

IAC/INTERACTIVECORP

FORM 10-K (Annual Report)

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED,
EFFECTIVE OCTOBER 7, 1996).

FOR THE YEAR ENDED DECEMBER 31, 1996

COMMISSION FILE NO. 0-20570

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
FOR THE TRANSITION PERIOD FROM _____ TO _____

HSN, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

59-2712887

(I.R.S. Employer
Identification No.)

2501 118TH AVENUE NORTH, ST. PETERSBURG, FLORIDA

(Address of registrant's principal executive offices)

33716

(Zip Code)

(813) 572-8585

(Registrant's telephone number, including area code):

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF
EACH CLASS

NAME OF EXCHANGE
WHICH REGISTERED

NONE

NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, \$.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 No

Indicate by check mark if disclosure of delinquent filers pursuant 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 March 14, 1997, there were outstanding 36,093,293 shares of Common Stock and 10,225,056 shares of Class B Common Stock. The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 14, 1997 was \$990,511,503.

HSN, INC.

FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

GENERAL

HSN, Inc. (the "Company" or "HSNi"), formerly known as Silver King Communications, Inc. ("Silver King"), is a holding company, the subsidiaries of which conduct the operations of the Company's various business activities. The Company was incorporated in July 1986 in Delaware as Silver King Broadcasting Company, Inc. ("SKBC") as part of a strategy to broaden the viewership of Home Shopping Network, Inc. ("Home Shopping"). SKBC subsequently changed its name to HSN Communications, Inc. and thereafter, to Silver King. On December 28, 1992 (the "Distribution Date"), Home Shopping, the sole shareholder, distributed the capital stock (the "Distribution") of the Company to Home Shopping's stockholders in the form of a pro-rata tax free stock dividend.

On December 19 and 20, 1996, Silver King consummated mergers with Savoy Pictures Entertainment, Inc. ("Savoy") and Home Shopping, respectively (collectively, the "Mergers") and changed its name to HSN, Inc. Following the Mergers, the Company's principal areas of business are electronic retailing and television broadcasting.

THIS REPORT INCLUDES FORWARD-LOOKING STATEMENTS RELATING TO SUCH MATTERS AS ANTICIPATED FINANCIAL PERFORMANCE, BUSINESS PROSPECTS, NEW DEVELOPMENTS, NEW MERCHANDISING STRATEGIES AND SIMILAR MATTERS. A VARIETY OF FACTORS COULD CAUSE THE COMPANY'S ACTUAL RESULTS AND EXPERIENCE TO DIFFER MATERIALLY FROM THE ANTICIPATED RESULTS OR OTHER EXPECTATIONS EXPRESSED IN THE COMPANY'S FORWARD-LOOKING STATEMENTS. THE RISKS AND UNCERTAINTIES THAT MAY AFFECT THE OPERATIONS, PERFORMANCE, DEVELOPMENT AND RESULTS OF THE COMPANY'S BUSINESS INCLUDE, BUT ARE NOT LIMITED TO, THE FOLLOWING: BUSINESS AND GENERAL ECONOMIC CONDITIONS, COMPETITIVE FACTORS, CHANNEL SPACE AVAILABILITY AND THE COST AND AVAILABILITY OF APPROPRIATE MERCHANDISE.

THE MERGERS

SAVOY MERGER

Pursuant to a merger of an indirect wholly owned subsidiary of the Company with and into Savoy (the "Savoy Merger"), Savoy became an indirect wholly owned subsidiary of the Company. Upon the effectiveness of the Savoy Merger, each outstanding share of Savoy common stock, par value \$.01 per share ("Savoy Common Stock"), was converted into the right to receive .14 of a share of the Company's common stock, par value \$.01 per share ("HSNi Common Stock"), and each outstanding option or warrant to acquire or conversion right to receive Savoy Common Stock was assumed by the Company and converted into options or warrants to acquire or conversion right to receive HSNi Common Stock at the .14 of a share conversion rate. Based on the number of shares of Savoy Common Stock issued and outstanding as of December 19, 1996, 4,205,870 shares of HSNi Common Stock were issuable in the Savoy Merger to Savoy shareholders. Prior to the Savoy Merger, 1,000 shares of Savoy non-voting preferred stock, par value \$.01 per share, were issued, which shares were not exchanged for HSNi Common Stock in the Savoy Merger and remain outstanding.

HOME SHOPPING MERGER

Pursuant to the merger of a subsidiary of the Company ("Merger Sub") with and into Home Shopping (the "Home Shopping Merger"), each share of Home Shopping common stock, par value \$.01 per share ("Home Shopping Common Stock"), issued and outstanding immediately prior to the Home Shopping Merger, except for certain shares which were cancelled, was converted into the right to receive .45 of a share (the "Home Shopping Common Conversion Ratio") of HSNi Common Stock and each share of Home Shopping Class B common stock ("Home Shopping Class B Common Stock"), issued and outstanding immediately prior to the Home Shopping Merger, except for certain shares which were cancelled, was converted into the right to receive .54 of a share (the "Home Shopping Class B Conversion Ratio") of the Company's Class B common stock, par value \$.01 per share ("HSNi Class B Common Stock" and, together

with the HSNi Common Stock, the "HSNi Securities"). A total of 2,591,752 of the shares of HSNi Class B Common Stock issuable to Liberty HSN, Inc. ("Liberty HSN") pursuant to the Home Shopping Merger were not issued, but instead are represented by the Company's contractual obligation to issue to Liberty HSN such shares upon the occurrence of certain events, including a change in applicable Federal Communications Commission ("FCC") regulations or other event that would permit Liberty HSN to hold additional shares of HSNi Class B Common Stock (such contractual right, the "Contingent Rights" and such underlying shares, the "Contingent Rights Shares"). Based on the number of shares of Home Shopping Common Stock and Home Shopping Class B Common Stock issued and outstanding immediately prior to the Home Shopping Merger, 24,665,651 shares of HSNi Common Stock and 7,809,111 shares of HSNi Class B Common Stock were issuable in the Home Shopping Merger to Home Shopping shareholders. Each outstanding option to acquire or conversion right to receive Home Shopping Common Stock was assumed by the Company and converted into an option to acquire or a conversion right to receive HSNi Common Stock at a conversion rate equal to the Home Shopping Common Conversion Ratio.

Liberty HSN is an indirect, wholly owned subsidiary of Liberty Media Corporation ("Liberty"), which, in turn, is a wholly owned subsidiary of Tele-Communications, Inc. ("TCI"). Prior to the Home Shopping Merger, TCI, through Liberty and Liberty HSN, maintained voting control over Home Shopping.

Because the Home Shopping Class B shares are entitled to ten votes per share, upon consummation of the Home Shopping Merger, the Company owned 80.1% of the equity and 90.8% of the voting power of Home Shopping and Liberty HSN owned 19.9% of the equity and 9.2% of the voting power of Home Shopping. After the Home Shopping Merger, pursuant to an exchange agreement, dated as of December 20, 1996 (the "Exchange Agreement"), between the Company and Liberty HSN, at such time from time to time as Liberty HSN or its permitted transferee may be allowed under applicable FCC regulations to hold additional shares of the Company's stock, Liberty HSN or its permitted transferee will exchange its Home Shopping Common Stock and its Home Shopping Class B Common Stock for shares of HSNi Common Stock and HSNi Class B Common Stock, respectively, at the applicable conversion ratio (such exchange and such HSNi Securities issued pursuant thereto are referred to herein as the "Exchange" and the "Exchange Shares", respectively). Liberty HSN, however, is obligated to effect an Exchange only after all of the Contingent Rights Shares have been issued, subject to certain conditions. Upon completion of the Exchange, Home Shopping would become a wholly owned subsidiary of the Company.

