Internet net sales from 21% as compared to the prior year third quarter. During the nine-month period ended November 4, 2006 versus the comparable prior year period, jewelry net sales decreased to 40% of total television home shopping and Internet net sales from 45%. Net sales from home products, including electronics product categories, increased to 37% from 36% during the nine-month period ended November 4, 2006 versus the comparable prior year period. Watches, apparel and health and beauty product categories increased to 23% from 19% during the same nine-month comparable period. The Company's merchandise mix over the past several years has been moving away from its historical reliance on jewelry and computers to a broader mix that also includes apparel, watches, health and beauty, fitness, home and other electronic product lines. Going forward, the Company will be adjusting its merchandise mix as needed in response to both customer demand and in order to maximize gross dollars per hour in its television home shopping and Internet operations.

## SHIPPED UNITS

The number of units shipped during the third quarter ended November 4, 2006 decreased 1% from the prior year's comparable quarter to 1,098,000 from 1,113,000. For the nine-month period ended November 4, 2006, shipped units increased 5% from the prior year comparable period to 3,648,000 from 3,468,000. The decrease in shipped units for the third quarter ended November 4, 2006 was primarily due to a shift in mix during the third quarter to home and electronic product categories and away from jewelry, which typically has lower price points and greater shipped units. The increase in shipped units for the nine-month period ended November 4, 2006 was due primarily to the overall year-to-date increase in net sales over the comparable prior year period.

## AVERAGE SELLING PRICE

The average selling price ("ASP") per unit for the Company was \$225 in the third quarter ended November 4, 2006, a 14% increase from the comparable prior year quarter. For the nine-month period ended November 4, 2006, the average per unit selling price was \$208, a 7% increase from the comparable prior year period. The increase in the ASP during the three and nine-month periods ended November 4, 2006 was driven by increases in price points associated primarily with watches, electronics and apparel merchandise categories, in addition to the mix shift towards higher-priced electronics and home merchandise categories.

## NET SALES

Consolidated net sales from continuing operations for the three-month period ended November 4, 2006 were \$184,886,000 compared with consolidated net sales of \$159,513,000 for the three-month period ended October 29, 2005, a 16% increase. Consolidated net sales from continuing operations for the nine-month period ended November 4, 2006 were \$550,592,000 compared with consolidated net sales from continuing operations of \$482,481,000 for the nine-month period ended October 29, 2005, a 14% increase. The increase in consolidated net sales from continuing operations is directly attributable to the continued improvement in net sales from the Company's television home shopping and Internet operations. Net sales attributed to the Company's television home shopping and Internet operations increased 16% to \$182,312,000 for the quarter ended November 4, 2006 from \$156,899,000 for the quarter ended October 29, 2005. Net sales attributed to the Company's television home shopping and Internet operations increased 14% to \$543,083,000 for the nine-month period ended November 4, 2006 from \$475,603,000 for the comparable prior year period. The growth in television home shopping and Internet net sales during the third quarter and the nine-month period ended November 4, 2006 is primarily attributable to increased merchandise sales driven by the growth in the number of homes receiving the Company's television programming, higher productivity from existing homes due to increased sales per hour results achieved in the jewelry, watches, apparel and home merchandise categories, and an increase in Internet net sales of 29% and 27%, respectively, for the three and nine-month periods ended November 4, 2006 over the prior year comparable periods. In addition, television and Internet net sales increased due to increased shipping and handling revenue resulting from increased sales in the first nine months of fiscal 2006 compared to fiscal 2005. The Company intends to continue to develop its merchandising and programming strategies and increase marketing spending with the goal of improving its television home shopping and Internet sales results. While the Company is optimistic that television home shopping and Internet sales results will continue to improve, there can be no assurance that the Company's sales strategy will achieve the intended results.

