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COMMISSIONER

DALE H. MORGAN
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JAMES MATTHEWS
EXECUTIVE SECRETARY

SECURITIES DIVISION
(602) 542-4242
(602) 255-2600
FAX: (602) 255-2617

ARIZONA CORPORATION COMMISSION

June 2, 1992

Mr. David Underhill
Baker & McKenzie
815 Connecticut Avenue, N.W.
Washington, D.C. 20006-4078

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

Dear Mr. Underhill:

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 April 23, 1992, regarding an exemption from registration under A.R.S. §44-1844(A)(5), and on your letter of May 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.

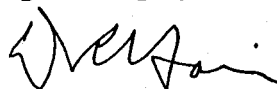
The Division acknowledges your statement that A.R.S. §44-1844(A)(5) appears to be limited on its face to distributions by a corporation of its own issue to its own stockholders. Please note that the Division is currently analyzing the breadth of this exemption and may take a different position on similar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

BAKER & MCKENZIE

ATTORNEYS AT LAW

815 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20006-4078
TELEPHONE (202) 452-7000
CABLE ABOGADO · TELEX 89552
FACSIMILE (202) 452-7074

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April 23, 1992

VIA FEDERAL EXPRESS

Ms. Sandra J. Forbes
Assistant Director for Law and Policy
Arizona Corporation Commission
Securities Division
234 North Central Avenue, Suite 425
Phoenix, Arizona 85004

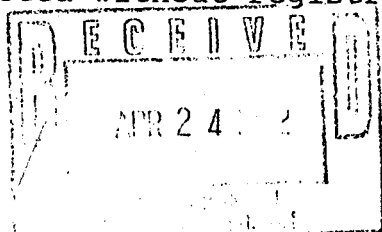
Dear Ms. Forbes:

We are counsel to Home Shopping Network, Inc., a Delaware corporation ("HSN"), 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 Precision Systems, Inc. ("PSi"), currently a wholly-owned subsidiary of HSN. 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 stock dividend. 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 PSi common and PSi Class B stock to HSN common and HSN Class B shareholders will not constitute a "sale" of the PSi 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 Securities Division will not recommend that the Commission take enforcement action if the stock dividend is effected without registration under the Act.



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I. Background and Proposed Transaction

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 PSi

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 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 stock. 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 fewer 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 stock are entitled to one vote per share.¹

PSi is a wholly-owned subsidiary of HSN. PSi is principally engaged in the development, marketing, and sale of fully integrated software and hardware systems which manage telephone calls and collect, organize and distribute information electronically. PSi's voice processing systems can be used by large and small businesses for a variety of voice processing applications which may be designed by the user. In addition, PSi's systems may be used by

¹ 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 and Chief Executive Officer of HSN, is the controlling stockholder of Crystal Diamond, Inc. and the non-managing general partner of RMS.

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long distance carriers, the regional Bell operating companies, and others in the telecommunications industry to provide similar services directly to their business and residential customers.

PSi's voice processing system is utilized by HSC and enables a caller to order merchandise using touch-tone dialing without the assistance of a telephone operator. HSN Telemarketing Services, Inc., another subsidiary of HSN, is also utilizing the voice processing technology developed by PSi to offer telemarketing services to a number of unrelated companies. In fiscal year 1990, PSi's activities accounted for less than one percent of HSN's revenues. As of June 30, 1991, PSi's assets represented 2.8 percent of HSN's total assets.

At present, PSi's capital stock consists exclusively of common shares, all of which are owned by HSN.² As described below, HSN intends, prior to the distribution, to cause PSi to create and issue Class B common shares in order to conform PSi's capital structure to HSN's on a pro rata basis.

