VALUEVISION MEDIA INC

FORM 10-K/A
(Amended Annual Report)

Filed 3/13/1998 For Period Ending 1/31/1997

Address	6740 SHADY OAK RD
	MINNEAPOLIS, Minnesota 55344-3433
Telephone	612-947-5200
CIK	0000870826
Industry	Retail (Catalog & Mail Order)
Sector	Services
Fiscal Year	01/31

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A-2

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 1997

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to ________

Commission File No. 0-20243

VALUEVISION INTERNATIONAL, INC.
(Exact Name of Issuer in Its Charter)

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         Minnesota              41-1673770
-------------------------------------------
  (State or Other Jurisdiction (I.R.S. Employer
of Incorporation or Organization) Identification No.)
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6740 Shady Oak Road, Minneapolis, MN 55344 - 3433
(Address of Principal Executive Offices) (Zip Code)

612-947-5200
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock,
$0.01 par value

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of February 17, 1998, 26,780,778 shares of the Registrant's common stock were outstanding. The aggregate market value of the common stock held by non-affiliates of the registrant on such date, based upon the sale price of the common stock as reported by Nasdaq on February 17, 1998, was approximately $ 84,991,827. For purposes of this computation, affiliates of the registrant are deemed only to be the registrant's executive officers and directors.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive ValueVision International, Inc. Proxy Statement for the 1997 Annual Meeting of Shareholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

PART I

Items 6 and 8 of the Annual Report on Form 10-K for the fiscal year ended January 31, 1997 (the "10-K"), are hereby amended and restated in their entirety as follows. Except as set forth herein, all other items of the 10-K remain in full force and effect.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" as of and for each of the years in the five-year period ended January 31, 1997 are derived from the financial statements of the Company. The selected financial data presented below are qualified in their entirety by, and should be read in conjunction with, the financial statements and notes thereto and other financial and statistical information referenced elsewhere herein including the information referenced under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	YEAR ENDED JANUARY 31,				
	1997(a)	1996	1995	1994	1993
STATEMENT OF OPERATIONS DATA:					
Net sales	$159,477,917	$ 88,909,853	$ 53,930,847	$ 37,614,497	$ 14,545,194
Gross margin percentage	42.2%	41.2%	41.6%	38.8%	39.7%
Operating loss	(2,639,784)	(766,157)	(3,712,364)	(1,745,307)	(1,633,060)
Income (loss) before income taxes and extraordinary item (b)	29,689,722	11,119,565	(6,104,095)	(1,413,775)	(1,670,798)
Net income (loss) (b)	18,089,722	11,019,565	(6,104,095)	(1,925,084)	(1,670,798)
Net income (loss) per share	$ 0.57	$ 0.38	$ (0.22)	$ (0.12)	$ (0.23)
Weighted average shares outstanding	31,984,463	28,627,356	27,264,856	15,400,289	7,158,833

	JANUARY 31,				
	1997	1996	1995	1994	1993
BALANCE SHEET DATA:					
Cash and short-term investments	$ 52,858,783	$ 46,451,327	$ 26,659,475	$ 48,382,401	$ 851,565
Working capital	61,631,478	52,085,060	29,121,909	50,151,583	86,950
Current ratio	2.6	4.9	3.9	7.7	1.0
Total assets	166,412,670	117,269,217	77,503,889	77,698,340	4,777,294
Long-term obligations	1,443,189	447,430	577,930	147,004	321,904
Shareholders' equity	127,245,607	103,303,139	66,802,024	70,018,430	1,178,328

(a) Results of operations for the year ended January 31, 1997, included the operations of Montgomery Ward Direct, Beautiful Images, Inc. and Catalog Ventures, Inc. which were acquired by the Company in the second half of fiscal 1997. See footnote 4 to the Notes to Consolidated Financial Statements as of January 31, 1997 and 1996.

(b) Income (loss) before income taxes and extraordinary item and net income (loss) include a pre-tax gain of $28.2 million from the sale of broadcast properties for Fiscal 1997, $8.5 million gain on sale of investment in National Media Corporation and $2.0 million equity in earnings of affiliates in Fiscal 1996 and $3.7 million of costs associated with the National Media Corporation tender offer in Fiscal 1995. See footnotes 2 and 4 to the Notes to Consolidated Financial Statements as of January 31, 1997 and 1996.

ITEM 8. FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To ValueVision International, Inc.:

We have audited the accompanying consolidated balance sheets of ValueVision International, Inc. (a Minnesota corporation) and Subsidiaries as of January 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended January 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ValueVision International, Inc. and Subsidiaries as of January 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 1997 in conformity with generally accepted accounting principles.

As disclosed in Note 5 to the consolidated financial statements, effective February 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,
March 31, 1997

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	AS OF JANUARY 31, 1997	AS OF JANUARY 31, 1996
CURRENT ASSETS:		
Cash and cash equivalents	$ 28,618,943	$ 20,063,901
Short-term investments	24,239,840	26,387,426
Accounts receivable, net	6,488,094	5,130,502
Inventories, net	28,109,081	8,889,426
Prepaid expenses and other	11,483,394	4,882,453
Deferred taxes	416,000	250,000
Total current assets	99,355,352	65,603,708
PROPERTY AND EQUIPMENT, NET	24,283,108	13,813,347
FEDERAL COMMUNICATIONS COMMISSION LICENSES, NET	6,934,546	9,312,437
MONTGOMERY WARD OPERATING AGREEMENT AND LICENSES, NET	15,052,935	16,621,255
GOODWILL AND OTHER INTANGIBLE ASSETS, NET	10,764,011	1,688,497
INVESTMENTS AND OTHER ASSETS, NET	10,022,718	10,229,973
	$166,412,670	$117,269,217

LIABILITIES AND SHAREHOLDERS' EQUITY

	1997	1996
CURRENT LIABILITIES:		
Current portion of long-term obligations	$ 392,921	$ 200,000
Accounts payable	24,887,904	8,770,685
Accrued liabilities	12,398,041	4,197,963
Income taxes payable	45,008	350,000
Total current liabilities	37,723,874	13,518,648
LONG-TERM OBLIGATIONS	1,443,189	447,430
Total liabilities	39,167,063	13,966,078
COMMITMENTS AND CONTINGENCIES (Notes 3, 4, 6, 8, 10 and 11)		
SHAREHOLDERS' EQUITY:		
Common stock, $.01 par value, 100,000,000 shares authorized; 28,842,198 and 29,343,748 shares issued and outstanding	288,422	293,437
Common stock purchase warrants; 5,368,557 and 25,770,461 shares	26,984,038	17,500,000
Additional paid-in capital	83,309,455	87,189,939
Net unrealized holding gains (losses) on investments available-for-sale	69,437	(184,770)
Retained earnings (deficit)	16,594,255	(1,495,467)
Total shareholders' equity	127,245,607	103,303,139
	$166,412,670	$117,269,217

