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ARIZONA CORPORATION COMMISSION

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SECURITIES DIVISION
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October 1, 1992

Mr. Steven B. Nickerson
Dow, Lohnes & Albertson
1255 Twenty-third Street
Washington, D.C. 20037

RE: Home Shopping Network/ Request for No-Action Letter
A.R.S. §§ 44-1801(18), and 44-1844(A)(5)

Dear Mr. Nickerson:

We are unable to concur with your conclusion that the stock distribution planned by Home Shopping Network, Inc. will not constitute a "sale" for purposes of A.R.S. §44-1801(18). The Division's position remains that such a distribution is "for value" and would require registration.

However, on the basis of the facts set forth in your letter of August 25, 1992, regarding an exemption from registration under A.R.S. §44-1844(A)(5), and on your letter of September 22, 1992, which confirmed that for accounting purposes the distribution will be treated as coming out of retained earnings, and in reliance upon your opinion as counsel, the Securities Division will not recommend enforcement action for violation of the Securities Act of Arizona should the transaction take place as set forth in your letter.

The Division acknowledges that A.R.S. §44-1844(A)(5) appears to be limited on its face to distributions by a corporation to its own stockholders. Please note that the Division is currently analyzing the breadth of this exemption and may take a different position on similar facts in the future.

As this position is premised upon the facts set forth in your letter, it should not be relied on for any other set of facts or by any other person. Please also note that this position applies only to the registration requirements of the Act; the anti-fraud provisions of the Act continue to be applicable.

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We have attached a photocopy of your letter. By doing this we are able to avoid having to recite or summarize the facts set forth therein.

Very truly yours,

DEE RIDDELL HARRIS
Director of Securities

DRH:JB

Attachment

DOW, LOHNES & ALBERTSON

ATTORNEYS AT LAW

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STEVEN B. NICKERSON

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857-2849

September 22, 1992

VIA TELECOPY

Jean Barry, Esquire
234 North Central Avenue
Suite 425
Phoenix, Arizona 85004

Dear Ms. Barry:

I am writing in regard to my letter to you dated August 25, 1992 in which I requested, on behalf of Home Shopping Network, Inc. ("HSN"), relief from the registration requirement under the Arizona Securities Act in connection with the proposed distribution in the form of a stock dividend to the shareholders of HSN of all the outstanding common stock of Silver King Communications, Inc., a Delaware corporation (formerly HSN Communications, Inc.), currently a wholly-owned subsidiary of HSN.

Based on our telephone conference of last month, I hereby confirm that the proposed stock dividend will be out of the retained earnings of HSN.

If you have any questions or need additional information about this matter, please call me at (202) 857-2849.

Sincerely,



Steven B. Nickerson

SBN:dlu

DOW, LOHNES & ALBERTSON

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BY FEDERAL EXPRESS

Ms. Sandra J. Forbes
Assistant Director of Securities
for Law and Policy
1200 West Washington Street
Suite 201
Phoenix, Arizona 85007

Dear Ms. Forbes:

We are counsel to Home Shopping Network, Inc. ("HSN"), a Delaware corporation, in connection with a proposed distribution in the form of a stock dividend to the common shareholders of HSN of all of the outstanding common stock of HSN Communications, Inc. ("HSNCI"), currently a wholly-owned subsidiary of HSN.^{1/} The Board of Directors of HSN has authorized management to proceed with all actions preparatory to the distribution, subject to its final approval and to the declaration of the implementing distribution. In connection with that process, we respectfully request, on behalf of HSN, that the Arizona Corporation Commission (the "Commission") either:

(i) concur in our view that the distribution of HSNCI common and HSNCI Class B stock to HSN common and HSN Class B shareholders will not constitute a "sale" of the HSNCI shares under Section 44-1801.18 of the Arizona Securities Act (the "Act"); or

(ii) concur in our view that the distribution of the stock dividend will qualify as an "exempt transaction" under Section 44-1844.A.5 of the Act; or

(iii) confirm that the Commission will not take or recommend enforcement action if the stock dividend is effected without registration under the Act.

^{1/} Prior to the proposed distribution, the name of HSNCI will be changed to Silver King Communications, Inc.

6 1992

Background and Proposed Transaction ^{2/}

HSN has provided us with, and has authorized us to make on its behalf, the factual representations set forth below.

