

VALUEVISION MEDIA INC

FORM 10-Q/A (Amended Quarterly Report)

Filed 3/13/1998 For Period Ending 10/31/1997

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

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

FORM 10-Q/A

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

For the quarterly period ended October 31, 1997

OR

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

For the transition period from to

Commission File Number 0-20243

VALUEVISION INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-1673770
(I.R.S. Employer
Identification No.)

6740 Shady Oak Road, Minneapolis, MN 55344
(Address of principal executive offices)

612-947-5200
(Registrant's telephone number, including area code)

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

YES X NO

As of February 17, 1998, there were 26,780,778 shares of the Registrant's common stock, \$.01 par value, outstanding.

PART I - FINANCIAL INFORMATION

Item 1 of the Form 10-Q for the quarterly period ended October 31, 1997

previously filed by ValueVision International, Inc. (the "10-Q") is hereby amended and restated in its entirety as follows. Except as set forth herein, all other items of the 10-Q remain in full force and effect.

ITEM 1. FINANCIAL STATEMENTS

**VALUEVISION INTERNATIONAL, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)**

ASSETS	OCTOBER 31, 1997	JANUARY 31, 1997
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 18,189,366	\$ 28,618,943
Short-term investments	27,529,673	24,239,840
Accounts receivable, net	11,713,784	6,488,094
Inventories, net	27,286,121	28,109,081
Prepaid expenses and other	15,899,879	11,483,394
Deferred taxes	392,000	416,000
	-----	-----
Total current assets	101,010,823	99,355,352
PROPERTY AND EQUIPMENT, NET	21,851,045	24,283,108
FEDERAL COMMUNICATIONS COMMISSION LICENSES, NET	5,706,239	6,934,546
MONTGOMERY WARD OPERATING AGREEMENT AND LICENSES, NET	14,085,016	15,052,935
INVESTMENT IN PAXSON COMMUNICATIONS CORPORATION	9,448,373	-
GOODWILL AND OTHER INTANGIBLE ASSETS, NET	12,297,802	10,764,011
INVESTMENTS AND OTHER ASSETS, NET	8,928,066	10,022,718
	-----	-----
	\$ 173,327,364	\$166,412,670
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term obligations	\$ 415,915	\$ 392,921
Accounts payable	22,336,546	24,887,904
Accrued liabilities	13,928,325	12,398,041
Income taxes payable	2,875,291	45,008
	-----	-----
Total current liabilities	39,556,077	37,723,874
LONG-TERM OBLIGATIONS	1,086,493	1,443,189
	-----	-----
Total liabilities	40,642,570	39,167,063
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock, \$.01 par value, 100,000,000 shares authorized; 28,035,778 and 28,842,198 shares issued and outstanding	280,358	288,422
Common stock purchase warrants; 3,842,143 and 5,368,557	18,386,927	26,984,038
Additional paid-in capital	81,714,115	83,309,455
Net unrealized holding gains (losses) on investments available-for-sale	(2,922,382)	69,437
Retained earnings	35,225,776	16,594,255
	-----	-----
Total shareholders' equity	132,684,794	127,245,607
	-----	-----
	\$ 173,327,364	\$166,412,670
	=====	=====