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

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEARS ENDED JANUARY 31,		
	1997	1996	1995
NET SALES	$ 159,477,917	$ 88,909,853	$ 53,930,847
COST OF SALES	92,114,663	52,268,398	31,476,842
Gross profit	67,363,254	36,641,455	22,454,005
OPERATING EXPENSES:			
Distribution and selling	56,819,304	28,177,953	19,654,681
General and administrative	7,187,377	4,421,924	4,238,108
Depreciation and amortization	5,996,357	4,807,735	2,273,580
Total operating expenses	70,003,038	37,407,612	26,166,369
OPERATING LOSS	(2,639,784)	(766,157)	(3,712,364)
OTHER INCOME (EXPENSE):			
Gain on sale of broadcast stations	27,050,000	-	-
Gain on sale of investments	808,449	8,480,453	-
Cost of National Media Corporation tender offer	-	-	(3,667,000)
Litigation costs	-	(617,000)	(320,000)
Equity in earnings of affiliates	419,430	1,983,226	-
Interest income	3,912,231	2,137,720	1,722,275
Other, net	139,396	(98,677)	(127,006)
Total other income (expense)	32,329,506	11,885,722	(2,391,731)
INCOME (LOSS) BEFORE PROVISOIN FOR INCOME TAXES	29,689,722	11,119,565	(6,104,095)
Provision for income taxes	11,600,000	100,000	-
NET INCOME (LOSS)	$ 18,089,722	$ 11,019,565	$ (6,104,095)
NET INCOME (LOSS) PER COMMON AND DILUTIVE COMMON EQUIVALENT SHARE	$ 0.57	$ 0.38	$ (0.22)
Weighted average number of common and dulitive common equivalent shares outstanding	31,984,463	28,627,356	27,264,856

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

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended January 31, 1997, 1996 and 1995

	Class A Common Stock Number of Shares	Class A Common Stock Par Value	Class B Common Stock Number of Shares	Class B Common Stock Par Value	Common Stock Purchase Warrants	Additional Paid-In Capital
BALANCE, January 31, 1994	26,995,975	$269,960	111,785	$ 112	$ -	$76,159,295
Cumulative effect of change in accounting for certain investments in debt and equity securities	-	-	-	-	-	-
Exercise of stock options	158,666	1,586	-	-	-	176,089
Issuance of Class A Common Stock	720,000	7,200	-	-	-	3,412,800
Conversion of Class B Common Stock to Class A Common Stock	111,785	1,118	(111,785)	(112)	-	(1,006)
Offering expenses	-	-	-	-	-	(95,460)
Unrealized holding loss on investments available-for-sale	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
BALANCE, January 31, 1995	27,986,426	279,864	-	-	-	79,651,718
Exercise of stock options	77,322	773	-	-	-	141,071
Issuance of common stock	1,280,000	12,800	-	-	-	7,987,200
Value assigned to common stock purchase warrants	-	-	-	-	17,500,000	-
Offering expenses	-	-	-	-	-	(590,050)
Unrealized holding gain on investments available-for-sale	-	-	-	-	-	-
Net income	-	-	-	-	-	-
BALANCE, January 31, 1996	29,343,748	293,437	-	-	17,500,000	87,189,939
Exercise of stock options and warrants	545,150	5,452	-	-	-	1,144,943
Common stock repurchases	(1,046,700)	(10,467)	-	-	-	(5,815,427)
Value assigned to common stock purchase warrants	-	-	-	-	9,484,038	-
Income tax benefit from stock options exercised	-	-	-	-	-	790,000
Unrealized holding gain on investments available-for-sale	-	-	-	-	-	-
Net income	-	-	-	-	-	-
BALANCE, January 31, 1997	28,842,198	$288,422	-	$-	$26,984,038	$83,309,455

	Net Unrealized Holding Gains (Losses) on Investments Available-For-Sale	Retained Earnings (Deficit)	Total Shareholders' Equity
BALANCE, January 31, 1994	$ -	$(6,410,937)	$70,018,430
Cumulative effect of change in accounting for certain investments in debt and equity securities	3,849,474	-	3,849,474
Exercise of stock options	-	-	177,675
Issuance of Class A Common Stock	-	-	3,420,000
Conversion of Class B Common Stock to Class A Common Stock	-	-	-
Offering expenses	-	-	(95,460)
Unrealized holding loss on investments available-for-sale	(4,464,000)	-	(4,464,000)
Net loss	-	(6,104,095)	(6,104,095)
BALANCE, January 31, 1995	(614,526)	(12,515,032)	66,802,024
Exercise of stock options	-	-	141,844
Issuance of common stock	-	-	8,000,000
Value assigned to common stock purchase warrants	-	-	17,500,000
Offering expenses	-	-	(590,050)
Unrealized holding gain on investments available-for-sale	429,756	-	429,756
Net income	-	11,019,565	11,019,565
BALANCE, January 31, 1996	(184,770)	(1,495,467)	103,303,139
Exercise of stock options and warrants	-	-	1,150,395
Common stock repurchases	-	-	(5,825,894)
Value assigned to common stock purchase warrants	-	-	9,484,038
Income tax benefit from stock options exercised	-	-	790,000
Unrealized holding gain on			

investments available-for-sale	254,207	-	254,207
Net income	-	18,089,722	18,089,722
BALANCE, January 31, 1997	$ 69,437	$16,594,255	$127,245,607

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

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED JANUARY 31,		
	1997	1996	1995
OPERATING ACTIVITIES:			
Net income (loss)	$ 18,089,722	$ 11,019,565	$ (6,104,095)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities-			
Depreciation and amortization	5,996,357	4,807,735	2,273,580
Deferred taxes	(236,668)	(250,000)	-
Gain on sale of broadcast stations	(27,050,000)	-	-
Gain on sale of investments	(808,449)	(8,480,453)	-
Cost of National Media Corporation tender offer	-	-	3,667,000
Equity in earnings of affiliates	(419,430)	(1,983,226)	-
Other non-cash charges	-	646,268	203,625
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable, net	(555,925)	(2,064,405)	(1,433,577)
Inventories, net	(4,479,713)	(1,056,425)	(607,333)
Prepaid expenses and other	1,889,663	(3,230,141)	(1,118,153)
Accounts payable and accrued liabilities	1,433,867	2,894,713	2,655,665
Income taxes payable	361,481	-	-
Net cash provided by (used for) operating activities	(5,779,095)	2,303,631	(463,288)
INVESTING ACTIVITIES:			
Property and equipment additions, net of effect of acquisitions	(14,364,600)	(3,040,865)	(2,978,333)
Purchase of broadcast stations	(4,618,743)	-	(11,689,025)
Acquisition of direct-mail companies, net of cash acquired	(4,113,984)	-	-
Proceeds from sale of broadcast stations	40,000,000	-	-
Proceeds from sale of investments	6,103,541	16,438,979	-
Purchase of short-term investments	(84,506,099)	(55,094,124)	(23,900,870)
Proceeds from sale of short-term investments	87,256,886	33,710,220	39,023,136
Payment of National Media Corporation tender offer costs	-	-	(3,110,749)
Payment for investments and other assets	(6,534,383)	(3,457,071)	(3,246,341)
Net cash provided by (used for) investing activities	19,222,618	(11,442,861)	(5,902,182)
FINANCING ACTIVITIES:			
Proceeds from exercise of stock options and warrants	1,150,395	141,844	177,675
Payments for repurchases of common stock	(5,825,894)	-	-
Proceeds from sale of common stock	-	8,000,000	-
Payment of offering costs	-	(464,167)	(85,760)
Payment of long-term obligations	(212,982)	(130,500)	(327,105)
Net cash provided by (used for) financing activities	(4,888,481)	7,547,177	(235,190)
Net increase (decrease) in cash and cash equivalents	8,555,042	(1,592,053)	(6,600,660)
BEGINNING CASH AND CASH EQUIVALENTS	20,063,901	21,655,954	28,256,614
ENDING CASH AND CASH EQUIVALENTS	$ 28,618,943	$ 20,063,901	$ 21,655,954
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 83,000	$ 69,000	$ 29,000
Income taxes paid	$ 10,051,000	$ -	$ -
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Issuance of 1,484,993 warrants in connection with the acquisition of Montgomery Ward Direct, L.P.	$ 8,353,000	$ -	$ -
Issuance of 199,097 warrants as a limited partnership contribution	$ 1,131,000	$ -	$ -
Note payable issued in connection with the purchase of land	$ 600,000	$ -	$ -
Issuance of warrants to Montgomery Ward & Co., Incorporated	$ -	$ 17,500,000	$ -
Capital distribution received from investment in limited partnership	$ -	$ 2,744,000	$ -
Issuance of 720,000 shares of common stock as partial consideration for the acquisition of a full power television station	$ -	$ -	$ 3,420,000