A. Description and Business of HSN and HSNCI

HSN is a New York Stock Exchange - listed holding company, the subsidiaries of which conduct the day-to-day operations of its various business activities. HSN's primary business, and principal source of revenue, is electronic retail sales which is conducted by Home Shopping Club, Inc. ("HSC"), a wholly-owned subsidiary of HSN. HSC is a leader in the electronic retailing industry.

HSN's capital stock consists of both common shares and Class B shares. The holders of both classes of common stock are entitled to share ratably in dividends and in assets in the event of liquidation. Shares of Class B stock are convertible at the option of the holder into shares of common stock on a share-for-share basis. Upon conversion, Class B shares are retired and not subject to reissue. As long as at least 22,800,000 shares of Class B stock remain outstanding, the approval of the requisite majority of both Class B stock and common stock, each voting separately as a class, is required for approval of major corporate actions. In the event that less than 22,800,000 shares of Class B stock are outstanding, each Class B share is entitled to ten votes, voting together with the common shares, each share of which will have one vote. Holders of common stock have the right to elect, and the holder of Class B stock has no vote on, 25 percent of the Board of Directors. As to the election of the remaining directors, the holder of Class B stock is entitled to ten votes for each Class B share, and the holders of the common

^{2/} HSN management has already proposed a distribution to the common shareholders of HSN of all the outstanding common stock of Precision Systems, Inc. ("PSi"), a wholly-owned subsidiary of HSN. A no-action request letter was submitted to the Commission in regards to the PSi distribution on April 23, 1992 and a response thereto from the Commission was issued on June 2, 1992. The description and request in this letter relate only to the proposed distribution of HSNCI shares.

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stock are entitled to one vote per share.^{3/}

HSNCI is a wholly-owned subsidiary of HSN. HSNCI is principally engaged, through wholly-owned subsidiaries, in the ownership and operation of 12 independent full power UHF broadcast television stations, including one television satellite station (the "Stations"). The Stations are located in metropolitan television markets, including 8 of the top 11 television markets in the United States and as of March 31, 1992, reached approximately 27.5 million television households, one of the largest audience reaches of any owned and operated independent television broadcast group in the United States. The Stations broadcast HSC retail and sales programming except for advertising inserts and public affairs programming, children's programming and other non-entertainment programming. HSNCI also owns through wholly-owned subsidiaries non-voting and non-controlling interests or options to acquire such interests in several independent full power television stations that carry HSC programming.

In addition to the Stations, HSNCI owns eight low power television ("LPTV") stations (the "LPTV Stations"), has five construction permits to build LPTV stations, has applications pending before the Federal Communications Commission to acquire three operating LPTV stations, and has agreements with LPTV construction permit holders to build several more stations. The LPTV Stations almost exclusively carry HSC programming.

Prior to the proposed distribution, HSN will transfer to HSNCI all of the stock of HSN Telemation, Inc., a Delaware corporation and a wholly-owned subsidiary of HSN ("HSNTI"). HSNTI is a video production and post-production company that provides a full range of communications services to corporations and advertising agencies and produces feature films, television shows and videos for the entertainment industry. HSNTI's business is accordingly related to the television broadcasting business conducted by HSNCI and not to the other businesses of HSN. HSN's transfer of the stock of HSNTI to HSNCI will permit these related companies to operate together after consummation of the proposed distribution.

^{3/} All of HSN's Class B common stock is beneficially owned by RMS Limited Partnership ("RMS"). The managing general partner of RMS is Crystal Diamond, Inc. Roy M. Speer, the Chairman of the Board of Directors and Chief Executive Officer of HSN, is the sole stockholder of Crystal Diamond, Inc. and the nonmanaging general partner of RMS.

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In fiscal year 1991, the combined activities of HSNCI and HSNTI accounted for less than 2.5 percent of HSN's revenues. As of March 31, 1992, the combined assets of HSNCI and HSNTI represented approximately 28 percent of HSN's total assets.

At present, HSNCI's capital stock consists exclusively of common shares, all of which are owned by HSN. As described below, HSN intends, prior to the distribution, to cause HSNCI to issue additional common shares and to create and issue Class B common shares in order to conform HSNCI's capital structure to that of HSN on a pro rata basis.

B. Rationale for the Distribution

HSN's management has concluded that the distribution of HSNCI's stock to HSN's shareholders will permit the potential and value of HSNCI's business and of the remaining HSN businesses to be better realized. Accordingly, management believes that the distribution will enhance the ability of HSN and HSNCI to raise capital and will enhance the long-term value of the investment of HSN's shareholders.