OUTSTANDING SHARES AND CONTROLLING SHAREHOLDERS

At December 31, 1996, 35,992,903 shares of HSNi Common Stock and 10,225,056 shares of HSNi Class B Common Stock were outstanding. Of these shares, Liberty HSN owns 61,630 shares of HSNi Common Stock and 9,809,111 shares of HSNi Class B Common Stock. Barry Diller, Chairman of the Board and Chief Executive Officer of the Company, through BDTV INC., BDTV II INC., his own holdings and a stockholders agreement with Liberty (the "Stockholders Agreement"), has the right to vote approximately 1.5% of HSNi's Common Stock, or 548,618 shares, and approximately 96% or 9,809,111 shares of HSNi's outstanding Class B Common Stock, each share of which is entitled ten votes per share. As a result, Mr. Diller controls 71% of the outstanding total voting power of the Company. Mr. Diller, subject to the Stockholders Agreement, is effectively able to control the outcome of nearly all matters submitted to a vote of the Company's stockholders. Assuming that the Contingent Rights Shares and the Exchange Shares are issued to Liberty HSN (and without taking into account any other transactions that would require the Company to issue additional Company Securities to Liberty HSN or any options to acquire HSNi Common Stock held by Mr. Diller), HSNi Securities subject to the Stockholders Agreement would represent in the aggregate approximately 19% of the then outstanding Common Stock, 37% of the then outstanding equity of the Company and 78% of the then outstanding total voting power of the Company.

SAVOY DEBENTURES

At the effective time of the Savoy Merger, Savoy and the Company entered into a supplemental indenture with the trustee under the indenture governing Savoy's outstanding 7% Convertible Subordinated Debentures, due July 1, 2003 (the "Savoy Debentures"), providing for the assumption by the Company as joint and several obligor of the Savoy Debentures and that each \$1,000 principal amount of the Savoy Debentures is convertible into the amount of HSNi Common Stock that the holder thereof would have been entitled to receive had such Savoy Debenture been converted into Savoy Common Stock immediately prior to consummation of the Savoy Merger or 7.53 shares at \$132.86 per share.

HOME SHOPPING DEBENTURES

At the effective time of the Home Shopping Merger, Home Shopping and the Company entered into a supplemental indenture with the trustee under the indenture governing Home Shopping's outstanding 5.875% subordinated debentures convertible into shares of Home Shopping Common Stock (the "Home Shopping Debentures"). Pursuant to the supplemental indenture, the Company assumed the Home Shopping Debentures as a joint and several obligor, and each \$1,000 principal amount of the Home Shopping Debentures is convertible into the amount of HSNi Common Stock that the holder would have been entitled to receive had the Home Shopping Debenture been converted into Home Shopping Common Stock immediately prior to consummation of the Home Shopping Merger or 37.50 shares at \$26.67 per share.

HOME SHOPPING NETWORK, INC.

Home Shopping, through its Home Shopping Club, Inc. subsidiary ("HSC"), sells a variety of consumer goods and services by means of live, customer-interactive electronic retail sales programs which are transmitted via satellite to cable television systems, affiliated broadcast television stations and satellite dish receivers. Home Shopping operates two retail sales programs, The Home Shopping Network ("HSN") and America's Store, each 24 hours a day, seven days a week (collectively the "Programs"). The Programs are carried by cable television systems and broadcast television stations throughout the country. America's Store is available in one-hour segments, which enables broadcast and cable affiliates to air America's Store in available time slots that would not otherwise produce revenue for the affiliate.

Home Shopping's retail sales and programming are intended to promote sales and customer loyalty through a combination of product quality, product information and entertainment. The Programs are divided into segments which are televised live with a host who presents the merchandise and conveys information relating to the product, including price, quality, features and benefits. Hosts engage callers in on-air discussions regarding the currently featured product or the caller's previous experience with Home Shopping's products. Viewers purchase products by calling a toll-free telephone number. Home Shopping attempts to stimulate customer loyalty by providing, among other things, marketing materials such as The Home Shopping Network Magazine which offers discounts on Home Shopping purchases, and features articles on products, programming and schedules of upcoming shows.

After December 31, 1996, Home Shopping converted its Spree! program to America's Store, a program primarily devoted to jewelry and related products, as well as certain other products. This change was designed to distinguish the Programs and to focus America's Store in popular product areas of electronic retailing. Home Shopping is continuing to develop this program concept.

The following table highlights the changes in the estimated unduplicated television household reach of HSN, Home Shopping's primary program, by category of access for the year ended December 31, 1996:

	CABLE*	BROADCAST	SATELLITE	TOTAL
	(In thousands of households)			
Households -- December 31, 1995.....	44,220	21,219	3,750	69,189
Net additions/(deletions).....	1,291	(1,081)	38	248
Shift in classification.....	2,353	(2,353)	--	--
Change in Nielsen household counts.....	--	1,257	--	1,257
Households -- December 31, 1996.....	47,864	19,042	3,788	70,694
	=====	=====	=====	=====

* Households capable of receiving both broadcast and cable transmissions are included under cable and therefore are excluded from broadcast to present unduplicated household reach. Cable households included 2.3 million and 1.3 million direct broadcast satellite ("dbs") households at December 31, 1996 and 1995, respectively, and therefore are excluded from satellite.

According to industry sources, as of December 31, 1996, there were 96.9 million homes in the United States with a television set, 64.4 million basic cable television subscribers and 3.8 million homes with satellite dish receivers, excluding dbs.

In addition to the households in the above table, as of December 31, 1997, approximately 11.1 million cable television households were reached by America's Store, of which 4.3 million were on a part-time basis. Of the total cable television households receiving America's Store, 9.7 million also receive HSN.

CUSTOMER SERVICE AND RETURN POLICY

Home Shopping believes that satisfied customers will be loyal and will purchase merchandise on a regular basis. Accordingly, Home Shopping has customer service personnel and computerized voice response units (the "VRU") available to handle calls relating to customer inquiries seven days a week, 24 hours a day.

Generally, any item purchased from Home Shopping may be returned within 30 days for a full refund of the purchase price, including the original shipping and handling charges.

DISTRIBUTION, DATA PROCESSING AND TELECOMMUNICATIONS

Home Shopping's fulfillment subsidiaries store, service and ship merchandise from warehouses located in Salem, Virginia and Waterloo, Iowa. During 1997, Home Shopping will move its St. Petersburg, Florida fulfillment operations and national returns center to Salem, Virginia. Generally, merchandise is delivered to customers within 7 to 10 business days of placing an order.

Home Shopping currently operates several Unisys main frame computers and has extensive computer systems which track purchase orders, inventory, sales, payments, credit authorization, and delivery of merchandise to customers. Home Shopping commenced a review of its current computer systems during 1996 and has taken initial steps to upgrade many of these systems.