## GROSS PROFIT

Gross profit from continuing operations for the three months ended November 4, 2006 and October 29, 2005 was \$63,575,000 and \$54,487,000, respectively, an increase of \$9,088,000. Gross profit from continuing operations for the nine months ended November 4, 2006 and October 29, 2005 was \$192,004,000 and \$165,479,000, respectively, an increase of \$26,525,000. The increase in gross profit from continuing operations is directly attributable to increased sales volume from the Company's television home shopping and Internet businesses. Gross margins for the three-month periods ended November 4, 2006 and October 29, 2005 were 34.4% and 34.2%, respectively. Gross margins for the nine-month periods ended November 4, 2006 and October 29, 2005 were 34.9% and 34.3%, respectively. The gross margin improvement for the three and nine months ended November 4, 2006 over the comparable prior year period was primarily due to the achievement of higher merchandise margins on television and Internet merchandise in primarily the jewelry, watches, electronics and apparel product categories and as a result of decreased inventory obsolescence and lower promotional discounting offered during these periods. Gross margins may not be comparable to those of other retailers, since some retailers include all of the costs related to their product distribution network in cost of sales while others, including the Company, exclude a portion of these costs from gross margin, including them instead as a component of distribution and selling expense.

## OPERATING EXPENSES

Total operating expenses from continuing operations for the three months ended November 4, 2006 were \$68,322,000 compared to \$62,425,000 for the comparable prior year period. Total operating expenses from continuing operations for the nine months ended November 4, 2006 were \$203,365,000 compared to \$185,695,000 for the comparable prior year period. Total operating expenses from continuing operations for the nine-month period ended October 29, 2005 included a charge of \$82,000 recorded in connection with employee terminations. Distribution and selling expense increased \$3,439,000, or 7%, to \$55,069,000, or 30% of net sales from continuing operations, during the third quarter of fiscal 2006 compared to \$51,630,000, or 32% of net sales from continuing operations, for the comparable prior year period. Distribution and selling expense increased \$13,222,000, or 9%, to \$165,470,000, or 30% of net sales from continuing operations, for the nine-month period ended November 4, 2006 compared to \$152,248,000, or 32% of net sales from continuing operations, for the comparable prior year period. Distribution and selling expense increased on a year-to-date basis over the prior year primarily due to an increase in net cable and satellite access fees of \$586,000 as a result of increased subscribers over prior year; increased salaries, accrued bonuses and related personnel costs associated with hiring and retaining primarily merchandising, television production and show management personnel and on-air talent of \$5,563,000 during fiscal 2006; increased credit card and net collection fees of \$2,439,000 due to the overall increase in net sales; increased Internet and direct-mail and marketing expenses of \$1,557,000 as the Company attempts to acquire additional customers and increase its overall penetration; increased telemarketing and customer service costs of \$2,276,000 associated with increased sales volumes and the Company's commitment to improve its customer service; and increased share-based compensation expense of \$569,000.

General and administrative expense for the three months ended November 4, 2006 increased \$1,660,000, or 29%, to \$7,476,000, or 4% of net sales from continuing operations, compared to \$5,816,000, or 4% of net sales from continuing operations, for the three months ended October 29, 2005. General and administrative expense for the nine months ended November 4, 2006 increased \$3,084,000, or 17%, to \$21,339,000, or 4% of net sales from continuing operations, compared to \$18,255,000, or 4% of net sales from continuing operations, for the nine months ended October 29, 2005. General and administrative expense increased on a year-to-date basis over the prior year primarily as a result of compensation recorded related to share-based payments of \$569,000, increased salaries, accrued bonuses, and related personnel costs of \$1,889,000, information systems service fees of \$368,000 and director stock-based compensation of \$156,000, offset by proceeds received from a litigation settlement totaling \$300,000.