HSN's management believes that HSN's stock is presently undervalued by the financial and investment communities and that the separation of HSN and HSNCI should correct this undervaluation and enhance the access of both HSN and HSNCI to the capital markets. HSN's management believes that the financial and investment communities do not fully understand how to value HSN, in part because HSN is both a retail oriented company and a broadcast company. Broadcast companies are valued based on their cash flow while retail oriented companies are valued on an earnings-per-share basis. The categorization of HSN as either a broadcast concern or a retail oriented company results in the application of a single valuation methodology when a combination of the two methods of valuation would be more appropriate. For instance, the valuation of HSN solely as a broadcast company fails to take into account the substantial earning power of HSN's retail business and likewise, the valuation of HSN as a retail oriented business is severely discounted by the impact of the substantial depreciation and amortization costs associated with the broadcast assets of the Stations. Management of HSN believes that the separation of HSN and HSNCI will make it easier for the financial and investment communities to understand the respective businesses of HSN and HSNCI and will facilitate the proper valuation of both companies' stock in the financial markets. Management of HSN believes that as a result, the aggregate value of HSN and HSNCI as separate

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entities following the distribution will be greater than the market value of HSN as a single entity prior to the distribution.

Management believes that the proposed spin-off will also make additional sources of capital available to HSN, specifically from foreign sources. The ownership rules of the Federal Communications Commission (the "FCC") restrict the ownership by foreign investors of companies holding interests in broadcast licenses. As a result, HSN's interest in the Stations' broadcast licenses, through its ownership of HSNCI, currently limits the amount of foreign investment that HSN may attract. Although HSN has no present plan specifically to seek foreign equity capital, it is anticipated that additional equity funding may be required in the future to fund product development and expansion.

The proposed spin-off will also give HSN additional flexibility in negotiating programming agreements with cable operators. Due to the competitive nature of cable programming, a common practice in the industry is for a distributor such as HSN to offer stock options or convertible securities as an inducement for cable operators to carry its programming. Under the FCC's cross-ownership rules, ownership of the Stations could be attributed to a cable operator with a stock interest in HSN. If any of the cable systems of a cable operator serve the same metropolitan areas as the Stations, the ownership by such cable operator of an attributable interest in HSN could violate the prohibition in the cross-ownership rules against a single entity's ownership of a cable system and a television broadcast station that serve the same area. The proposed spin-off will render inapplicable the FCC regulatory impediments to ownership of HSN's stock by owners of cable systems.

The management of HSN also believes that the separation of HSN and HSNCI will allow HSN and HSNCI to focus their management and financial resources on their respective principal businesses and to pursue business opportunities which might not otherwise be available to either entity. The proposed spin-off also will enable HSN and HSNCI to offer certain employee incentives which are directly linked to the performance of each company, and not by the performance of the other company. Management of HSN believes that this will enable both companies to attract the talented managers and senior executives who will be needed to direct the growth of their respective businesses.

C. Proposed Transaction

It is expected that, when approved by HSN's Board, the distribution of all of the outstanding common stock of HSNCI will

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be made on the basis of one share of HSNCI common stock for every ten outstanding shares of HSN common stock. In order to assure that HSN's shareholders will, immediately following the distribution, have an ownership interest in HSNCI which is equivalent to their existing ownership interest in the pre-distribution HSN/HSNCI entities, HSN intends to cause HSNCI to create and issue Class B stock with rights equivalent to those of HSN's Class B stock. ^{4/} Simultaneously with the distribution of HSNCI's common stock to HSN's common stockholders, HSNCI's Class B stock will also be distributed to the holder of HSN's Class B stock at the ratio of one HSNCI Class B share for each ten HSN Class B shares.

The distribution will occur without any consideration being paid by any HSN stockholder. The federal income tax consequences of the distribution cannot be predicted with any certainty, principally because of issues regarding the characterization of the transaction for tax purposes. HSN intends to treat the distribution as a tax-free transaction to the stockholders of HSN under Section 355 of the Internal Revenue Code of 1986, as amended (the "Code"). HSN does not intend to seek a private ruling from the Internal Revenue Service that the transaction qualifies as a tax-free transaction to the stockholders of HSN under Code Section 355. Additionally, HSN will not receive an opinion of counsel that it is more likely than not that the distribution qualifies under Code Section 355. However, HSN will receive from its tax counsel an opinion of counsel to the effect that there is substantial authority (a less stringent standard than the more likely than not standard) that the distribution qualifies as a tax-free transaction under Code Section 355.