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 31, 1997 AND 1996

1. THE COMPANY:

ValueVision International, Inc. and Subsidiaries ("the Company") is an integrated direct marketing company which markets its products directly to consumers through electronic and print media.

The Company's television home shopping network uses recognized on-air television home shopping personalities to market brand name merchandise and proprietary and private label consumer products at competitive or discount prices. The Company's 24-hour per day television home shopping programming is distributed primarily through long-term cable affiliation agreements and the purchase of month-to-month full- and part-time block lease agreements of cable and broadcast television time. In addition, the Company distributes its programming through Company owned or affiliated full power Ultra-High Frequency ("UHF") broadcast television stations, low power television ("LPTV") stations and to satellite dish owners.

The Company, through its wholly-owned subsidiary, ValueVision Direct Marketing Company, Inc. ("VVDM"), is also a direct-mail marketer of a broad range of quality general merchandise which is sold to consumers through direct-mail catalogs and other direct marketing solicitations. Products offered include domestics, housewares, home accessories and electronics. Through its wholly-owned subsidiary, Catalog Ventures, Inc. ("CVI"), the Company sells a variety of fashion jewelry, health and beauty aids, books, audio and video cassettes and other related consumer merchandise through the publication of five consumer specialty catalogs. The Company also manufactures and markets, via direct-mail, women's foundation undergarments through its wholly-owned subsidiary, Beautiful Images, Inc. ("BII").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of ValueVision International, Inc. ("ValueVision") and its wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Results of operations for the year ended January 31, 1997 include the direct-mail operations of Montgomery Ward Direct effective July 27, 1996, Beautiful Images, Inc. effective October 22, 1996 and Catalog Ventures, Inc. effective November 1, 1996, which were acquired by the Company in fiscal 1997.

FISCAL YEAR

The Company's fiscal year ends on January 31. Fiscal years are designated in the accompanying consolidated financial statements and related notes by the calendar year in which the fiscal year ends.

REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE

Revenue is recognized at the time merchandise is shipped. Shipping and handling fees collected from customers are recognized as merchandise is shipped and are offset against actual shipping expenses as a component of distribution and selling costs. Returns are estimated and provided for at the time of sale based on historical experience. Payments received for unfilled orders are reflected as a component of accrued liabilities.

Accounts receivable consist primarily of amounts due from customers for merchandise sales and from credit card companies, and are reflected net of reserves for estimated uncollectible amounts of $529,000 at January 31, 1997 and $181,000 at January 31, 1996.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash, money market funds and commercial paper with an original maturity of 90 days or less.

SHORT-TERM INVESTMENTS

Short-term investments consist principally of commercial paper with a remaining maturity of less than 12 months and are stated at cost, which approximates market value.

INVENTORIES

Inventories, which consist primarily of consumer merchandise held for resale, are stated at the lower of first-in, first-out cost or realizable value.

ADVERTISING COSTS:

Promotional advertising expenditures are expensed in the period the advertising initially takes place. Direct response advertising costs, consisting primarily of catalog preparation, printing and postage expenditures, are deferred and amortized over the period during which the benefits are expected, generally three to six months. Advertising costs of $21,164,000, $2,013,000, and $0 for the years ended January 31, 1997, 1996 and 1995, respectively, are included in the accompanying consolidated statements of operations. Prepaid expenses and other includes deferred advertising costs of $6,268,000 at January 31, 1997 and $1,223,000 at January 31, 1996, which will be reflected as an expense during the quarterly period benefited.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Betterments and renewals that extend the life of an asset are capitalized and depreciated. Repairs and maintenance are charged to expense as incurred. The cost and accumulated depreciation of property and equipment retired or otherwise disposed of are removed from the related accounts, and any residual values are charged or credited to operations. Depreciation and amortization for financial reporting purposes are provided principally on the straight-line method based upon estimated useful lives.

Property and equipment consisted of the following at January 31:

	Estimated Useful Life (In Years)	1997	1996
Land and improvements	-	$ 7,151,000	$ 1,026,000
Buildings and improvements	40	4,630,000	866,000
Transmission and production equipment	5-20	10,226,000	11,258,000
Office and warehouse equipment	3-10	2,962,000	1,923,000
Computer and telephone equipment	3- 5	3,726,000	2,431,000
Leasehold improvements	3-10	1,720,000	1,164,000
Less - Accumulated depreciation		(6,132,000)	(4,855,000)
		$24,283,000	$13,813,000

FEDERAL COMMUNICATIONS COMMISSION LICENSES

Federal Communications Commission ("FCC") licenses are stated at acquisition cost as determined based upon independent appraisals and are amortized on a straight-line basis over their estimated useful lives of 25 years. Although the FCC has established eight year license terms for television stations, the Telecommunications Act of 1996 requires the FCC to grant applications for renewal of such licenses upon a finding that (1) the station has served the public interest, convenience, and necessity; (2) there have been no serious violations by the licensee of the Communications Act or the FCC's rules and regulations; and (3) there have been no other violations by the licensee of such Act or rules and regulations which, taken togther, would constitute a pattern of abuse. The Company has met and continues to meet the requirements set forth above, and based further on standard industry practice, the Company has determined that 25 years is a reasonable estimated useful life for its FCC licenses, considering the future periods to be benefited. Accumulated amortization was $529,000 at January 31,1997 and $536,000 at January 31, 1996.