Home Shopping has digital telephone and switching systems and utilizes the VRU which allows callers to place their orders by means of touch tone input or to be transferred to an operator.

PRODUCT PURCHASING AND LIQUIDATION

Home Shopping purchases merchandise made to its specifications, merchandise from manufacturers' lines, merchandise offered under certain exclusive rights and overstock inventories of wholesalers. During 1996, Home Shopping continued to change its purchasing strategy to emphasize price point, variety, continuity sales, product sourcing and events. The mix of products and source of such merchandise depends upon a variety of factors including price and availability. Home Shopping generally does not have long-term

commitments with its vendors, and there are various sources of supply available for each category of merchandise sold.

Home Shopping's product offerings include: jewelry; hardgoods, which include consumer electronics, collectibles, housewares, and consumables; cosmetics; softgoods, which consist primarily of apparel; and fashion accessories. For 1996, jewelry, hardgoods, cosmetics, softgoods and fashion accessories accounted for approximately 41%, 35%, 13%, 7% and 4%, respectively, of Home Shopping's net sales.

Home Shopping liquidates short lot and returned merchandise through its liquidation center and three outlet stores located in the Tampa Bay, Florida area. Damaged merchandise is liquidated by Home Shopping through traditional channels. During January 1997, Home Shopping closed two outlet stores and one liquidation center in Orlando, Florida.

TRANSMISSION AND PROGRAMMING

Home Shopping produces the Programs in its studios located in St. Petersburg, Florida. The Programs are distributed to cable television systems, broadcast television stations, direct broadcast satellite services and satellite dish receivers by means of Home Shopping's satellite uplink facilities to satellite transponders leased by Home Shopping. Any cable television system, broadcast television station or individual satellite dish owner in the United States and the Caribbean Islands equipped with standard satellite receiving facilities is capable of receiving the Programs.

Home Shopping has lease agreements securing full-time use of three transponders on three domestic communications satellites, although one of those transponders has been subleased as described below. Each of the transponder lease agreements grants Home Shopping "protected" rights. When the carrier provides services to a customer on a "protected" basis, replacement transponders (i.e., spare or unassigned transponders) on the satellite may be used in the event the "protected" transponder fails. Should there be no replacement transponders available, the "protected" customer will displace a "preemptible" transponder customer on the same satellite. The carrier also maintains a protection satellite and should a satellite fail completely, all "protected" transponders would be moved to the protection satellite which is available on a "first fail, first served" basis.

Use of the transponder which Home Shopping subleases may, however, be preempted in order to satisfy the owner's obligations to provide the transponder to another lessee on the satellite in the event that the other lessee cannot be restored to service through the use of spare or reserve transponders (the "Special Termination Right"). As of June 5, 1995, Home Shopping discontinued use of this satellite transponder for which it has a non-cancellable operating lease calling for monthly payments of approximately \$150,000 through December 31, 2006. Home Shopping subleased this satellite transponder during 1996 for a term of 10 years with an option to cancel after four years. The monthly sublease rental is in excess of the monthly payment.

A transponder failure that would necessitate a move to another transponder on the same satellite would not result in any significant interruption of service to the cable systems and/or television stations which receive the Programs. However, a failure that would necessitate a move to another satellite may temporarily affect the number of cable systems and/or television stations which receive the Programs (as well as all other programming carried on the failed satellite) because of the need to install equipment or to reorient earth stations.

The terms of two of the satellite transponder leases utilized by Home Shopping are for the life of the satellites, which are projected through 2004. The term of the third subleased satellite is through December 31, 2006, subject to earlier implementation of the Special Termination Right.

Home Shopping's access to two transponders pursuant to long-term agreements would enable it to continue transmission of HSN should either one of the satellites fail. Although Home Shopping believes it is taking every reasonable measure to ensure its continued satellite transmission capability, there can be no assurance that termination or interruption of satellite transmissions will not occur. Such a termination or

interruption of service by one or both of these satellites could have a material adverse effect on the operations and financial condition of the Company.

The availability of replacement satellites and transponder time beyond current leases is dependent on a number of factors over which Home Shopping has no control, including competition among prospective users for available transponders and the availability of satellite launching facilities for replacement satellites.

The FCC grants licenses to construct and operate satellite uplink facilities which transmit signals to satellites. These licenses are generally issued without a hearing if suitable frequencies are available. Home Shopping has been granted two licenses for operation of C-band satellite transmission facilities and two licenses for operation of KU-band satellite transmission facilities on a permanent basis in Clearwater and St. Petersburg, Florida.

AFFILIATION AGREEMENTS WITH CABLE OPERATORS

Home Shopping has entered into affiliation agreements with cable system operators to carry HSN, America's Store or both. Generally, the affiliation agreements have a term of five years, are automatically renewable for subsequent one year terms, and obligate the cable operator to assist the promotional efforts of Home Shopping by carrying commercials regarding HSN and America's Store and distributing Home Shopping's marketing materials to the cable operator's subscribers. All cable operators receive a commission of five percent of the net merchandise sales within the cable operator's franchise area regardless of whether the sale originated from a cable or a broadcast household. However, particularly with larger, multiple system operators, Home Shopping has agreed to provide additional compensation. In the past, this has included the purchase of advertising availabilities from cable operators on other programming networks and the establishment of commission guarantees committing Home Shopping to a certain level of payments. Although a number of these contracts remain in effect, Home Shopping is no longer entering into agreements that provide for advertising availabilities and commission guarantee compensation. These forms of compensation were replaced with cable distribution fees primarily consisting of upfront payments, based on a commitment to transmit the Programs to a certain number of subscribers and/or performance bonus commissions that are intended to compensate cable operators for promotional efforts which result in higher net sales for Home Shopping.

HSNI BROADCASTING

Through subsidiaries described below, the Company controlled as of December 31, 1996, 18 full power television broadcast stations, including three satellite stations. Additionally, the Company controlled 26 low power ("LPTV") television stations (the "LPTV Stations") and two low power translators.

A. SKTV, INC.

The Company, through its SKTV, Inc. subsidiary ("SKTV") and its subsidiaries, owns and operates 12 independent full power UHF television stations, including one television satellite station (the "SKTV Stations"). The SKTV Stations serve ten of the 16 largest metropolitan television markets in the United States. As of December 31, 1996, the SKTV Stations reached approximately 28.3 million television households, which is one of the largest audience reaches of any owned and operated independent television broadcasting group in the United States.

As of December 31, 1996, SKTV held notes receivable and/or equity interests in six other entities which hold broadcast licenses and/or authorizations in nine television markets as described below.