To the extent that the proposed common stock distribution ratio gives rise to fractional shares of HSNCI common stock, such fractional shares will be aggregated and sold in the market on behalf of shareholders who would otherwise have received fractional shares. An agent which is independent of both HSN and HSNCI will conduct these sales. The fractional share sales

^{4/} On the distribution date, the ratio of the total number of HSNCI's outstanding common shares to the total number of HSNCI's outstanding Class B shares will be the same as the ratio of the total number of HSN's outstanding common shares to the total number of HSN's outstanding Class B shares. HSNCI may, however, have additional authorized, but unissued, shares of either or both classes of stock.

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program will be inapplicable to Class B shares. ^{5/}

Under Delaware law, shareholder approval of the distribution is not required, and the approval of HSN's shareholders will not be sought. However, in connection with the distribution, HSN's shareholders will receive prior to the distribution a statement (the "Information Statement") containing information regarding HSNCI and the distribution. The content of the Information Statement will be substantially equivalent to that which would be contained in a Form S-1 registration statement in connection with a registration by HSNCI of its securities under the Securities Act of 1933, as amended.

D. Post-Distribution Status of HSNCI

Upon consummation of the distribution, HSNCI will become a publicly-held corporation. HSNCI will file a registration statement on Form 10 pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended, prior to the distribution. That Form will include a complete description of the proposed transaction, the business and the management of HSNCI, and detailed historical and pro forma financial statements and other financial information.

Except for certain agreements being entered into between HSN and HSNCI relating to limited corporate services, affiliation of the Stations and the LPTV Stations with HSC for the distribution of HSC retail and sales programming by such stations, leasing of certain office space, the allocation of pre-distribution income tax liabilities, the conversion of intercompany debt owed by HSNCI to HSN into a secured, long-term senior note, and indemnification for certain types of claims (all of which will be on an arm's-length basis), it is expected that HSN and HSNCI will cease to have any material contractual or other material business relationships with each other. To the extent there may be other contractual or business relationships between HSN and HSNCI in the future, such transactions will also be on an arm's-length basis. In addition, two persons who are officers of HSN and one person who is an officer and a director of HSN will serve as

^{5/} Since HSN's Class B shares are held by a single shareholder (see note 3 supra), the one-for-ten distribution of HSNCI's Class B shares can result in no more than .9 of a fractional share. Any such fractional Class B share will be converted to a fractional common share, transmitted to the agent and sold as part of the common share fractional sales program, and the proceeds remitted to the Class B holder.

directors of HSNCI.

Registration Under the Act^{6/}

We believe that there are several legal and policy reasons why the Commission should either (i) concur in our view that the distribution of HSNCI common and HSNCI Class B stock to HSN common and HSN Class B shareholders will not constitute a "sale" of the HSNCI shares under Section 44-1801.18 of the Act, or (ii) concur in our view that the distribution of the stock dividend will qualify as an "exempt transaction" under Section 44-1844.A.5 of the Act, or (iii) confirm that the Commission will not take or recommend enforcement action if the stock dividend is effected without registration under the Act.^{7/}

A. No Sale

The stock dividend will not constitute a "sale" of a security because, among other reasons, there will be no disposition of securities for value. HSN's shareholders will not provide any consideration to HSN in exchange for the HSNCI stock that they will receive in the form of a one-time, special dividend. All HSN shareholders of record on the record date will receive HSNCI shares pursuant to the distribution on a pro rata basis, and there will not be any investment decision by any HSN shareholder. Furthermore, no insider or agent of HSN will receive any present value by reason of the distribution, other than by reason of the receipt of such HSNCI stock as an HSN shareholder.^{8/}

^{6/} Our request in this section relates to both the distribution of HSNCI's common stock and its Class B stock. For simplicity, the text refers to both classes together as "HSNCI stock."

^{7/} We note that, in approximately 35 states, the distribution of a stock dividend of the type contemplated by HSN either does not constitute a "sale" or qualifies as an "exempt transaction" and therefore is not required to be registered. We are seeking appropriate relief from Arizona and all other states whose laws do not so provide.