MONTGOMERY WARD OPERATING AGREEMENT AND LICENSES

As discussed further in Note 3, during fiscal 1996, the Company issued common stock purchase warrants in exchange for various agreements entered into with Montgomery Ward & Co., Incorporated ("Montgomery Ward") including an Operating Agreement, a Credit Card License and Receivable Sales Agreement, and a Servicemark License Agreement. The value assigned to the agreements of $17,500,000 was determined pursuant to an independent appraisal and is being amortized on a straight-line basis over the amended term of the agreements. The Operating Agreement expires July 31, 2008 and may be terminated under certain circumstances, as defined in the agreement. The Credit Card License and Receivable Sales Agreement and Servicemark License Agreement automatically terminate upon termination of the Operating Agreement. Accumulated amortization related to the agreements was $2,447,000 at January 31, 1997 and $879,000 at January 31, 1996.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consisted of the following at January 31:

	1997	1996
Goodwill, net	$ 9,054,000	$1,688,000
Other intangible assets, net	1,710,000	-
	$10,764,000	$1,688,000

Goodwill represents the cost in excess of fair value of the net assets of businesses acquired in purchase transactions, and is being amortized on a straight-line basis over periods ranging from 12 to 25 years. Other intangible assets represent costs allocated to customer lists arising from business acquisitions and are being amortized on a straight-line basis over 5 years. The carrying values of goodwill and other intangible assets are evaluated periodically by the Company in relation to the operating performance and future undiscounted net cash flows of the related acquired businesses. Accumulated amortization was $660,000 at January 31, 1997 and $361,000 at January 31, 1996.

INVESTMENTS AND OTHER ASSETS

Investments and other assets consisted of the following at January 31:

	1997	1996
Investments	$ 4,444,000	$ 2,922,000
Prepaid cable launch fees, net	2,382,000	2,455,000
Other, net	3,197,000	4,853,000
	$10,023,000	$10,230,000

The Company has nonmarketable investments in private companies, partnerships and a venture capital limited partnership which are carried at the lower of cost or net realizable value. In addition, the Company has, from time to time, made investments in public companies which are classified as "available-for-sale" investment securities, and are stated at fair value, with unrealized gains and losses reported as a separate component of shareholders' equity. (See Note 5.) The fair values of other investments were estimated based primarily on recent financing and securities transactions and, to a lesser extent, on other pertinent information, including financial condition and operating results.

At January 31, 1997, investments include approximately $2,710,000 related to a 13% interest in a venture capital limited partnership. The purpose of the limited partnership is to invest in and assist new and emerging growth-oriented businesses and leveraged buyouts in the consumer services, retailing and direct marketing industries. In addition to the Company, Merchant Advisors, L.P. is the only other limited partner in the limited partnership. The investment in this partnership is accounted for using the equity method of accounting. In fiscal 1996, the Company received from the limited partnership a distribution of certain investment securities including common stock and common stock purchase warrants, valued at $2,744,000 as determined pursuant to an independent financial appraisal.

Other assets consist principally of non-compete agreements, prepaid satellite transponder launch fees, long-term deposits, notes receivable and software development costs, all of which are carried at cost, net of accumulated amortization. Costs are amortized on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 12 years. Accumulated amortization was $433,000 at January 31, 1997 and $373,000 at January 31, 1996.

In March 1997, the Company acquired a 15% interest in Net Radio Corporation ("Net Radio") for an aggregate purchase price of $3 million, consisting of $1 million in cash and a commitment to provide $2 million in future advertising. Net Radio is a music and entertainment site on the Internet. Navarre Corporation, a national distributor of music, computer software and interactive CD ROM products, owns the remaining 85% of Net Radio. The Company's 24-hour per day shopping program is currently being carried by Net Radio. This investment allows ValueVision to establish a foothold in providing electronic commerce on the Internet. Additionally, ValueVision has been granted exclusive rights for most merchandise categories to be made available in Net Radio's program marketplace.

INCOME TAXES

The Company accounts for income taxes under the liability method of accounting under which deferred tax assets are recognized for deductible temporary differences, and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment of such laws.

NET INCOME (LOSS) PER SHARE

Net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding, as determined using the treasury stock method.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, ("SFAS No. 107") "Disclosures about Fair Value of Financial Instruments", requires disclosures of fair value information about financial instruments for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating its fair values for financial instruments:

The carrying amount reported in the balance sheet approximates the fair value for cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, due to the short maturities of those instruments.

Fair values for long-term investments are based on quoted market prices, where available. For equity securities not actively traded, fair values are estimated by using quoted market prices of comparable instruments or, if there are no relevant comparables, on pricing models or formulas using current assumptions.

The fair value for the Company's long-term debt is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates, for similar types of borrowing arrangements, and approximated carrying value at January 31, 1997 and 1996.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during reporting periods. These estimates relate primarily to the carrying amounts of accounts receivable and inventories, the realizability of certain long-term assets and the recorded balances of certain accrued liabilities and reserves. Ultimate results could differ from the use of these estimates.

RECLASSIFICATIONS

Certain 1996 and 1995 amounts in the accompanying consolidated financial statements have been reclassified to conform to the fiscal 1997 presentation with no impact on previously reported net income (loss) or shareholders' equity.

3. MONTGOMERY WARD ALLIANCE:

During fiscal 1996, the Company entered into a Securities Purchase Agreement, an Operating Agreement, a Credit Card License and Receivable Sales Agreement, and a Servicemark License Agreement (collectively, the "MW Agreements") with Montgomery Ward. Under the MW Agreements, Montgomery Ward purchased 1,280,000 unregistered shares of common stock of the Company at $6.25 per share, which represented approximately 4.4% of the issued and outstanding shares of common stock of the Company, and received warrants to purchase an additional 25 million shares of common stock of the Company, subject to adjustment (25,770,461 as adjusted through January 31, 1996). These warrants had exercise prices ranging from $6.50 to $17.00 per share, with an average exercise price of $9.16 per share (the "Warrants"). The value assigned to the Warrants of $17,500,000 was determined pursuant to an independent appraisal.

On June 7, 1996, the Company signed a non-binding Memorandum of Understanding with Montgomery Ward pursuant to which the companies agreed to the expansion and restructuring of their ongoing operating and license agreements as well as the Company's acquisition of substantially all of the assets and assumption of certain obligations of Montgomery Ward Direct L.P. ("MWD"), a four year old catalog business. Effective July 27, 1996 the companies reached definitive agreements and closed the transaction in the third quarter ended October 31, 1996. Pursuant to the provisions of the agreements, the Company's sales promotion rights were expanded beyond television home shopping to include the full use of the service mark of Montgomery Ward for direct-mail catalogs and ancillary promotions. In addition, the strategic alliance between the companies has been restructured and amended such that (i) 18,000,000 unvested warrants granted to Montgomery Ward in August 1995 and exercisable at prices ranging from $7.00 - $17.00 were terminated in exchange for the issuance by the Company of 1,484,467 new vested warrants exercisable at $0.01 per share, valued at $5.625 per warrant, which approximated the book value of the 18,000,000 unvested warrants returned as of the date of the transaction, (ii) the Company issued 1,484,993 new vested warrants, valued at $5.625 per share and exercisable at $0.01 per share, to Montgomery Ward as full consideration for the acquisition of approximately $4.7 million in net assets, representing substantially all of the assets and the assumption of certain liabilities of MWD, (iii) Montgomery Ward has committed to provide $20 million in supplemental advertising support over a five-year period, (iv) the Montgomery Ward operating agreements and licenses have been amended and expanded, as defined in the agreements, and extended to July 31, 2008 and (v) the Company issued to Montgomery Ward new vested warrants to purchase 2.2 million shares of the Company's common stock at an exercise price of $.01 per share in exchange for 7,000,000 vested warrants granted to Montgomery Ward in August 1995 which were exercisable at prices ranging from $6.50 - $6.75 per share. The fair value of the warrants approximated the book value of the warrants exchanged.