SKTV STATIONS

As of December 31, 1996, SKTV owned the following stations:

SUMMARY OF STATION MARKET

TELEVISION STATION	CITY OF LICENSE	CHANNEL NO.	METROPOLITAN AREA SERVED	HOUSEHOLDS IN DESIGNATED MARKET AREA ("DMA") (1)	DMA RANK (1)	LICENSE EXPIRATION DATE
WHSE-TV(2)	Newark, NJ	68	New York, NY	6,711,450	1	6/1/99
WHSI-TV(2)	Smithtown, NY	67	New York, NY	6,711,450	1	6/1/99
KHSC-TV	Ontario, CA	46	Los Angeles, CA	4,942,440	2	12/1/98
WEHS-TV	Aurora, IL	60	Chicago, IL	3,124,340	3	12/1/97
WHSP-TV	Vineland, NJ	65	Philadelphia, PA	2,654,080	4	6/1/99
WHSB-TV	Marlborough, MA	66	Boston, MA	2,150,110	6	4/1/99
KHSX-TV	Irving, TX	49	Dallas, TX	1,848,550	8	8/1/98
KHSH-TV	Alvin, TX	67	Houston, TX	1,595,350	11	8/1/98
WQHS-TV	Cleveland, OH	61	Cleveland, OH	1,461,410	13	10/1/97
WBHS-TV	Tampa, FL	50	Tampa/St. Petersburg, FL	1,411,440	15	2/1/05
WYHS-TV	Hollywood, FL	69	Miami, FL	1,363,260	16	2/1/05
WHSW-TV	Baltimore, MD	24	Baltimore, MD	989,470	23	10/1/01

(1) Estimates by Nielsen Marketing Research ("Nielsen") as of January 1997. For multiple ownership purposes, the FCC attributes only 50% of a market Area of Dominant Influence ("ADI") reach to UHF stations. Arbitron ADI's, like Nielsen DMA's, are measurements of television households in television markets throughout the country. For the Company's purposes, ADI and DMA measurements do not materially differ.
 (2) WHSI-TV operates as a satellite of WHSE-TV and primarily rebroadcasts the signal of WHSE-TV. Together, the two Stations serve the metropolitan New York City television market and are considered one station for FCC multiple ownership purposes.

Additionally, as of December 31, 1996, SKTV owned a 33.44% membership interest (in profits and losses not including incentive interests) in Blackstar L.L.C. ("Blackstar"), the parent company of the licensees of Stations WBSF(TV), Melbourne, Florida; KBSP-TV, Salem, Oregon; and WBSX(TV), Ann Arbor, Michigan, which serve all or portions of the metropolitan areas of Orlando, Florida; Portland, Oregon; and Detroit, Flint and Lansing, Michigan, respectively. All of these television stations are affiliates of Home Shopping and currently carry Home Shopping programming on a substantially full-time basis. Blackstar also is the parent company of the licensee of Station KEVN-TV, Rapid City, South Dakota, and its satellite station, KIVV-TV, licensed to Lead-Deadwood, South Dakota, both of which are affiliated with, and carry the programming of, Fox Broadcasting Company ("Fox"). In addition, Silver King Capital Corporation, a wholly owned subsidiary of SKTV, owns 1,000 shares of non-voting preferred stock in Blackstar Communications, Inc., a subsidiary of Blackstar. Subject to FCC approval, Blackstar has agreed to sell the assets of its Ann Arbor, Michigan station to a third party. Upon the closing of the sale, the Home Shopping affiliation agreement will terminate. Following the termination and upon the occurrence of certain other events, SKTV is expected to have a 45% equity interest in Blackstar.

SKTV also owns a 45% nonvoting common stock interest in Roberts Broadcasting Company, which owns Station WHSL(TV), East St. Louis, Illinois, serving the St. Louis, Missouri metropolitan area, and a 45% nonvoting common stock interest in Urban Broadcasting Corporation, which owns Station WTMW(TV), Arlington, Virginia, serving the Washington, D.C. metropolitan area. SKTV also owns a 45% nonvoting common stock interest in Roberts Broadcasting Company of Denver, which owns Station KTVJ(TV), Boulder, Colorado. KTVJ(TV) serves the Denver, Colorado metropolitan area. All of these stations carry Home Shopping programming.

On April 26, 1996, Channel 66 of Vallejo, California, Inc. ("Channel 66"), an entity in which a subsidiary of SKTV holds a 49% nonvoting common stock interest, consummated the acquisition of Station KPST-TV,

Vallejo, California which serves the San Francisco market. SKC Investments, Inc., a subsidiary of the Company, loaned Whitehead Media of California, Inc. ("Whitehead") \$7.9 million to finance the acquisition and has loaned an additional \$.7 million for construction of a new studio. Pursuant to a Shareholder Agreement among Channel 66, SKTV and Whitehead, Whitehead has the option to require SKTV to purchase all of Whitehead's shares of common stock in Channel 66 between April 26, 1999 and April 25, 2001, and at any time within 180 days of the termination of the affiliation agreement between Home Shopping and Channel 66. SKTV has the option to require Whitehead to sell all of its shares of Common Stock in Channel 66 to SKTV between April 26, 2001 and April 25, 2002. The Shareholder Agreement provides specific procedural requirements for exercising these options and an appraisal method for determining the applicable price for such purchases.

SKTV has an option to purchase a 45% nonvoting common stock interest in Jovon Broadcasting Company, the licensee of Station WJYS(TV), Hammond, Indiana, serving the Chicago, Illinois television market. In a Memorandum Opinion and Order and Notice of Apparent Liability released June 14, 1996, the FCC ruled that, consistent with FCC regulations and policies, the Company may exercise that portion of the option which will provide it with a 33% nonvoting common stock interest in Station WJYS(TV). SKTV has a loan agreement with the station licensee and the FCC also required that certain aspects of the loan documents between the licensee of WJYS(TV) and SKTV be reformed. The licensee of WJYS(TV) has filed a petition with the FCC requesting clarification as to whether the agency intended to rewrite the option to permit a partial exercise and argues that if it did so intend, the FCC lacked the authority to do so. The Company has opposed that petition.

The Company's 26 LPTV Stations are located in the New York, New York; Atlanta, Georgia; St. Petersburg, Florida; St. Louis, Missouri; Knoxville, Tennessee; Minneapolis, Minnesota; New Orleans, Louisiana; Roanoke, Virginia; Tucson, Arizona; Tulsa, Oklahoma; Wichita, Kansas; Columbus, Ohio; Kansas City, Missouri; Springfield, Illinois; Huntington, West Virginia; Champaign, Illinois; Toledo, Ohio; Portsmouth, Virginia; Raleigh, North Carolina; Des Moines, Iowa; Shreveport, Louisiana; Spokane, Washington; Pensacola, Florida; Birmingham, Alabama; Mobile, Alabama; and Jacksonville, Florida areas. The LPTV Stations have an average coverage radius of 10-12 miles and an average transmitter power of 1,000-2,000 watts. This contrasts with the Company's full-power UHF television stations which cover an average radius of 45-55 miles and have an average transmitter power of 120,000 watts.

PROGRAMMING

Each of the SKTV Stations, through the applicable subsidiaries, has entered into a Television Affiliation Agreement (the "Affiliation Agreement(s)") with Home Shopping pursuant to which each Station broadcasts HSN for approximately 164 hours per week.

Home Shopping pays each SKTV Station compensation pursuant to the applicable hourly affiliation rate for such SKTV Station under its Affiliation Agreement. Hourly rates are based on the number of households in a Station's service area. The Affiliation Agreements provide for higher compensation to an SKTV Station if the SKTV Station's compensation amount, which is based upon a formula involving Home Shopping's net sales credited to the SKTV Station, exceeds the amount payable pursuant to the hourly affiliation rate. This determination is made on an annual basis within 30 days of each anniversary of the Affiliation Agreements. Following the Home Shopping Merger, a decision was made not to pay the compensation bonus for 1996.