Depreciation and amortization expense for the three months ended November 4, 2006 was \$5,777,000 compared to \$4,979,000 for the three months ended October 29, 2005, representing an increase of \$798,000, or 16%, from the comparable prior year period. Depreciation and amortization expense for the nine months ended November 4, 2006 was \$16,527,000 compared to \$15,110,000 for the nine months ended October 29, 2005, representing an increase of \$1,417,000, or 9%, from the comparable prior year period. Depreciation and amortization expense as a percentage of net sales from continuing operations for the three and nine month periods ended November 4, 2006 and October 29, 2005 was 3% for each period. The increases are primarily due to increased depreciation and amortization as a result of assets placed in service in connection with the Company's various application software development and functionality enhancements.

## OPERATING LOSS

For the three months ended November 4, 2006, the Company reported an operating loss from continuing operations of \$4,747,000 compared to an operating loss from continuing operations of \$7,938,000 for the three months ended October 29, 2005. For the nine months ended November 4, 2006, the Company reported an operating loss from continuing operations of \$11,361,000 compared to an operating loss from continuing operations of \$20,216,000 for the nine months ended October 29, 2005. The Company's operating loss from continuing operations improved for the nine-month period ended November 4, 2006 from the comparable prior year period primarily as a result of the Company's increase in gross profit as described above under "Gross Profit." Offsetting the increase in gross profit over the comparable prior year periods, were increases in distribution and selling expenses, particularly (i) additional personnel costs associated with merchandising, television production, show management and on-air talent, (ii) net cable access fees, (iii) Internet, direct-mail and marketing expenses, (iv) credit card fees and bad debt expense, (v) increases in general and administrative expenses recorded in connection with salaries, accrued bonuses and information system service fees, and (vi) increases in depreciation and amortization expense as a result of assets placed in service in connection with the Company's various application software development and functionality enhancements, the details of which are discussed above. In addition, operating expenses increased over the prior year due to the recording of noncash stock option expense resulting from the Company's adoption of SFAS No. 123(R) in the first quarter of fiscal 2006.



## NET LOSS

For the three months ended November 4, 2006, the Company reported a net loss available to common shareholders of \$3,199,000 or \$.09 per share on 37,628,000 weighted average common shares outstanding, compared with a net loss available to common shareholders of \$7,138,000 or \$.19 per share on 37,120,000 weighted average common shares outstanding for the quarter ended October 29, 2005. The net loss available to common shareholders for the three months ended November 4, 2006 includes the recording of \$646,000 of equity in earnings from RLM and interest income totaling \$990,000 earned on the Company's cash and short-term investments. For the quarter ended October 29, 2005, the net loss available to common shareholders included a net loss of \$221,000 from discontinued operations, the recording of \$382,000 of equity in earnings from RLM, and interest income totaling \$716,000 earned on the Company's cash and short-term investments. For the nine months ended November 4, 2006, the Company reported a net loss available to common shareholders of \$6,130,000 or \$.16 per share on 37,700,000 weighted average common shares outstanding, compared with a net loss available to common shareholders of \$19,396,000 or \$.52 per share on 37,100,000 weighted average common shares outstanding for the nine months ended October 29, 2005. The net loss available to common shareholders for the nine months ended November 4, 2006 includes the recording of \$2,192,000 of equity in earnings from RLM, a \$500,000 gain on the sale of an investment, a \$150,000 write-down of a non-operating real estate asset held for sale, and interest income totaling \$2,951,000 earned on the Company's cash and short-term investments. For the nine months ended October 29, 2005, the net loss available to common shareholders included a net loss of \$2,296,000 from discontinued operations, a \$250,000 cash dividend received from RLM, a \$256,000 write-down of a non-operating real estate asset held for sale, the recording of \$396,000 of equity in earnings from RLM, a \$5,000 gain on the sale of investments, a non cash income tax benefit of \$832,000, and interest income totaling \$2,122,000 earned on the Company's cash and short-term investments.