Under the MW Agreements, Montgomery Ward provides the Company with certain operational support, including merchandise sourcing and use of the Montgomery Ward credit card by the Company's customers, and may also assist the Company in obtaining a line of credit for strategic acquisitions or expansion. Montgomery Ward may assist the Company in obtaining cable carriage agreements by purchasing advertising time on cable systems. During the term of the MW Agreements, the Company will be Montgomery Ward's exclusive outlet for television shopping (as defined in the MW Agreements), subject to certain exceptions. The Operating Agreement has a twelve-year term and may be terminated under certain circumstances as defined in the agreement.

Montgomery Ward purchased approximately $4.2 million and $1.5 million of advertising spot time on cable systems affiliated with the Company pursuant to cable affiliation agreements for the years ended January 31, 1997 and 1996, respectively. Under the terms of the Credit Card License and Receivable Sales Agreement, the Company processed approximately $20,960,000 and $19,453,000 of merchandise sales as a result of customers using Montgomery Ward/ValueVision credit cards and the Company incurred $596,000 and $175,000 of processing fees during fiscal 1997 and 1996, respectively. In addition, during fiscal 1997 and 1996, the Company earned $793,000 and $292,000 for administering and processing Montgomery Ward credit card applications. As of January 31, 1997 and 1996, the Company had $830,000 and $1,981,000 included in accounts receivable from Montgomery Ward for merchandise sales made on Montgomery Ward/Value Vision credit cards, advertising spot time acquired and administrative and processing fees, net of processing fees due Montgomery Ward for use of its credit card.

4. ACQUISITIONS AND DISPOSITIONS:

MONTGOMERY WARD DIRECT

As discussed further in Note 3, effective July 27, 1996, the Company acquired substantially all of the assets and assumed certain obligations of MWD by issuing 1,484,993 vested warrants with an exercise price of $.01 per share, to Montgomery Ward as full consideration for the acquisition of approximately $4.7 million in net assets of MWD. The value of the warrants issued in the acquisition of MWD was based on the market price of the Company's common stock during the period in which the agreement was reached (i.e., signing of letter of intent) to undertake the relevant transaction which the Company believes is indicative of the fair value of the acquired business.

The Company's acquisition of MWD was made through VVDM, for an aggregate purchase price of $8,497,000, which included acquired cash of $5,764,000 and acquisition costs of $144,000. The acquisition was accounted for using the purchase method of accounting and accordingly, the net assets of MWD were recorded at their estimated fair values based upon a preliminary allocation of the purchase price to such net assets. The preliminary purchase price allocations are subject to change upon receipt of additional information relative to asset and liability valuations. Therefore, the final allocation may differ from the preliminary allocation. The preliminary allocation is summarized as follows:

Cash	$ 5,764,000
Inventories	9,140,000
Other current assets	2,861,000
Property and equipment	557,000
Intangible assets	4,531,000
Liabilities assumed	(14,356,000)
	$ 8,497,000

The excess of the purchase price over the net assets acquired was $4,531,000 and has been recorded as goodwill and other intangible assets in the accompanying balance sheet and is being amortized on a straight-line basis over 5-12 years. The operating results of MWD have been included in the fiscal 1997 consolidated statement of operations from the date of acquisition. Unaudited pro forma consolidated net sales of the Company for the years ended January 31, 1997 and 1996, as if the acquisition had occurred as of the beginning of the respective periods were $194,284,000 and $240,850,000 respectively. Unaudited pro forma net income was $17,151,000, or $.52 per share, in fiscal 1997 and $4,341,000, or $.14 per share, in fiscal 1996. Such pro forma amounts are not necessarily indicative of what the actual consolidated results of operations would have been had the acquisition been effective at the beginning of the respective periods.

BEAUTIFUL IMAGES, INC.

On October 22, 1996, the Company, through VVDM, acquired all of the outstanding shares of BII, a manufacturer and direct marketer of women's foundation undergarments. The Company paid $4,253,000 in cash, which included acquired cash of $423,000, $500,000 relating to a non-compete agreement and acquisition costs of approximately $75,000, and assumed certain obligations totaling $109,000. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based upon estimated fair values at the date of acquisition. The excess of the purchase price over the fair values of the net assets acquired was $3,310,000, of which $2,810,000 has been recorded as goodwill, which is being amortized on a straight-line basis over 15 years and $500,000 has been assigned to the non-compete agreement, which is being amortized on a straight-line basis over the 6 year term of the agreement. The operating results of BII have been included in the fiscal 1997 consolidated statement of operations from the date of acquisition. Pro forma results of operations have not been presented because the effects were not significant.

CATALOG VENTURES, INC.

Effective November 1, 1996, the Company, through VVDM, acquired substantially all of the assets and assumed certain obligations of Catalog Ventures, Inc. and Mitchell & Webb, Inc. ("Webb"), two direct marketing companies which together publish five consumer specialty catalogs. The Company paid $7,369,000 in cash which included acquired cash of $1,465,000 and acquisition costs of approximately $100,000. The acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to the assets purchased and liabilities assumed based upon estimated fair values at the date of acquisition. The excess of the purchase price over the fair values of the net assets acquired was $1,953,000, and has been recorded as goodwill, which is being amortized on a straight-line basis over 15 years. The operating results of CVI have been included in the fiscal 1997 consolidated statement of operations from the date of the acquisition. Pro forma results of operations have not been presented because the effects were not significant.

BROADCAST STATIONS

During the first quarter of fiscal 1995, the Company completed the acquisitions of three full power television broadcast stations serving the Washington D.C. ("WVVI"); Houston, Texas ("KVVV"); and Cleveland - Akron, Ohio ("WAKC") Areas of Dominant Influence ("ADI"). On December 28, 1994 the Company completed the acquisition of a full power television broadcast station serving the New York City ADI and licensed to Bridgeport, Connecticut ("WHAI"). The aggregate purchase price for the four stations was approximately $22,374,000 in cash, Company common stock and non-compete obligations. The acquisitions were accounted for under the purchase method of accounting. Accordingly, the net assets of the four stations were recorded at their estimated values at the time of acquisition, as determined by independent appraisals.

On March 15, 1996, the Company completed the acquisition of independent television station KBGE (TV), Channel 33 serving the Seattle-Tacoma, Washington market, for approximately $4.6 million including the assumption of certain debt obligations and acquisition related costs. This acquisition was completed in accordance with the terms of a five-year programming affiliation and financing agreement with the station which was signed on July 21, 1995. Pursuant to this agreement, the company provided financing of up to $1,450,000 related to a working capital loan for channel operations.

On April 11, 1996, the Company completed a second closing with respect to its acquisition of independent television station WVVI (TV), Channel 66, serving the Washington, D.C. market whereby the Company paid $800,000 to the former owner of WVVI (TV) as a final payment in exchange for not having to pay $1,600,000 in the event the "must carry" provisions of the 1992 Cable Act are upheld by a final decision. The Company had previously paid $4,050,000 to National Capital Christian Broadcasting, WVVI's former owners, at an initial closing on March 28, 1994. The $800,000 additional payment has been classified as excess purchase price and is being amortized over 25 years on a straight-line basis. In addition, the Company received certain studio and production equipment from the former owner of WVVI, in lieu of a cash payment, for the balance outstanding under a secured convertible debenture in the face amount of $450,000.