The Company is continuing to evaluate the status of the Affiliation Agreements following the Home Shopping Merger. The Company plans to determine on a market by market basis whether the SKTV Stations will continue to air HSN, or whether the Company will, instead, disaffiliate Home Shopping and the SKTV Stations and develop and broadcast programming independently of Home Shopping. A decision to disaffiliate in a market will depend, in part, upon channel availability, competitive factors and the terms of the Home Shopping cable affiliation agreements, particularly in light of the recent U.S. Supreme Court ruling upholding the FCC's must-carry rules. See "Regulation -- Review of 'Must Carry Rules.' "

Upon disaffiliation, substantial expenditures would be required to develop SKTV programming and promotions, which, during this developmental and transitional stage, would not be offset by sufficient

advertising revenues. Additionally, the Company may also incur additional expenses and cash outflows (including the making of up-front payments), which could be substantial, in connection with entering into cable distribution agreements for the purpose of securing carriage of Home Shopping programming and/or the SKTV Stations' programming. Furthermore, disaffiliation will disrupt Home Shopping's ability to reach some of its existing customers which may cause a reduction in the Company's revenues. The Company believes that the process of disaffiliation can be successfully managed to minimize these adverse consequences.

There can be no assurance that, if Home Shopping and the SKTV Stations disaffiliate, the Company will be successful in its strategy to develop and broadcast new programming formats, whether on a local or national basis, or that the Company will be able to find other means of distributing its Home Shopping programming on favorable terms to the households in the broadcast areas currently served by SKTV Stations. The consequences of any of the foregoing decisions will impact the business, financial condition and results of operations of the Company.

In addition to analyzing disaffiliation, the Company may consider a number of other options with respect to the SKTV Stations. These options include selling the SKTV Stations or entering into partnership arrangements with broadcasters and/or cable operators. The Company has made no final decision as to how it will utilize the SKTV Stations, although preliminarily, it is planning to disaffiliate and independently program its Miami station. The Company intends over time to program all of these stations on a local basis, either by itself or with partners.

The Company's LPTV Stations, for the most part, carry America's Store. The SKTV Stations carry HSN approximately 164 hours per week. Available advertising time on the SKTV Stations is utilized to promote various Home Shopping subsidiaries and is also sold to outside commercial clients on a per unit fixed rate. Advertising time also is bartered in exchange for non-Home Shopping programming. Time is available in units of 30 seconds, 60 seconds, 120 seconds, half-hours and hours. A four-hour block on Sunday mornings at each SKTV Station is devoted to public interest programming comprised of children's, informational, religious, and/or ethnic programming, some of which produces revenue. In addition, Home Shopping occasionally sponsors promotional events geared towards the markets served by the SKTV Stations to develop viewer awareness and loyalty to Home Shopping programming.

B. SF BROADCASTING

As a result of the Savoy Merger, the Company acquired Savoy's broadcasting operations ("SF Broadcasting"). SF Broadcasting consists of SF Multistations, Inc. ("SF Multistations"), and its wholly owned subsidiaries which own KHON (together with satellite stations KAIH and KHAW, hereafter collectively referred to as "KHON"), WALA and WVUE, and SF Broadcasting of Wisconsin, Inc. ("SF Wisconsin") and its wholly owned subsidiaries which own WLUK. Savoy Stations, Inc. ("Savoy Stations"), an indirect wholly owned subsidiary of the Company, owns 50% of the common equity and 100% of the voting stock of each of SF Wisconsin and SF Multistations. A subsidiary of Fox owns 50% of the common equity of SF Multistations and SF Wisconsin and also owns options, subject to certain conditions, to convert its non-voting interest into voting interests. For a further description of these options, see "Ownership Structure" discussed below.

The following table sets forth certain information regarding the stations owned and operated by SF Broadcasting (the "SF Stations") and the markets in which they operate:

SUMMARY OF STATION MARKETS

TELEVISION STATION	METROPOLITAN AREA SERVED	AFFILIATION/ CHANNEL	HOUSEHOLDS IN DMA(1)	DMA RANK(1)	LICENSE EXPIRATION DATE
WVUE-TV.....	New Orleans, LA	FOX/8	620,760	41	6/1/97
KHON-TV(2).....	Honolulu, HI(3)	FOX/2	382,700	69	2/1/99
KAII-TV(2).....	Wailuku, HI				
KHAW-TV(2).....	Hilo, HI				
WALA-TV.....	Mobile-Pensacola, AL	FOX/10	445,780	61	4/1/97(4)
WLUK-TV.....	Green Bay, WI(3)	FOX/11	376,380	70	12/1/97

(1) Estimated by Nielsen as of January 1997. Rankings are based on the relative size of a station's market among the 211 generally recognized Designated Market Areas.

(2) KAII and KHAW operate as satellite stations of KHON-TV and primarily re-broadcast the signal of KHON. The stations are considered one station for FCC multiple ownership purposes.

(3) Low power television translators K55D2 and W40AN retransmit stations KHON and WLUK, respectively.

(4) An application to renew the license of WALA was timely filed and is pending at the FCC. Under FCC rules, an existing license automatically continues in effect once a timely renewal application has been filed until a final FCC decision is issued.

FOX AFFILIATION

As described above, each of the SF Stations has entered into affiliation agreements with Fox (the "Fox Affiliation Agreements"). Subject to earlier termination (as described below), the Fox Affiliation Agreements terminate on the tenth anniversary of the commencement date of such agreement, provided that, Fox may extend the initial term of each of the agreements for additional successive periods of two years each if it gives the requisite written notice to the relevant SF Station and such SF Station fails to give Fox written notice within the prescribed time period that it rejects such an extension. Pursuant to these agreements, Fox provides the SF Stations with programming in return for the stations' broadcasting Fox-inserted commercials in such programming. The SF Stations also retain the right to include a limited amount of commercials during Fox programming and receive additional compensation based on certain performance and other criteria. Each of the Fox Affiliation Agreements, however, is subject to termination by Fox in certain instances including the following: (i) if within any 12-month period a station makes or will make three or more unauthorized preemptions of Fox programming, Fox may terminate the relevant agreement upon 30 days prior written notice; (ii) in the event there is a material change in certain aspects of the stations' operation, making the affiliation (as of the date of the applicable agreement) less valuable to Fox, Fox may terminate the relevant agreement upon 30 days prior written notice; and (iii) upon certain transfers of control of any of the FCC licenses relating to the SF Stations, Fox may have the right to terminate the applicable Fox Affiliation Agreement in the manner specified in such agreement.

OWNERSHIP STRUCTURE

After September 20, 1997, in the case of SF Wisconsin, and October 28, 1997, in the case of SF Multistations, Fox will have the option (subject to all necessary regulatory approvals) to exchange all, but not less than all, of its non-voting common stock of such companies for common stock with voting rights (the "Conversion Options"). Fox has agreed not to exercise the Conversion Options if any regulatory approval would have a material adverse effect on SF Wisconsin or SF Multistations, as the case may be.