B. Rationale for the Distribution

PSi's business -- the development and marketing of voice processing systems -- and HSN's other businesses -- substantially all of which relate to retailing and telemarketing -- are functionally dissimilar and have different personnel, managerial, and capital requirements. Because of the differences between these businesses, HSN's management has concluded that, by the distribution of PSi's stock to HSN's shareholders, the value and potential of the remaining HSN businesses, and of PSi's business, can be better realized. Accordingly, management believes that the distribution will enhance the long-term value of the investment of HSN's shareholders. There are three primary reasons for this belief.

First, the separation of the businesses is expected to facilitate PSi's ability to raise capital. Because of the developmental nature of PSi's business, it has significant capital needs. HSN's management believes that the necessary capital can most effectively be attracted from equity investors and other financing sources with an interest in participating in the potential returns of an investment in a business engaged in voice processing technology. Since PSi is a wholly-owned subsidiary of

² HSN acquired all of PSi's common stock in 1987. Prior to that time, PSi was an independent, privately-owned company.

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HSN and a minor component of HSN's overall activities, such financing sources are not as readily available to the combined entity.

Second, as separate public companies, HSN and PSi each will be able to offer employee incentives which are directly linked to the results of their respective businesses. In particular, since PSi is not currently a substantial component of HSN's overall operations, employee equity incentives which track HSN's performance do not meaningfully relate to the efforts of PSi's management. The distribution will enable each company to tailor incentive plans to attract and retain capable personnel by providing such individuals with an interest in the performance of their company.

Third, HSN's management believes that PSi would be able to better avail itself of business opportunities as a stand-alone voice processing business. HSN also believes that the distribution will clarify HSN's business for market valuation purposes and permit the financial and investment communities to apply their customary valuation techniques to PSi and HSN as separate companies. HSN's management believes that this will facilitate PSi's ability to raise equity capital from external sources.

C. Proposed Transaction

It is expected that, if finally approved by HSN's Board, the distribution of all of the outstanding common stock of PSi will be made on the basis of one share of PSi common stock for every ten outstanding shares of HSN common stock. The distribution will occur in the form of a one-time special dividend to HSN shareholders, without any consideration being paid by any HSN shareholder.

In order to assure that HSN's shareholders will, immediately following the distribution, have an ownership interest in PSi which is equivalent to their existing ownership interest in the pre-distribution HSN/PSi entities, HSN intends to cause PSi to create and issue Class B stock with rights equivalent to those of HSN's Class B stock.³ Simultaneously with the distribution of PSi's

³ On the distribution date, the ratio of the total number of PSi's outstanding common shares to the total number of PSi'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. PSi may, however, have additional authorized, but unissued, shares of either or both classes of stock.

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common stock to HSN's common stockholders, PSi's Class B stock will also be distributed to the holder of HSN's Class B stock at the ratio of one PSi Class B share for each ten HSN Class B shares.

To the extent that the proposed common stock distribution ratio gives rise to fractional shares of PSi common stock, such fractional shares will be aggregated and sold in the market on behalf of shareholders who would otherwise receive fractional shares. An agent that is independent of both HSN and PSi will conduct these sales. The fractional share sales program will be inapplicable to Class B shares.⁴

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 a statement (the "Information Statement") containing information regarding PSi 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 PSi of its securities under the Securities Act of 1933.

D. Post-Distribution Status of PSi

Upon consummation of the distribution, PSi will become a publicly-held corporation. PSi will file a registration statement on Form 10 pursuant to Section 12(g) of the Securities Exchange Act of 1934. That Form will include a complete description of the proposed transaction, the business and the management of PSi, and detailed historical and pro forma financial statements and other financial information. Following the distribution, PSi common stock will be traded via quotations published in the National Quotation Bureau's "pink sheets."

Except for certain agreements being entered into between HSN and PSi relating to corporate services, leasing of certain office space, the payment of license and maintenance fees, the sharing of

⁴ Because HSN's Class B shares are held by a single shareholder (see note 1, supra), the one-for-ten distribution of PSi'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, which will be transmitted to the agent and sold as part of the common share fractional sales program. The proceeds of such a sale will be remitted to the Class B holder.