On March 31, 1997, the United States Supreme Court upheld the "must carry" provisions of the 1992 Cable Act. Assuming there is no petition for a rehearing, and the decision becomes final, the Company will be obligated to pay an additional $1,600,000 in connection with its 1995 acquisition of television station KVVV (TV) in Houston, Texas upon a second closing. In lieu of paying $1,600,000 in cash, the Company may issue that number of shares of common stock having a market value of $2,000,000 on the date of the second closing. The additional payment, when made, will be classified as unallocated excess purchase price and amortized over 25 years on a straight-line basis.

SALE OF BROADCAST STATIONS

On February 28, 1996, the Company completed the sale of two television stations to Paxson Communications Corporation ("Paxson") for $40.0 million in cash plus the assumption of certain obligations. The stations sold were ABC affiliate WAKC (TV), Channel 23, licensed to Akron, Ohio, and independent station WHAI (TV), Channel 43, licensed to Bridgeport, Connecticut. WAKC (TV) was acquired by the Company in April 1994 for approximately $6.0 million and WHAI (TV) was acquired by the Company in December 1994 for approximately $7.3 million. The net gain on the sale of these two television stations of approximately $27 million was recognized in the quarter ended April 30, 1996.

On November 22, 1996, the Company announced that an agreement had been reached with Paxson for the sale of its television broadcast station, WVVI (TV), Channel 66, which serves the Washington, D.C. market, for approximately $30 million. Under the terms of the agreement, Paxson will pay the Company $20 million in cash and $10 million in Paxson common stock valued at the average closing price during the 60-day period following the signing of the agreement. As part of the agreement, Paxson will be required to pay an additional $10 million to the Company as a result of the United States Supreme Court upholding the "must carry" provision of the 1992 Cable Act. WVVI (TV) carries the Company's television home shopping programming and was acquired by the Company in March 1994 for $4,850,000. The transaction is anticipated to close by the end of the second quarter of fiscal 1998. The effects of the disposition will be reflected in the financial statements at the date of closing. Management believes that the sale will not have a significant impact on the operations of the Company.

5. ADOPTION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 115, "ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES":

Effective February 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). SFAS No. 115 requires (i) investments in debt and equity securities to be classified at the time of their acquisition into one of three categories (trading, available-for-sale and held-to-maturity), and (ii) unrealized gains (losses) on investments available-for-sale to be reflected as a separate component of shareholders' equity and in certain instances, as a realized loss at the time a decline in fair value below the cost basis is determined to be other than temporary. The cumulative effect of adopting SFAS No. 115 effective February 1, 1994 resulted in the recognition of an unrealized holding gain on investments available-for-sale of approximately $3,849,000.

At January 31, 1997 and 1996, the Company had cash equivalents and short-term investments of approximately $44,840,000 and $45,828,000, respectively, that are classified as "held-to-maturity" investment securities and stated at cost which approximates market value. The Company's long-term investments are classified as "available-for-sale" investment securities.

6. LOW POWER TELEVISION STATIONS:

The licensing of LPTV stations' transmission authority is regulated by the FCC through the Communications Act of 1934. LPTV construction permits and the licensing rights that result upon definitive FCC operating approval are awarded solely at the discretion of the FCC and are subject to periodic renewal requirements. Prior to the incorporation of the Company, certain of the Company's officers, directors and principal shareholders received construction permits pursuant to individual initiatives. As of January 31, 1997, certain of the Company's officers, directors and principal shareholders held six construction permits for the stations. In addition, as of January 31, 1997, the Company had been granted one construction permit on its own behalf.

The Company has entered into non-binding agreements with holders of the six LPTV construction permits held or applied for by related parties whereby the Company has the option to enter into a secured financing arrangement to support the construction of transmission equipment for each LPTV station and to provide its programming to the station. Four of the agreements contain a fixed price purchase option of $5,000 each in favor of the Company, effective immediately upon FCC licensing or within 12 months from the FCC licensing date, as defined. The remaining two agreements provide the Company with the right of first refusal should the station be offered for sale. Under the six agreements with related parties, such parties could receive maximum annual programming fees of approximately $300,000.

In March 1997, the Company entered into asset purchase agreements with the holders of the six LPTV construction permits whereby a wholly-owned subsidiary of the Company will acquire all of such holders' rights in and to the licenses, permits, authorizations and other assets used in connection with each of the stations. Four of the agreements provide for a purchase price of $5,000 and two of the agreements provide for a purchase price of $75,000. The transactions are anticipated to close by the end of the second quarter of fiscal 1998 and are subject to regulatory approvals. Upon the closing of these transactions, the Company will have no further obligations to the related parties thereunder regarding these LPTV stations.

7. SHAREHOLDERS' EQUITY:

COMMON STOCK

The Company currently has authorized 100,000,000 shares of undesignated capital stock, of which approximately 28,842,000 shares were issued and outstanding as Common Stock as of January 31, 1997. The Board of Directors can establish new classes and series of capital stock by resolution without shareholder approval. The Company's Sixth Amended and Restated Articles of Incorporation, which were approved at the 1994 Annual Meeting of Shareholders, eliminated Class B Common Stock, Class A Convertible Preferred Stock and Class B Convertible Preferred Stock.

Prior to the adoption of the Sixth Amended and Restated Articles of Incorporation, the Company's Articles of Incorporation provided for two classes of common stock, Class A Common Stock and Class B Common Stock. The Company's Class A and Class B Common Stock were substantially identical in all respects, except that Class B Common Stock had a four to one per share voting advantage over Class A Common Stock. Class B Common Stock was convertible into Class A Common Stock on a share-for-share basis at any time. The Company's amended and restated Articles of Incorporation limited the transfer of Class B Common Stock to permitted transferees, as defined. Additionally, the Class B Common Stock automatically converted to Class A Common Stock in the event that the holder thereof violated certain non-compete clauses, including competing directly or indirectly with the Company.

WARRANTS

As discussed further in Note 3, in fiscal 1996, the Company issued Montgomery Ward warrants to purchase 25 million shares of common stock of the Company, subject to adjustment (25,770,461 as adjusted through January 31, 1996), with exercise prices ranging from $6.50 to $17.00 per share, with an average price of $9.16 per share.

In July 1996, in connection with the acquisition of MWD, the Company's strategic alliance with Montgomery Ward was restructured and amended whereby new vested warrants to purchase 3,684,467 shares of the Company's common stock at an exercise price of $.01 per share were issued to Montgomery Ward in exchange for the 25,770,461 vested warrants currently held. In addition, the Company issued 1,484,993 new vested warrants with a fair market value of $8,353,000 and exercisable at $.01 per share to Montgomery Ward as full consideration for the acquisition of MWD.

In July 1996, the Company also issued 199,097 new vested warrants with a fair market value of $1,131,000 and exercisable at $.01 per share as a limited partnership investment contribution.