Fox has no representatives on the board of directors of SF Broadcasting, and does not participate in the operation of SF Broadcasting or of the television stations. The agreement between Fox and Savoy Stations provides that Fox's consent is required for certain fundamental corporate decisions, including, but not limited

to, certain mergers or asset sales or the payment of dividends. If Fox exercises the Conversion Options, each of Fox and Savoy Stations will be able to designate two of the four directors of SF Wisconsin or SF Multistations.

FINANCING OF ACQUISITION

SF Broadcasting financed their purchase of the SF Stations through (i) \$135.0 million of acquisition loans; (ii) \$80.6 million of common equity contributions from Savoy Stations and \$29.4 million of common equity contributions from Fox; and (iii) the Fox purchase of \$39.0 million of preferred stock. Since the acquisition of the SF Stations, Savoy Stations and Fox have increased, and intend to continue to increase, their initial capital contributions. Savoy Stations and Fox have each contributed \$19.5 million in 1996 and will contribute, at a minimum, an additional \$9.0 million each in 1997 according to their Capital Contribution Agreement to pay down outstanding debt. Both Fox and Savoy Stations also contribute capital on a quarterly basis to fund the corporate overhead of the SF Broadcasting.

C. REGULATION

CURRENT FCC REGULATION

The communications industry, including the ownership, use and transfer of television broadcast licenses, and the broadcast of programming over television stations owned or operated by the Company, is subject to substantial federal regulation, particularly pursuant to the Communications Act of 1934, as amended (the "1934 Act") and the rules and regulations promulgated thereunder. The 1934 Act prohibits the operation of television broadcasting stations except under a license issued by the FCC and empowers the FCC, among other matters, to issue, renew, revoke and modify broadcast licenses, to determine the location of stations, to establish areas to be served and to regulate certain aspects of broadcast programming. The 1934 Act prohibits the assignment of a broadcast license or the transfer of control of a licensee without FCC prior approval. If the FCC determines that violations of the 1934 Act or any FCC rule have occurred, it may impose sanctions ranging from admonishment of a licensee to license revocation.

The 1934 Act provides that a broadcast license may be granted to any applicant if the public interest, convenience and necessity will be served thereby, subject to certain limitations. Under regulations promulgated by the FCC pursuant to the 1934 Act, television broadcast licenses are issued initially for terms of five years. Upon application, and in the absence of a conflicting application (which, prior to passage of the Telecommunications Act of 1996 (the "1996 Act"), could be filed in limited circumstances) or an adverse finding as to the licensee's qualifications, broadcast licenses usually have been renewed without a hearing by the FCC for additional terms of up to five years. Such license terms have increased. See discussion of the 1996 Act below.

Current FCC regulations also impose significant restrictions on certain positional and ownership interests in broadcast and other media. The officers, directors and certain of the equity owners of a broadcasting company are deemed to have "attributable interests" in the broadcasting company. In the case of a corporation controlling or operating television stations, ownership is attributed only to officers, directors and stockholders who own 5% or more of the company's outstanding voting stock. Institutional investors, including mutual funds, insurance companies and banks acting in a fiduciary capacity, may own up to 10% of the outstanding voting stock without being subject to attribution, provided that such stockholders exercise no control over the management or policies of the broadcasting company.

Under current FCC rules governing multiple ownership of broadcast stations, a license to operate a television station will not be granted (unless established waiver standards are met) to any party (or parties under common control) that has an attributable interest in another television station with an overlapping service area (the "Local Restriction"). The rules also currently prohibit (with certain qualifications) the holder of an attributable interest in a television station from also having an attributable interest in a radio station, daily newspaper or cable television system serving a community located within the relevant coverage area of that television station. Separately, the FCC's "cross-interest" policy may, in certain circumstances, prohibit the common ownership of an attributable interest in one media outlet and a non-attributable equity

interest in another media outlet in the same market. On December 15, 1994, the FCC adopted notices of proposed rulemaking to consider (i) the modification of its attribution rules (including the exemption from attribution for holders of non-voting stock) and "cross-interest" policy involving nonattributable equity interests, and (ii) the modification of the Local Restriction.

TELECOMMUNICATIONS ACT OF 1996

On February 8, 1996, President Clinton signed the 1996 Act, which amends the 1934 Act. The 1996 Act, among other measures, directs the FCC to (i) modify its rules in order to permit an entity to have an attributable interest in an unlimited number of United States television stations so long as such stations do not reach, in the aggregate, more than 35% of the national television audience (the "National Restriction"); (ii) conduct a rulemaking proceeding to determine whether to retain, modify or eliminate the Local Restriction; and (iii) conduct a rulemaking proceeding to determine whether to extend the license term for television stations to eight years. The 1996 Act also prohibits the filing of conflicting applications, under any circumstances, in connection with broadcast station license renewals, and repeals the former statutory ban on common ownership of a broadcast television station and a cable television system serving a community located within the relevant coverage area of the television station. However, FCC rules continue to prohibit local broadcast/cable cross-ownership. On March 8, 1996, the FCC issued an order that has now become effective and that implements the National Restriction. This order makes it possible for the Company to own all of its current stations. The Company's current national television audience reach is estimated at 31.04 percent, but is considered at 16.46 percent for FCC purposes due to the treatment of UHF stations. On January 24, 1997, the FCC extended the license terms for television stations from five to eight years. The 1996 Act also allows telephone companies to operate cable television systems in their own service areas. On November 7, 1996, the FCC issued notices soliciting additional public comment in connection with its pending rulemaking proceedings addressing the 1996 Act's directives and other issues with respect to the Local Restriction, the attribution rules and the cross-interest policy. The FCC seeks comment on, among other things, a proposal that would effectively codify the cross-interest policy to the extent it was applied to limit TCI's beneficial equity interest in the Company. The FCC has proposed to prohibit common ownership of a media company and a greater than 33% non-voting equity interest in another media company in the same market, but has requested comment on whether a higher or a lower non-voting equity benchmark would be more appropriate. The comment cycle in this proceeding ended on March 7, 1997. It is not possible to predict the extent to which the Local Restriction may be modified, the timing or effect of other changes in FCC rules or policies pursuant to the 1996 Act or pending FCC rulemaking proceedings. The outcome of each of these proceedings could have a material effect on the Company.

REVIEW OF "MUST-CARRY" RULES

FCC regulations implementing the Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Cable Act") require each television broadcaster to elect, at three-year intervals beginning in 1993, to either (i) require carriage of its signal by cable systems in the station's market ("must-carry") or (ii) negotiate the terms on which such broadcast station would permit transmission of its signal by the cable systems within its market ("retransmission consent"). On March 31, 1997, the Supreme Court upheld the constitutionality of the must-carry provisions.

This ruling means that cable operators must continue to carry local broadcast signals subject to the provisions of the 1992 Cable Act. The ruling enhances the value of the SKTV Stations and ensures, absent disaffiliation, continued carriage of the Home Shopping Programs via the SKTV Stations by cable operators. However, as discussed above, the Company is evaluating the impact of the must-carry ruling on its desired disaffiliation of the SKTV Stations from Home Shopping.