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

**VALUEVISION INTERNATIONAL, INC.
AND SUBSIDIARIES**
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	FOR THE THREE MONTHS ENDED OCTOBER 31,		FOR THE NINE MONTHS ENDED OCTOBER 31,	
	1997	1996	1997	1996
NET SALES	\$ 58,325,336	\$ 47,118,078	\$ 157,887,155	\$ 94,246,499
COST OF SALES	32,599,365	28,457,339	89,542,591	56,469,049
Gross profit	25,725,971	18,660,739	68,344,564	37,777,450
Margin %	44.1%	39.6%	43.3%	40.1%
OPERATING EXPENSES:				
Distribution and selling	23,325,866	15,953,996	64,707,697	31,048,673
General and administrative	2,251,383	1,953,837	7,611,520	4,723,006
Depreciation and amortization	1,833,658	1,513,321	5,542,272	4,243,711
Total operating expenses	27,410,907	19,421,154	77,861,489	40,015,390
OPERATING LOSS	(1,684,936)	(760,415)	(9,516,925)	(2,237,940)
OTHER INCOME (EXPENSE):				
Gain on sale of broadcast stations	-	-	38,850,000	27,050,000
Equity (loss) in earnings of affiliates	(17,037)	763,741	(347,612)	668,617
Interest income	599,310	955,198	1,475,103	3,113,255
Other, net	(34,111)	54,212	1,295	63,658
Total other income	548,162	1,773,151	39,978,786	30,895,530
INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	(1,136,774)	1,012,736	30,461,861	28,657,590
PROVISION (BENEFIT) FOR INCOME TAXES	(471,000)	404,000	11,830,340	11,450,000
NET INCOME (LOSS)	\$ (665,774)	\$ 608,736	\$ 18,631,521	\$ 17,207,590
NET INCOME (LOSS) PER COMMON AND DILUTIVE COMMON EQUIVALENT SHARE	\$ (0.02)	\$ 0.02	\$ 0.58	\$ 0.55
Weighted average number of common and common equivalent shares outstanding	32,064,428	33,627,770	32,375,370	31,206,974

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

**VALUEVISION INTERNATIONAL, INC.
AND SUBSIDIARIES**
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Nine Months Ended October 31, 1997
(Unaudited)

	COMMON STOCK		COMMON STOCK PURCHASE WARRANTS	ADDITIONAL PAID-IN CAPITAL	NET UNREALIZED HOLDING GAINS (LOSSES) ON INVESTMENTS AVAILABLE- FOR-SALE
	NUMBER OF SHARES	PAR VALUE			
BALANCE, JANUARY 31, 1997	28,842,198	\$ 288,422	\$ 26,984,038	\$ 83,309,455	\$ 69,437
Exercise of stock options and warrants	1,611,080	16,111	-	241,786	-
Common stock repurchases	(2,417,500)	(24,175)	-	(10,434,237)	-
Value transferred from common stock purchase warrants	-	-	(8,597,111)	8,597,111	-
Unrealized holding loss on investments available-for-sale	-	-	-	-	(2,991,819)
Net income	-	-	-	-	-
BALANCE, OCTOBER 31, 1997	28,035,778	\$ 280,358	\$ 18,386,927	\$ 81,714,115	\$(2,922,382)

	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
	-----	-----
BALANCE, JANUARY 31, 1997	\$16,594,255	\$ 127,245,607
Exercise of stock options and warrants	-	257,897
Common stock repurchases	-	(10,458,412)
Value transferred from common stock purchase warrants	-	-
Unrealized holding loss on investments available-for-sale	-	(2,991,819)
Net income	18,631,521	18,631,521
BALANCE, OCTOBER 31, 1997	\$35,225,776	\$ 132,684,794

The accompanying notes are an integral part of this condensed consolidated financial statement.