The Company has not recorded any income tax benefit on the losses recorded in the quarters ended November 4, 2006 and October 29, 2005 due to the uncertainty of realizing income tax benefits in the future as indicated by the Company's recording of an income tax valuation reserve. The Company has recorded a quarterly income tax provision relating to state income taxes payable on certain income for which there is no loss carryforward benefit available. The Company will continue to maintain a valuation reserve against its net deferred tax assets until the Company believes it is more likely than not that these assets will be realized in the future. The Company recorded an income tax benefit of \$832,000 in the second quarter of fiscal 2005 related to the reversal of an income tax contingency reserve that expired in the second quarter of fiscal 2005 and was no longer required.

### EBITDA RECONCILIATION

EBITDA (as defined below), before non-cash stock option expense, for the three-month period ended November 4, 2006 was \$2,068,000 compared with an EBITDA loss of \$2,576,000 for the three-month period ended October 29, 2005. EBITDA, before non-cash stock option expense, for the nine-month period ended November 4, 2006 was \$8,846,000 compared with an EBITDA loss of \$4,710,000 for the nine-month period ended October 29, 2005.

A reconciliation of EBITDA from continuing operations to its comparable GAAP measurement, net loss, follows in thousands:

	FOR THE THREE-MONTH PERIODS ENDED		FOR THE NINE-MONTH PERIODS ENDED	
	NOVEMBER 4, 2006	OCTOBER 29, 2005	NOVEMBER 4, 2006	OCTOBER 29, 2005
EBITDA, before non-cash stock option expense	\$ 2,068	\$(2,576)	\$ 8,846	\$ (4,710)
Less: non-cash stock option expense	(392)	--	(1,138)	--
EBITDA (as defined)	1,676	(2,576)	7,708	(4,710)
A reconciliation of EBITDA to net loss is as follows:				
EBITDA, as defined	1,676	(2,576)	\$ 7,708	\$ (4,710)
Adjustments:				
Depreciation and amortization	(5,777)	(4,979)	(16,527)	(15,110)
Interest income	990	716	2,951	2,122
Income taxes	(15)	(6)	(45)	813
Discontinued operations of FanBuzz	--	(221)	--	(2,296)
Net loss	\$(3,126)	\$(7,066)	\$(5,913)	\$(19,181)

EBITDA represents net loss from continuing operations for the respective periods excluding depreciation and amortization expense, interest income (expense) and income taxes. Management views EBITDA as an important alternative operating performance measure because it is commonly used by analysts and institutional investors in analyzing the financial performance of companies in the broadcast and television home shopping sectors. However, EBITDA should not be construed as an alternative to operating 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 presented, may not be comparable to similarly entitled measures reported by other companies. Management uses EBITDA to evaluate operating performance and as a measure of performance for incentive compensation purposes. Management has included the term EBITDA, before non-cash stock option expense, in its presentation in order to maintain comparability of previously issued financial guidance and prior year's reported results.

### **PROGRAM DISTRIBUTION**

The Company's television home shopping programming was available to approximately 65.9 million average FTE households for the three months ended November 4, 2006 and approximately 62.3 million average FTE households for the three months ended October 29, 2005. The Company's television home shopping programming was available to approximately 64.7 million average FTE households for the nine-month period ended November 4, 2006 and approximately 61.6 million average FTE households for the nine-month period ended October 29, 2005. The Company's television home shopping programming is currently available through affiliation and time-block purchase agreements with approximately 1,360 cable or satellite systems. The Company also owns and operates a full-power television station in Boston, Massachusetts. Homes that receive the Company's television home shopping programming 24 hours per day are counted as one FTE each and homes that receive the Company's programming for any period less than 24 hours are counted based upon an analysis of time of day and day of week that programming is received. The Company's television home shopping programming is also simulcast live 24 hours a day, 7 days a week through its Internet shopping website, [www.shopnbc.com](http://www.shopnbc.com), which is not included in total FTE households.

### **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 the Company's fiscal 2005 Annual Report on Form 10-K under the captions entitled "Risk Factors" and "Critical Accounting Policies and Estimates."