OTHER FCC REGULATIONS AND POLICIES

On August 8, 1996, under the Children's Television Act of 1990 (the "CTA"), the FCC amended its rules to establish a "processing guideline" for broadcast television stations of at least three hours per week, averaged over a six-month period, of "programming that furthers the educational and informational needs of

children 16 and under in any respect, including the child's intellectual/cognitive or social/emotional needs." Children's "Core Programming" has been defined as educational and informational programming that, among other things, (i) has served the educational and informational needs of children "as a significant purpose," (ii) has a specified educational and informational objective and a specified target child audience, (iii) is regularly scheduled, weekly programming, (iv) is at least 30 minutes in length, and (v) airs between 7:00 a.m. and 10:00 p.m. Any station that satisfies the processing guideline by broadcasting at least three weekly hours of Core Programming will receive FCC staff-level approval of the portion of its license renewal application pertaining to the CTA. Alternatively, a station may qualify for staff-level approval even if it broadcasts "somewhat less" than three hours per week of Core Programming by demonstrating that it has aired a weekly package of different types of educational and informational programming that is "at least equivalent" to three hours of Core Programming. Non-Core Programming that can qualify under this alternative includes specials, public service announcements, short-form programs and regularly scheduled non-weekly programs, with "a significant purpose of educating and informing children." A licensee that does not meet the processing guideline under either of these alternatives will be referred by the FCC's staff to the Commissioners of the FCC, who will evaluate the licensee's compliance with the CTA on the basis of both its programming and its other efforts related to children's educational and informational programming, e.g., its sponsorship of Core Programming on other stations in the market, or nonbroadcast activities "which enhance the value" of such programming. A television station ultimately found not to have complied with the CTA could face sanctions including monetary fines and the possible non-renewal of its broadcast license.

The CTA and FCC rules require television station licensees to identify programs specifically designed to educate and inform children at the beginning of each program and in published program listings. In addition, the 1996 Act directed the broadcast and cable television industries to develop and transmit an encrypted rating in all video programming that, when used in conjunction with so-called "V-Chip" technology, would permit the blocking of programs with a common rating. On January 17, 1997, an industry proposal was submitted to the FCC describing a voluntary ratings system under which all video programming would be designated in one of six categories. Pursuant to the 1996 Act, the FCC has initiated a proceeding to determine whether to accept the industry proposal or to establish and implement an alternative system for rating and blocking video programming. The FCC has indicated that it will commence a separate proceeding shortly addressing technical issues related to the "V-Chip." The Company cannot predict whether the FCC will accept the industry proposal regarding the rating and blocking of video programming, or how changes in this proposal could affect the Company's business.

The FCC is conducting a rulemaking proceeding to devise a table of channel allotments in connection with the introduction of digital television service ("DTV"). On April 3, 1997, the FCC adopted a table of channel allotments which allots a second broadcast channel to each full-power commercial television station for DTV operation. While the text of the Commission's decision has not yet been released, according to news releases, stations will be required to phase in their DTV operations over a 5-year period. Affiliates of the four major commercial networks in the top-10 markets are required under the FCC's decision to begin broadcasting with a digital signal by May 1, 1999, and those in markets 11 to 30 by November 1, 1999. In addition, a number of broadcasters in the top-10 television markets have committed to begin digital operations within the next 18 months. The FCC will grant extensions under limited circumstances to broadcasters who are unable to meet the implementation deadlines. Following the transition period to DTV, broadcasters will be required to surrender their non-DTV channels. Subject to periodic review, the FCC has set a target date of 2006 as an end-date for non-DTV service. Under certain circumstances, conversion to DTV operations may reduce a station's geographical coverage area.

The FCC's April 3 decision also provides for the early recovery of certain spectrum located between UHF channels 60-69. As a result, certain stations currently operating on these channels may be required to relocate to other channels. In addition, the FCC will maintain the secondary status of LPTV stations, which may result in the displacement of existing LPTV stations by DTV channel allotments, particularly in major markets. The FCC has adopted certain technical and administrative measures to minimize the impact of DTV implementation on LPTV stations. Meanwhile, Congress is considering proposals that would require incumbent broadcasters to bid at auctions for the additional spectrum required to effect a transition to DTV, or,

alternatively, would assign additional DTV spectrum to incumbent broadcasters and require the early surrender of their non-DTV channel for sale by public auction. A change to digital transmission will necessitate significant capital expenditures by the Company.

The FCC is conducting a rulemaking proceeding to examine its rules prohibiting broadcast television networks from representing their affiliated stations for the sale of non-network advertising time and from influencing or controlling the rates set by their affiliates for the sale of such time. Separately, the FCC is conducting a rulemaking proceeding to consider the relaxation or elimination of its rules prohibiting broadcast networks from (i) restricting their affiliates' right to reject network programming, (ii) reserving an option to use specified amounts of their affiliates' broadcast time and (iii) forbidding their affiliates from broadcasting the programming of another network; and to consider the relaxation of its rule prohibiting network affiliated stations from preventing other stations from broadcasting the programming of their network.

There are additional FCC and other federal agencies, regulations and policies, affecting the business and operations of broadcast stations. Proposals for additional or revised rules are considered by these agencies and Congress from time to time. It is not possible to predict the resolution of these issues or other issues discussed above, although their outcome could, over a period of time, affect, either adversely or favorably, the broadcasting industry generally or the Company specifically.

The foregoing does not purport to be a complete summary of all the provisions of the 1934 Act, the 1996 Act or other Congressional acts or of the regulations and policies of the FCC thereunder. Reference is made to the 1934 Act, as amended, the 1996 Act, other Congressional acts, such regulations and policies, and the public notices promulgated by the FCC for further information.

MOTION PICTURES

Savoy has ceased its motion picture production activities, but maintains a film library consisting of approximately 15 films and owns rights in a number of motion picture development properties.

ADDITIONAL SUBSIDIARY BUSINESSES

In addition to the electronic retailing and television broadcast businesses, the Company's subsidiaries are involved in other businesses.

Vela Research, Inc. ("Vela") develops and markets high technology audio and video MPEG compression/decompression products to the cable, broadcast, computer and telecommunications industries.

Internet Shopping Network, Inc. ("ISN") has grown to become a leading retailer of computer hardware and software on the Internet and offers over 40,000 products from major manufacturers. ISN is also engaged in exploring other new digital retailing vehicles.

National Call Center, Inc. ("NCCI") performs direct response telemarketing services using toll free 800 numbers and provides services on a contractual basis to third parties using inbound and outbound telemarketing. NCCI can perform any number of related functions, including fulfillment and credit card clearing services.

INTERNATIONAL VENTURES

During 1996 and 1997, Home Shopping entered into two international ventures as a minority participant.

Germany. Home Shopping acquired a 29% interest in Home Order Television GmbH & Co. KG ("HOT"), a venture based in Munich. HOT broadcasts television shopping 24 hours per day, 12 of which are devoted to live shopping. HOT is carried via cable and satellite to approximately 8.3 million households in Germany and Austria.

Japan. Home Shopping acquired a 30% interest in Jupiter Shop Channel Co., Ltd. ("Shop Channel") a venture based in Tokyo. Shop Channel broadcasts televised shopping 24 hours a day, 18 hours per week of

which are devoted to live shopping. Shop Channel has reached agreements to be available in approximately 845,000 households as of April 1997. Tele-Communications International, Inc., a subsidiary of TCI ("TCI International") owns a 50% interest in Jupiter Programming Co., Ltd ("JPC") which is the 70% shareholder in the venture.