**VALUEVISION INTERNATIONAL, INC.
AND SUBSIDIARIES**
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	FOR THE NINE MONTHS ENDED OCTOBER 31,	
	1997	1996
	-----	-----
OPERATING ACTIVITIES:		
Net income	\$ 18,631,521	\$ 17,207,590
Adjustments to reconcile net income to net cash provided by (used for) operating activities-		
Depreciation and amortization	5,542,272	4,243,711
Deferred taxes	24,000	-
(Equity) loss in earnings of affiliates	347,612	(668,617)
Gain on sale of broadcast stations	(38,850,000)	(27,050,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,622,488)	(3,099,859)
Inventories, net	822,960	(5,731,221)
Prepaid expenses and other	(4,468,695)	(2,015,553)
Accounts payable and accrued liabilities	(2,535,819)	7,211,981
Income taxes payable	2,830,283	2,102,992
	-----	-----
Net cash used for operating activities	(22,278,354)	(7,798,976)
	-----	-----
INVESTING ACTIVITIES:		
Property and equipment additions, net of retirements	(3,148,495)	(7,718,975)
Purchase of broadcast stations	-	(4,618,743)
Proceeds from sale of broadcast stations	30,000,000	40,000,000
Acquisition of direct-mail companies, net of cash acquired	-	1,789,875
Purchase of short-term investments	(38,534,148)	(76,667,392)
Proceeds from sale of short-term investments	36,555,220	56,137,858
Payment for investments and other assets	(5,474,773)	(1,518,767)
Proceeds from sale of investments	1,369,006	-
Proceeds from long-term notes receivable	1,603,439	-
	-----	-----
Net cash provided by investing activities	22,370,249	7,403,856
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options and warrants	257,897	1,150,395
Payments for repurchases of common stock	(10,458,412)	(1,576,595)
Payment of long-term obligations	(320,957)	(141,685)
	-----	-----
Net cash used for financing activities	(10,521,472)	(567,885)
	-----	-----
Net decrease in cash and cash equivalents	(10,429,577)	(963,005)
	-----	-----
BEGINNING CASH AND CASH EQUIVALENTS	28,618,943	20,063,901
	-----	-----
ENDING CASH AND CASH EQUIVALENTS	\$ 18,189,366	\$ 19,100,896
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 68,000	\$ 58,000
	=====	=====
Income taxes paid	\$ 8,993,000	\$ 9,598,000
	=====	=====
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
The Company received 1,197,892 shares of Paxson Communications Corporation common stock as partial consideration from the sale of a broadcast television station	\$ 14,284,862	\$ -
	=====	=====
The Company issued 1,484,993 warrants with a fair market value of \$8,353,000 in connection with the acquisition of substantially all assets of Montgomery Ward Direct, L.P.	\$ -	\$ 8,353,000
	=====	=====
The Company issued 199,097 warrants with a fair market value of \$963,000 as part of a long-term investment contribution	\$ -	\$ 963,000
	=====	=====

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

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 1997

(Unaudited)

(1) GENERAL

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

The Company's principal electronic media activity is its television home shopping network which 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., d/b/a Montgomery Ward Direct ("VVDM"), is 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").

Results of operations for the three and nine months ended October 31, 1997 include the direct-mail operations of VVDM, BII, and CVI, which were acquired by the Company effective July 27, 1996, October 22, 1996 and November 1, 1996, respectively.

(2) BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The information furnished in the interim condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto included in its fiscal 1997 Annual Report on Form 10-K. Operating results for the nine-month period

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 1997
(Unaudited)

ended October 31, 1997, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 1998.

Certain amounts in the fiscal 1997 financial statements have been reclassified to conform to the fiscal 1998 presentation with no impact on previously reported net income (loss) or shareholders' equity.

(3) NET INCOME (LOSS) PER SHARE

The Company computes net income (loss) per share based on the weighted average number of shares of common stock and dilutive common stock equivalents outstanding, if any, during the period. The difference between primary and fully diluted net income (loss) per share and weighted average number of shares outstanding was not material or was antidilutive, and therefore not presented separately.

(4) SALE OF BROADCAST STATIONS

On July 31, 1997, the Company completed the sale of its television broadcast station, WVVI (TV) Channel 66, which serves the Washington, D.C. market, to Paxson Communications Corporation ("Paxson"). The station was sold for approximately \$30 million in cash and 1,197,892 shares of Paxson Communications Corporation common stock valued at \$11.92 per share as determined pursuant to an independent financial appraisal. WVVI (TV) was acquired by the Company in March 1994 for approximately \$4,850,000. The pre-tax gain recorded on the sale of this television station was \$38,850,000 and was recognized in the second quarter ended July 31, 1997.