### **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

As of November 4, 2006, cash and cash equivalents and short-term investments were \$66,923,000, compared to \$82,350,000 as of February 4, 2006, a \$15,427,000 decrease. For the nine-month period ended November 4, 2006, working capital decreased \$1,185,000 to \$144,024,000. The current ratio was 2.3 at November 4, 2006 compared to 2.4 at February 4, 2006.

### **SOURCES OF LIQUIDITY**

The Company's principal sources of liquidity are its available cash, cash equivalents and short-term investments, accrued interest earned from its short-term investments and its 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 the Company's ValuePay installment program and the extent to which the Company extends credit to its customers is important to the Company's short-term liquidity and cash resources. A significant increase in the Company's accounts receivable aging or credit losses could negatively impact the Company's source of cash from operations in the short term. While credit losses have historically been within the Company's estimates for such losses, there is no guarantee that the Company will continue to experience the same credit loss rate that it has experienced in the past. Historically, the Company has also been able to generate additional cash sources from the proceeds of stock option exercises and from the sale of its equity investments and other properties; however, these sources of cash are neither relied upon nor controllable by the Company. The Company has no long-term debt other than fixed capital lease obligations and believes it has the ability to obtain additional financing if necessary. At November 4, 2006, short-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 tender option terms ranging from one month to one year. Although management believes the Company's short-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 are subject to interest rate fluctuations. The maturities and tender option terms within the Company's investment portfolio generally range from 30-180 days.

## CASH REQUIREMENTS

The Company's principal use of cash is to fund its business operations, which consist primarily of purchasing inventory for resale, funding account receivables growth in support of sales growth and funding operating expenses, particularly the Company's contractual commitments for cable and satellite programming and the funding of capital expenditures. Expenditures made for property and equipment in fiscal 2006 and 2005 and for expected future capital expenditures include the upgrade and replacement of computer software and front-end merchandising systems, expansion of capacity to support the Company's growing business, continued improvements and modifications to the Company's owned headquarter buildings and the upgrade and digitalization of television production and transmission equipment and related computer equipment associated with the expansion of the Company's home shopping business and e-commerce initiatives. Historically, the Company has also used its cash resources for various strategic investments and for the repurchase of stock under stock repurchase programs but is under no obligation to do so if protection of liquidity is desired. The Company has authorized a \$10 million stock repurchase program and has the discretion to repurchase stock under the program and make strategic investments consistent with its business strategy.

The Company ended November 4, 2006 with cash and cash equivalents and short-term investments of \$66,923,000, no long-term debt and \$141,000 of long-term capital lease obligations. The Company expects future growth in working capital as revenues grow beyond fiscal 2006 but expects cash generated from operations to partially offset the expected use. The Company believes its existing cash balances and its ability to raise additional financing will be sufficient to fund its 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 the Company's fiscal 2005 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 the Company may make, which are inherently opportunistic and difficult to predict. The Company believes existing cash balances, its ability to raise financing and the ability to structure transactions in a manner reflective of capital availability will be sufficient to fund any investments while maintaining sufficient liquidity for its normal business operations.

Total assets at November 4, 2006 were \$350,536,000, compared to \$347,139,000 at February 4, 2006, a \$3,397,000 increase. Shareholders' equity was \$194,346,000 at November 4, 2006, compared to \$202,871,000 at February 4, 2006, a \$8,525,000 decrease. The decrease in shareholders' equity for the nine-month period ended November 4, 2006 resulted primarily from the net loss of \$5,913,000 recorded during the nine-month period, common stock repurchases of \$4,698,000 and accretion on redeemable preferred stock of \$217,000. These decreases were offset by increases in shareholders' equity of \$1,349,000 related to the recording of share-based compensation and \$954,000 primarily from proceeds received related to the exercise of stock options.