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pre-distribution income tax liabilities, and indemnification for certain types of claims, it is expected that HSN and PSI will cease to have any material contractual or other material business relationships with each other, except on an arm's-length basis.

II. Registration Under the Act⁵

We believe there are several legal and policy reasons why the Commission should either (i) concur in our view that the distribution of PSI common and PSI Class B stock to HSN common and HSN Class B shareholders will not constitute a "sale" of the PSI 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 Securities Division will not recommend that the Commission take enforcement action if the stock dividend is effected without registration under the Act.⁶

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 PSI stock they will receive in the form of a one-time, special dividend. All HSN shareholders of record on the record date will receive PSI 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

⁵ Our request in this section relates to both the distribution of PSI's common stock and its Class B stock. For simplicity, the text refers to both classes together as "PSI stock."

⁶ We note that, in approximately 35 states, the distribution of a stock dividend of the type contemplated by HSN and PSI 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.

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value by reason of the distribution, other than by reason of the receipt of such PSI stock as an HSN shareholder.⁷

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.⁸ 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, PSI is not a shell corporation and was not formed solely for purposes of this transaction; PSI has been an operating company for several years. In addition, because PSI will be a wholly-owned subsidiary of HSN until the distribution occurs, the distribution of PSI 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.⁹

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. In granting no-action relief to HSN, the

⁷ 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.

⁸ 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.

⁹ Although Regulation R14-4-101 under the Act exempts from registration certain transactions of the type contemplated by HSN and PSI, 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 PSI stock to HSN shareholders should be granted unconditional relief from the Act's registration requirements.

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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.¹⁰ In addition, the SEC staff agreed 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.¹¹

D. No Policy Reason to Require Registration

Because investors will have ready access to current information about HSN and PSI required to be filed under the federal securities laws, there is no valid policy reason to require registration of the PSI 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. 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 PSI and its management.

Following the distribution, HSN's common stock will remain listed on the New York Stock Exchange. HSN will file for registration of PSI's common stock on Form 10 under Section 12(g) of the Securities Exchange Act of 1934. As a result of such registration, PSI 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.

* * *

¹⁰ See pp. 7-10 of the attached no-action request letter dated August 29, 1991.

¹¹ Id. at pp. 8-9. 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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Ms. Sandra J. Forbes

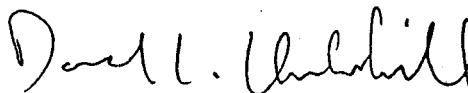
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HSN wishes to effect the proposed stock dividend as soon as possible and may wish to set a record date for the distribution as early as May 15, 1992. Your assistance in acting as promptly as possible on HSN's request in this letter would therefore be greatly appreciated. Pursuant to Section 144-1861.L of the Act, our filing fee of \$200 is enclosed.

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) 452-7000.

Sincerely,



David L. Underhill

Attachment

BAKER & MCKENZIE

ATTORNEYS AT LAW

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WASHINGTON, D.C.

May 22, 1992

VIA FACSIMILE

Jean Barry, Esq.
Counsel
Arizona Corporation Commission
Securities Division
234 North Central Avenue, Suite 425
Phoenix, Arizona 85004

Re: Home Shopping Network, Inc. ("HSN")

Dear Ms. Barry:

I refer to my April 23, 1992 letter to Ms. Sandra J. Forbes of your office requesting relief from the securities registration requirement of the Arizona Securities Act in connection with the proposed distribution in the form of a stock dividend to the common shareholders of HSN of all of the outstanding common stock of Precision Systems, Inc. ("PSI"), currently a wholly-owned subsidiary of HSN.

Pursuant to our recent telephone conversation, I am writing to confirm that, for accounting purposes, HSN will effect the proposed distribution out of retained earnings.

Please contact me at (202) 452-7000 if you need any additional information.

Sincerely,


David L. Underhill