On November 17, 1997, the Company signed a definitive agreement to sell to Paxson Communications Corporation its television broadcast station, KBGE-TV, Channel 33, which serves the Seattle, Washington market along with two of ValueVision's non-cable, low-power stations in Portland, Oregon and Indianapolis, Indiana and minority interests in entities which have applied for two new full-power stations for a total of \$35 million in cash. Under the terms of the agreement, Paxson will pay the Company \$25 million upon closing and the remaining \$10 million is to be paid when KBGE, which is currently operating at reduced power from downtown Seattle, is able to relocate and increase its transmitter/antenna power to a level at or near its licensed full power. The transaction is anticipated to close in the Spring of 1998 and is subject to obtaining certain consents and regulatory approval. ValueVision will retain and continue to serve the Seattle market via its recently-launched low-power station K58DP-TV, which transmits from downtown Seattle. 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.

The Company has filed applications for seven additional full-power stations, all of which include multiple applicants, and expects to participate in FCC-permitted private auctions to determine the grantee.

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 1997
(Unaudited)

(5) MONTGOMERY WARD RESTRUCTURING

On October 23, 1997, the Company announced the restructuring of its operating agreement with Montgomery Ward & Co., Incorporated ("Montgomery Ward" or "MW"), which governs the use of the Montgomery Ward name. In exchange for Montgomery Ward's return to ValueVision of warrants covering the purchase of 3.8 million shares of ValueVision common stock, the Company will cede exclusive use of the Montgomery Ward name for catalog, mail order, catalog "syndications" and television shopping programming back to Montgomery Ward. Under the agreement, which requires the approval of the U.S. Bankruptcy court of Delaware, the Company will cease the use of the Montgomery Ward name in all outgoing catalog, syndication, and mail order communication by March 31, 1998, with a wind down of incoming orders and customer service permitted after March 31, 1998. The agreement also includes the reduction of Montgomery Ward's minimum commitment to support ValueVision's cable television spot advertising purchases. Under the new terms, Montgomery Ward's commitment is reduced from \$4 million to \$2 million annually, and the time period decreased from five years to three years commencing effective November 1, 1997. In addition, the agreement limits the Company to offer the Montgomery Ward credit card only in conjunction with its various television offers and subject to the normal approvals by the credit card grantor. Upon the closing of the transaction in its fiscal 1998 fourth quarter, the Company plans to account for the transaction as an exchange or disposition of assets at fair value, in accordance with the provisions of Accounting Principles Board Opinion No. 29. The return of the warrants represents consideration given by MW for the assets relinquished by the Company. The warrant return will be reflected as a reduction in shareholders' equity for the fair value of the warrants, and the intangible asset amounts reflecting the assets sold back to MW will be reduced accordingly to their remaining estimated fair values as determined through analysis of future cash flows and benefits to be received. To the extent that any difference exists between the consideration given by the Company (the assets sold back to MW) and the consideration received (the warrants returned to the Company), such difference will be reflected in the Company's statement of operations in the fourth quarter of fiscal 1998. The Company does not currently anticipate that any such difference will be material. The agreement also calls for the repurchase by the Company of 1,280,000 shares of its common stock currently owned by Montgomery Ward, at a price of \$3.80 per share. Management does not anticipate that this restructuring will have any other material impact on the Company's financial condition, results of operations or liquidity.

(6) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) 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.

The FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131") in June 1997. SFAS No. 131 requires that public business enterprises report information about operating segments in annual financial statements and requires selected information in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers and is effective for fiscal years beginning after December 15, 1997.

SIGNATURES

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

VALUEVISION INTERNATIONAL, INC. AND SUBSIDIARIES

/s/ Stuart R. Romenesko

Stuart R. Romenesko
Senior Vice President Finance and
Chief Financial Officer
(Principal Financial and Accounting Officer)

February 20, 1998

End of Filing

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