For the nine-month period ended November 4, 2006, net cash used for operating activities totaled \$3,555,000 compared to net cash used for operating activities of \$17,506,000 for the nine-month period ended October 29, 2005. Net cash used for operating activities for the nine-month periods ended November 4, 2006 and October 29, 2005 reflects the net loss, as adjusted for depreciation and amortization, share-based payment compensation, common stock issued to employees, amortization of deferred compensation, asset impairments and write off charges, equity in earnings of affiliates, amortization of deferred revenue, gain on sale of property and investments, a noncash tax benefit recorded in fiscal 2005 and a gain on the termination of a long-term lease associated with FanBuzz recorded in fiscal 2005. In addition, net cash used for operating activities for the nine months ended November 6, 2006 reflects primarily an increase in accounts receivable and inventories, a decrease in prepaid expenses and other assets and an increase in deferred revenue, accounts payable and accrued liabilities. Accounts receivable increased primarily due to an increase in receivables from sales utilizing extended payment terms and the timing of customer collections under the "ValuePay" installment program. Inventories increased from year-end primarily in preparation for the fourth quarter holiday season. In addition, inventories increased as a result of increased sales over the prior year, the Company's effort to diversify its product mix offerings and the timing of merchandise receipts. The increase in accounts payable and accrued expenses is a direct result of the increase in inventory levels and the timing of merchandise receipts; accrued salaries, cable access payments and accrued marketing fees, offset primarily by amounts due to customers for returns. The increase and recording of deferred revenue was a result of receiving an upfront cash incentive bonus in connection with the Company's new private label and co-branded credit card program.

Net cash provided by investing activities totaled \$2,431,000 for the nine months ended November 4, 2006 compared to net cash provided by investing activities of \$10,438,000 for the nine months ended October 29, 2005. For the nine-month periods ended November 4, 2006 and October 29, 2005, expenditures for property and equipment were \$8,641,000 and \$7,332,000, respectively. Expenditures for property and equipment during the periods ended November 4, 2006 and October 29, 2005 primarily include capital expenditures made for the 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

upgrade and replacement of various enterprise software systems, continued improvements and modifications to the Company's owned headquarter buildings, the expansion of warehousing capacity, the upgrade and digitalization of television production and transmission equipment and related computer equipment associated with the expansion of the Company's home shopping business and e-commerce initiatives. In the nine months ended November 4, 2006, the Company invested \$20,627,000 in various short-term investments, received proceeds of \$30,949,000 from the sale of short-term investments, received proceeds of \$500,000 from the sale of an Internet investment previously written off and received a \$250,000 cash dividend from RLM. In the nine months ended October 29, 2005, the Company invested \$48,837,000 in various short-term investments, received proceeds of \$66,257,000 from the sale of short-term investments and received proceeds of \$350,000 from the sale of property and equipment in connection with the shut down of FanBuzz.

Net cash used for financing activities totaled \$3,981,000 for the nine months ended November 4, 2006 and related primarily to payments made of \$4,698,000 in conjunction with the repurchase of 406,000 shares of the Company's common stock and payments of long-term capital lease obligations of \$222,000, offset by cash proceeds received of \$939,000 from the exercise of stock options. Net cash used for financing activities totaled \$337,000 for the nine months ended October 29, 2005 and related primarily to payments of long-term capital lease obligations of \$738,000, offset by cash proceeds received of \$401,000 from the exercise of stock options.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company does not enter into financial instruments for trading or speculative purposes and does not currently utilize derivative financial instruments as a hedge to offset market risk. In past years, the Company has 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. The Company no longer has investments of that nature. The operations of the Company are conducted primarily in the United States and as such are not subject to foreign currency exchange rate risk. However, some of the Company's products are sourced internationally and may fluctuate in cost as a result of foreign currency swings. The Company currently has no long-term debt, and accordingly, is not significantly exposed to interest rate risk, although changes in market interest rates do impact the level of interest income earned on the Company's substantial cash and short-term investment portfolio.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **DISCLOSURE CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, the Company's management conducted an evaluation, under the supervision and with the participation of the Company's chief executive officer and chief financial officer, of the effectiveness of the Company's 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 the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits 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.