^{8/} Adjustments will be made in respect of previously-granted HSN stock options under certain HSN stock option plans, as well as with respect to HSN's 5 1/2% Convertible Subordinated Debentures due 2002.

B. Transaction Falls Within Spirit of Exempt Transaction Provision

The proposed stock dividend described herein falls within the spirit of the registration exemption provided to stock dividends by Section 44-1844.A.5 of the Act.^{9/} Although Section 44-1844.A.5 on its face is limited to distributions by a corporation to its own stockholders, the proposed stock dividend described above should not give rise to any of the abuses at which this limitation in the exemption might be directed. In particular, HSNCI is not a shell corporation and was not formed solely for purposes of this transaction; HSNCI has been an operating company for several years. In addition, because HSNCI will be a wholly-owned subsidiary of HSN until the distribution occurs, the distribution of HSNCI stock by HSN will constitute a distribution of a portion of HSN to its own shareholders with an effect not functionally different from a distribution by HSN of its own securities.^{10/}

C. SEC Relief Granted

The Division of Corporation Finance of the U.S. Securities and Exchange Commission (the "SEC") has issued to HSN a no-action letter, which is attached hereto as Exhibit A, in which it confirmed that it will not recommend that the SEC take action if the distribution is effected without registration under the Securities Act of 1933, as amended. In granting no-action relief to HSN, the Division of Corporation Finance adhered to numerous SEC no-action letters issued in connection with distributions of the stock of subsidiaries which are similar in many respects to HSN's proposed distribution.^{11/} In addition, the SEC staff agreed

^{9/} Except for the variation discussed in this paragraph, the proposed distribution qualifies in all respects for the exemption provided by Section 44-1844.A.5 of the Act.

^{10/} Although Regulation R14-4-101 under the Act exempts from registration certain transactions of the type contemplated by HSN and HSNCI, the availability of this exemption is contingent on the satisfaction of various conditions. For the reasons set forth herein, we believe that the distribution of HSNCI stock to HSN shareholders should be granted unconditional relief from the Act's registration requirements.

^{11/} See pp. 9-11 of the attached no-action request letter dated June 2, 1992.

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at least implicitly with our analysis that HSN's proposed distribution is clearly distinguishable from cases in which federal courts have deemed contrived spin-off transactions to constitute dispositions for "value," and therefore "sales" of securities.^{12/}

D. No Policy Reason to Require Registration

Because investors will have ready access to current information about HSN and HSNCI required to be filed under the federal securities laws, there is no valid policy reason to require registration of the HSNCI stock under the Act. HSN has timely filed and will continue to file annual, quarterly, and current reports for as long as it remains a reporting company under the Securities Exchange Act of 1934, as amended. HSN also furnishes its stockholders directly with annual financial and other information. In addition, as discussed above, HSN intends to provide its shareholders with the Information Statement, which will include appropriate historical and pro forma financial and other information concerning HSNCI and its management.

Following the distribution, HSN's common stock will remain listed on the New York Stock Exchange. Prior to the distribution, HSN will file for registration of HSNCI's common stock on Form 10 under Section 12(g) of the Securities Exchange Act of 1934, as amended. As a result of such registration, HSNCI will be required to file annual and interim reports with the SEC and will be required to make periodic information available to its stockholders and the investing public.

* * * * *

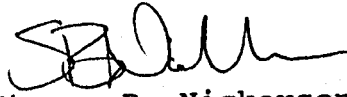
HSN wishes to effect the proposed stock dividend as soon as possible and may wish to set a record date for the distribution as early as October 15, 1992. Your assistance in acting as promptly as possible on HSN's request in this letter would therefore be greatly appreciated. Pursuant to Section 44-1861.L of the Act, our filing fee of \$200 is enclosed.

^{12/} Id. at pp. 10-11. The principal cases discussed and distinguished in the no-action request are Securities and Exchange Commission v. Harwyn Industries Corp., 326 F. Supp. 943 (S.D.N.Y. 1971), and Securities and Exchange Commission v. Datronics Engineers, Inc., 490 F.2d 250 (4th Cir. 1973), cert. denied, 416 U.S. 937 (1974).

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In the event that you are not inclined to grant the requested relief, we request the opportunity to discuss this matter with you prior to any final determination. Should you require additional information, please contact the undersigned at (202) 857-2849.

Sincerely,



Steven B. Nickerson

SBN/wjc
Enclosures