UNDERWRITER OPTIONS

In connection with the Company's fiscal 1992 initial public offering, the Company issued options to purchase up to an aggregate 72,000 units for $5.23 per unit. Each unit consisted of three shares of common stock, three Class A Warrants and one-quarter of a Class B Warrant, subject to adjustment pursuant to antidilution provisions as defined. At the beginning of fiscal 1997, 20,400 units had been previously exercised. During the year ended January 31, 1997, options to purchase the remaining 51,600 units were exercised in full and resulted in the issuance of 509,550 shares of common stock. The Company received proceeds of approximately $1,051,000 relating to this exercise. No unit purchase options were exercised in fiscal 1996 or 1995.

The underwriters of the fiscal 1994 common stock offering were given options to purchase up to 400,000 shares of common stock at an initial exercise price of $16.41 per share, subject to certain specified adjustments, as defined, exercisable until November 15, 1998. No underwriter options were exercised in fiscal 1997, 1996 or 1995.

STOCK OPTIONS

The Company has adopted an incentive stock option plan ("the 1990 Plan"), as amended, which provides for the grant of options to employees to purchase up to 2,150,000 shares of the Company's common stock. In addition to options granted under the 1990 Plan, the Company has also granted nonqualified stock options to purchase shares of the Company's common stock to current and former directors, a consultant and certain employees. The exercise price for options granted under the 1990 Plan are determined by the stock option committee of the Board of Directors, but shall not be less than the fair market value of the shares on the date of grant. The options' maximum term may not exceed 10 years from the date of grant. Options are exercisable in whole or in installments, as determined by the stock option committee, and are generally exercisable in annual installments of 20% to 33% commencing one year after grant. The exercise price of the nonqualified stock options equaled the market value of the Company's common stock at the date of grant and the maximum term of such options does not exceed 10 years from the date of grant.

The Company accounts for its stock options under Accounting Principles Board Opinion No. 25 and has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Accordingly, no compensation cost has been recognized in the accompanying consolidated statements of operations. Had compensation cost related to these options been determined based on the fair value at the grant date for awards granted in fiscal 1997 and 1996, consistent with the provisions of SFAS No. 123, the Company's net income and net income per share would have been reduced to the following pro forma amounts:

		1997	1996
Net income:	As reported	$18,089,700	$11,019,600
	Pro forma	17,794,500	10,775,500
Net income per share:	As reported	$0.57	$0.38
	Pro forma	0.56	0.38

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to February 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The weighted average fair values of options granted were as follows:

	Incentive Stock Options	Nonqualified Stock Options
Fiscal 1997 grants	$3.36	$3.46
Fiscal 1996 grants	3.20	1.78

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in fiscal 1997 and 1996, respectively: risk-free interest rates of 6.0 and 6.2 percent; expected volatility of 46 and 45 percent; and expected lives of 7.5 years. 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.

A summary of the status of the Company's stock option plan as of January 31, 1997, 1996, and 1995 and changes during the years then ended is presented below:

	Incentive Stock Options	Weighted Average Exercise Price	Non-qualified Stock Options	Weighted Average Exercise Price
Balance outstanding, January 31, 1994	880,002	$4.28	175,000	$3.27
Granted	760,863	5.00	190,000	4.32
Exercised	(158,666)	1.12	-	-
Forfeited or canceled	(290,863)	8.23	-	-
Balance outstanding, January 31, 1995	1,191,336	4.20	365,000	3.82
Granted	344,322	5.50	190,000	5.08
Exercised	(27,322)	2.90	(50,000)	1.25
Forfeited or canceled	(6,500)	4.37	-	-
Balance outstanding, January 31, 1996	1,501,836	4.52	505,000	4.55
Granted	151,000	5.74	325,000	5.62
Exercised	(35,600)	2.79	-	-
Forfeited or canceled	(9,400)	4.84	-	-
Balance outstanding, January 31, 1997	1,607,836	$4.67	830,000	$4.97
Options exercisable at:				
January 31, 1997	971,000	$4.24	505,000	$4.55
January 31, 1996	759,000	$3.97	315,000	$4.22
January 31, 1995	378,000	$3.97	365,000	$3.82

The following table summarizes information regarding stock options outstanding at January 31, 1997:

		OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
OPTION TYPE	RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
INCENTIVE:	\$1.00 - \$2.53	210,336	\$1.51	3.2 YEARS	210,000	\$1.51
	\$4.00 - \$6.00	1,397,500	\$5.14	6.0	761,000	\$4.99
	\$1.00 - \$6.00	1,607,836	\$4.67	5.7	971,000	\$4.24
NONQUALIFIED:	\$1.25	25,000	\$1.25	1.4	25,000	\$1.25
	\$4.13 - \$6.19	805,000	\$5.08	6.0	480,000	\$4.72
	\$1.25 - \$6.19	830,000	\$4.97	5.9	505,000	\$4.55

STOCK OPTION TAX BENEFIT

The exercise of stock options which have been granted under the Company's stock option plan gives rise to compensation which is includable in the taxable income of the applicable employees and deductible by the Company for federal and state income tax purposes. Such compensation results from increases in the fair market value of the Company's common stock subsequent to the date of grant of the applicable exercised stock options and is not recognized as an expense for financial accounting purposes. The related tax benefits are recorded as additional paid-in capital when realized, and totaled $790,000 in fiscal 1997.

COMMON STOCK REPURCHASE PROGRAM

In fiscal 1996, the Company established a stock repurchase program whereby the Company may repurchase shares of its common stock, up to a maximum of $10 million, in the open market and through negotiated transactions, at prices and times deemed to be beneficial to the long-term interests of shareholders and the Company. During fiscal 1997, the Company repurchased 1,047,000 common shares under the program for a total cost of $5,826,000. No shares were repurchased in fiscal 1996. In March 1997, the Company's Board of Directors authorized an additional repurchase of up to $10 million of the Company's common stock.

8. LONG-TERM OBLIGATIONS:

In conjunction with the acquisition of WAKC (see Note 4), the Company entered into three covenant not-to-compete agreements with former employees and majority stockholders of WAKC involving aggregate consideration of $1,000,000 to be paid in five equal annual installments commencing in April 1995. Obligations under these non-compete agreements were initially reflected in the accompanying consolidated balance sheets at a present value of approximately $778,000 based upon an 8% imputed interest rate and are being amortized on a straight-line basis over the term of the agreements. The long-term and current portions of this obligation at January 31, 1997 were $306,000 and $200,000, respectively.

As a result of the Company's recent acquisitions, the Company leases computer and telephone equipment under noncancelable capital leases and includes these assets as part of property and equipment in the accompanying consolidated balance sheets. At January 31, 1997, the capitalized cost of leased equipment was approximately $539,000 and the related accumulated depreciation was approximately $93,000. Future minimum lease payments for assets under capital leases at January 31, 1997 are as follows:

Fiscal Year	
1998	$ 284,000
1999	243,000
2000	224,000
2001	76,000
Total minimum lease payments	827,000
Less: Amounts representing interest	(97,000)
	730,000
Less: Current portion	(193,000)
Long-term capital lease obligation	$ 537,000

The Company has entered into a $600,000, 10 year note payable arrangement in connection with the purchase of land to be used in the Company's fulfillment operations. The note bears interest, payable in monthly installments, at 7.5% for the first five years and at Prime interest thereafter until maturity. The principal amount matures and is payable in December 2006. The note is collateralized by the underlying related property.