#### **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company's 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 period 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents information with respect to purchases of common stock of the Company made during the three months ended November 4, 2006, by the Company or by any "affiliated purchaser" of the Company, as defined in Rule 10b-18(a)(3) under the Exchange Act:

PERIOD -----	TOTAL NUMBER OF SHARES PURCHASED -----	AVERAGE PRICE PAID PER SHARE (1) -----	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 (2) -----
August 29, 2006 through September 2, 2006	21,000	\$10.99	21,000	\$9,767,000
September 3, 2006 through October 7, 2006	350,000	\$11.56	371,000	\$5,724,000
October 8, 2006 through November 4, 2006	35,000	\$11.66	406,000	\$5,318,000
	-----			
Total	406,000	\$11.54	406,000	\$5,318,000
	=====			

(1) Excludes fees and commissions paid on stock repurchases.

(2) 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 through August 2007 by open market purchases or negotiated transactions at prices and amounts as determined by the Company from time to time.

### ITEM 6. EXHIBITS

EXHIBIT NUMBER -----	EXHIBIT -----
3.1	Sixth Amended and Restated Articles of Incorporation, as Amended. (A)
3.2	Certificate of Designation of Series A Redeemable Convertible Preferred Stock. (B)
3.3	Articles of Merger. (C)
3.4	Bylaws, as amended. (A)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.*
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.*
32.1	Section 1350 Certification of Chief Executive Officer.*
32.2	Section 1350 Certification of Chief Financial Officer.*

\* Filed herewith.

(A) Incorporated herein by reference to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended August 31, 1994, filed on September 13, 1994, File No. 0-20243.

(B) Incorporated herein by reference to the Registrant's Current Report on Form 8-K dated April 15, 1999, filed on April 29, 1999, File No. 0-20243.

(C) Incorporated herein by reference to the Registrant's Current Report on Form 8-K dated May 16, 2002, filed on May 17, 2002, File No. 0-20243.

**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**

December 14, 2006

*/s/ William J. Lansing*  
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*William J. Lansing  
Chief Executive Officer,  
President and Director  
(Principal Executive Officer)*

*December 14, 2006*

*/s/ Frank P. Elsenbast*  
-----

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

## EXHIBIT INDEX

EXHIBIT NUMBER -----	EXHIBIT -----	FILED BY -----
3.1	Sixth Amended and Restated Articles of Incorporation, as Amended	Incorporated by reference
3.2	Certificate of Designation of Series A Redeemable Convertible Preferred Stock	Incorporated by reference
3.3	Articles of Merger	Incorporated by reference
3.4	Bylaws, as amended	Incorporated by reference
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith
32.1	Section 1350 Certification of Chief Executive Officer	Filed herewith
32.2	Section 1350 Certification of Chief Financial Officer.	Filed herewith

**EXHIBIT 31.1**

**CERTIFICATION**

I, William J. Lansing, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ValueVision Media, Inc.;
2. Based on my knowledge, this annual 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 annual 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 15d-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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 functions):
  - (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.

*/s/ WILLIAM J. LANSING*

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*William J. Lansing*  
*Chief Executive Officer and President*  
*(Principal Executive Officer)*

*December 14, 2006*



**EXHIBIT 31.2**

**CERTIFICATION**

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 annual 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 annual 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 15d-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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 functions):
  - (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.

*/s/ FRANK P. ELSENBAST*

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

*December 14, 2006*

**EXHIBIT 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, William J. Lansing, Chief Executive Officer of ValueVision Media, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of the Company for the period ended November 4, 2006 (the "Report") fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ WILLIAM J. LANSING*

-----  
*William J. Lansing*  
*Chief Executive Officer and President*  
*(Principal Executive Officer)*

*December 14, 2006*

**EXHIBIT 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Frank P. Elsenbast, Chief Financial Officer of ValueVision Media, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of the Company for the period ended November 4, 2006 (the "Report") fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ FRANK P. ELSENBAST*

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

*December 14, 2006*