9. INCOME TAXES:

The Company records deferred taxes for differences between the financial reporting and income tax bases of certain assets and liabilities, computed in accordance with tax laws in effect at that time. The differences which give rise to deferred taxes were as follows:

	January 31, 1997	January 31, 1996
Accruals and reserves not currently deductible for tax purposes	$ 2,579,000	$ 988,000
Inventory capitalization	541,000	219,000
Deferred catalog costs	(667,000)	-
Start-up costs capitalized for tax purposes	30,000	64,000
Net tax carryforwards	198,000	977,000
Differences in depreciation lives and methods	(1,237,000)	(1,031,000)
Difference in investments and other items	(1,028,000)	(967,000)
Net deferred tax asset	$ 416,000	$ 250,000

The net tax carryforwards at January 31, 1997 consist of alternative minimum tax carryforwards which are available to offset future taxable income. The realization of the carryforwards is dependent upon the generation of taxable income in future years as well as any limitations on utilization imposed by the Internal Revenue Code relating to ownership changes.

The provision (benefit) for income taxes consisted of the following:

	Years Ended January 31, 1997	1996	1995
Current	$11,434,000	$350,000	$ -
Deferred	166,000	(250,000)	-
	$11,600,000	$100,000	$ -

A reconciliation of income taxes computed at the statutory rates to the Company's effective tax rate is as follows:

	Years Ended January 31,		
	1997	1996	1995
Taxes at federal statutory rates	35.0%	35.0%	(35.0%)
State income taxes, net of federal tax benefit	4.1	5.0	(5.0)
Effect of recognition of previously unrecorded deferred tax assets	-	(39.1)	40.0
Effective tax rate	39.1%	.9%	-%

10. COMMITMENTS AND CONTINGENCIES:

CABLE AFFILIATION AGREEMENTS

As of January 31, 1997, the Company had entered into 3 to 7 year affiliation agreements with eleven multiple systems operators ("MSOs") which require each MSO to offer the Company's cable television home shopping programming on a full-time basis over their cable systems. Under certain circumstances, these cable television operators may cancel their agreements prior to expiration. The affiliation agreements provide that the Company will pay each MSO a monthly cable access fee and marketing support payment based upon the number of homes carrying the Company's television home shopping programming. For the years ended January 31, 1997, 1996 and 1995, the Company paid approximately $15,182,000, $12,078,000 and $4,531,000, under these long-term cable affiliation agreements.

The Company has entered into, and will continue to enter into, affiliation agreements with other cable television operators providing for full- or part-time carriage of the Company's television home shopping programming. Under certain circumstances the Company may be required to pay the cable operator a one time initial launch fee which is capitalized and amortized on a straight-line basis over the term of the agreement.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with its chief executive officer and chief operating officer which expire on January 31, 1999. The employment agreements provide that each officer, in addition to a base salary, were granted options to purchase 375,000 shares of common stock at $8.50 per share and 375,000 shares of common stock at $10.50 per share. The options vest and become exercisable at the earlier of the Company achieving certain net income goals, as defined, or in September 2003.

In addition, the Company has entered into employment agreements with a number of officers of the Company and its subsidiaries for terms ranging from 24 to 36 months. These agreements specify, among other things, the term and duties of employment, compensation and benefits, termination of employment (including for cause, which would reduce the Company's total obligation under these agreements), severance payments and non-disclosing and non-compete restrictions. The aggregate commitment for future base compensation at January 31, 1997 was approximately $2,498,000.

OPERATING LEASE COMMITMENTS

The Company leases certain property and equipment under non-cancelable operating lease agreements. Property and equipment covered by such operating lease agreements include the Company's main corporate office and warehousing facility, offices and warehousing facilities at subsidiary locations, satellite transponder and certain tower site locations.

Future minimum lease payments at January 31, 1997 were as follows:

Fiscal Year	Amount
1998	$ 4,077,000
1999	3,712,000
2000	3,563,000
2001	2,617,000
2002 and thereafter	11,356,000

Total lease expense under such agreements was approximately $4,222,000 in 1997, $3,348,000 in 1996 and $3,031,000 in 1995.

RETIREMENT AND SAVINGS PLAN

During fiscal 1995, the Company implemented a qualified 401(k) retirement savings plan covering substantially all employees. The plan allows the Company's employees to make voluntary contributions to the plan. The Company's contribution, if any, is determined annually at the discretion of the Board of Directors. There were no contributions to the plan for fiscal 1997 and 1996 or 1995.

11. LITIGATION:

In January 1994, the Company proposed an acquisition of National Media Corporation ("National Media"). In February 1994, the Company announced a tender offer for a majority of the outstanding shares of National Media. In March 1994, the Company and National Media entered into a merger agreement and the Company modified the terms of its tender offer. In April 1994, the Company terminated its tender offer and the merger agreement with National Media based upon inaccurate representations and breach of warranties by National Media, and based upon adverse developments concerning National Media. Litigation challenging the Company's termination of the tender offer and merger agreement was subsequently filed by National Media and its former chief executive officer and president. In addition, shareholders of National Media filed four purported class action lawsuits against the Company and certain officers of the Company. Each of these suits alleged deception and manipulative practices by the Company in connection with the tender offer and merger agreement.

In fiscal 1996, the Company, National Media and National Media's former chief executive officer and president agreed to dismiss all claims, to enter into joint operating agreements involving telemarketing and post-production capabilities, and to enter into an international joint venture agreement. Under the agreement, the Company received ten-year warrants, which vest over three years, to purchase 500,000 shares of National Media's common stock at a price of $8.865 per share. In November 1996, the Company and National Media amended their agreement by providing for the additional payment by the Company to National Media of $1.2 million as additional exercise price on the warrants. An initial $400,000 was paid upon signing the amendment with two additional annual installments of $400,000 to be paid on each of September 1, 1997 and 1998.

In March 1997, the court gave final approval to a $1.0 million settlement, which was paid by the Company from insurance proceeds, in the matter of the class action suit initiated by certain shareholders of National Media. During the year ended January 31, 1996, the Company recorded a provision of $617,000 for estimated costs associated with settling the National Media shareholder class action suit. The Company is not a party to any other material legal proceeding.

12. RELATED PARTY TRANSACTIONS:

At January 31, 1997 and 1996, accounts receivable included approximately $591,000 and $781,000, respectively, of notes receivable from certain officers of the Company. These notes range in the principal amount of $50,000 to $500,000, bear interest at 5.9% to 8.0%, and with payment terms ranging from due on demand to November 1997.

13. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT:

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128") in February 1997. SFAS No. 128 establishes accounting standards for computing and presenting earnings per share ("EPS") and is effective for reporting periods ending after December 15, 1997. Management believes that the adoption of SFAS No. 128 will not have a material impact on the Company's calculation of EPS.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 20, 1998.

ValueVision International, Inc.
(registrant)

By: /s/ Stuart R. Romenesko

Stuart R. Romenesko
Senior Vice President Finance and
chief Financial Officer