COMPETITION

The Company operates in a highly competitive environment. It is in direct competition with businesses which are engaged in retail merchandising, other electronic retailers, direct marketing retailers such as mail order companies, companies that sell from catalogs, other discount retailers and companies that market through computer technology. The Company also competes for access to its customers and for audience share and revenue with broadcasters and conventional forms of entertainment and information, such as programming for network and independent broadcast television stations, basic and pay cable television services, satellite master antenna systems, home satellite dishes and home entertainment centers, newspapers, radio, magazines, outdoor advertising, transit advertising and direct mail. In particular, the price and availability of programming for cable television systems affects the availability of these channels for the Company's Programs and the compensation which must be paid to the cable operators for carriage of Home Shopping programming. In addition, the Company believes that due to a number of factors, including the development of cable operator owned programming, the competition for channel capacity has substantially increased. With the advent of new compression technologies on the horizon, this competition for channel capacity may substantially decrease, although additional competitors may have the opportunity to enter the marketplace. No predictions can be made with respect to the viability of these technologies or the extent to which they will ultimately impact the availability of channel capacity.

Home Shopping and QVC, Inc. ("QVC") are currently the two leading electronic retailing companies. There are other companies, some having an affiliation or common ownership with cable operators, that now market merchandise by means of live television. A number of other entities are engaged in direct retail sales businesses which utilize television in some form and which target the same markets in which the Company operates. Some of the Company's competitors are larger and more diversified than the Company, or are also affiliated with cable operators which have a substantial number of subscribers. The Company cannot predict the degree of success with which it will meet competition in the future. TCI currently owns 43% of QVC but has entered into a stockholders agreement with Comcast Corporation (which owns 57% of QVC) pursuant to which Comcast Corporation controls the day to day operations of QVC.

In addition to the above factors, the Company's ownership of and affiliation with broadcast television stations creates another set of competitive conditions. These stations compete for television viewers primarily within local markets. The Company's broadcast television stations are located in highly competitive markets and compete against both VHF and UHF stations. Due to technical factors, a UHF television station generally requires greater power and a higher antenna to secure substantially the same geographical coverage as a VHF television station. The Company also competes with new entertainment and shopping networks for carriage on broadcast television stations. The Company cannot quantify the competitive effect of the foregoing or any other sources of video programming on any of the Company's affiliated television stations, nor can it predict whether such competition will have a material adverse effect on its operations.

SF Broadcasting competes for audience share primarily on the basis of program popularity, which has a direct effect on advertising rates. A large amount of the SF Stations' prime time programming is supplied by Fox and their results are totally dependent upon the performance of the Fox-supplied programs in attracting viewers. Non-network time periods are programmed by the stations primarily with syndicated programs purchased for cash, cash and barter, or barter-only, and also through self-produced news, public affairs and other entertainment programming. Other factors that are material to a television station's competitive position include signal coverage, local program acceptance, network affiliation, audience characteristics and assigned broadcast frequency. SF Broadcasting also competes for programming, which involves negotiating with national program distributors or syndicators that sell first-run and rerun packages of programming. Those

stations compete for exclusive access to those programs against in-market broadcast station competitors for syndicated products.

In summary, the Company operates in a highly competitive environment in which, among other things, technological change, changes in distribution patterns, media innovations, data processing improvements and new entrants make the competitive position of both the Company and its competitors extremely difficult to predict.

TRADEMARKS, TRADENAMES AND COPYRIGHTS

The Company has registered and continues to register, when appropriate, its trade and service marks as they are developed and used, and the Company vigorously protects its trade and service marks. The Company believes that its marks are a primary marketing tool for promoting its identity.

EMPLOYEES

As of the close of business on December 31, 1996, the Company employed approximately 4,750 employees with approximately 4,150 employees employed by Home Shopping, approximately 520 employees employed by Savoy and approximately 80 employees employed by SKTV. The Company believes that it generally has good employee relationships.

ITEM 2. PROPERTIES

The Company owns an approximately 480,000 square foot facility in St. Petersburg, Florida, which houses its Home Shopping television studios, broadcast facilities, and many of the Company's administrative offices and training facilities.

The Company also maintains executive offices at Carnegie Hall Tower, 152 West 57th Street, New York, New York which consist of approximately 12,000 square feet leased by the Company through 1998 and at The Water Garden, 2425 Olympic Boulevard, Santa Monica, California which consist of approximately 42,000 square feet, under two leases which expire in 1998.

The Company owns four warehouse type facilities totaling approximately 115,000 square feet near the Company's main campus in St. Petersburg, Florida. These facilities have been used for returns processing, retail distribution and general storage.

The Company leases a 21,000 square foot facility in Clearwater, Florida for its video and post production operations.

The Company owns and operates a warehouse consisting of 163,000 square feet located in Waterloo, Iowa which is used as a fulfillment center.

The Company operates a warehouse located in Salem, Virginia, consisting of approximately 650,000 square feet which is leased from the City of Salem Industrial Development Authority. On November 1, 1999, the Company will have the option to purchase the property for \$1.

The Company's retail outlet subsidiary leases four retail stores in the Tampa Bay area totaling approximately 91,925 square feet.

The Company and its other subsidiaries also lease office space in California, Colorado and New Jersey.

The Company owns or leases office, studio and transmitter space for the SKTV and SF Stations as follows:

LOCATION	FUNCTION	OWNED/LEASED
Mobile, AL.....	Offices/Studio.....	Leased
Baldwin County, AL.....	Transmitter.....	Owned
Mt. Wilson, CA.....	Transmitter.....	Leased
Ontario, CA.....	Offices/Studio.....	Owned
Riverview, FL.....	Transmitter.....	Leased
Hollywood, FL.....	Transmitter.....	Leased
Miramar, FL.....	Offices/Studio.....	Leased
Pensacola, FL.....	Offices/Studio.....	Leased
Honolulu, HI.....	Offices/Studio/Transmitter.....	Leased
Aurora, IL.....	Offices/Studio.....	Leased
Chicago, IL.....	Offices/Studio/Transmitter.....	Leased
New Orleans, LA.....	Offices/Studio.....	Owned
Baltimore, MD.....	Offices/Studio/Transmitter.....	Leased
Hudson, MA.....	Offices/Studio/Transmitter.....	Owned
Newark, NJ.....	Offices/Studio.....	Owned
Newfield, NJ.....	Offices/Studio.....	Owned
Waterford Works, NJ.....	Transmitter.....	Leased
Central Islip, NY.....	Offices/Studio.....	Owned
Middle Island, NY.....	Transmitter.....	Owned
New York, NY.....	Offices/Transmitter.....	Leased
Parma, OH.....	Offices/Studio/Transmitter.....	Leased
Alvin, TX.....	Offices/Studio.....	Leased
Cedar Hill, TX.....	Transmitter.....	Leased
Irving, TX.....	Offices/Studio.....	Owned
Missouri City, TX.....	Transmitter.....	Leased
Green Bay, WI.....	Offices/Studio/Transmitter.....	Owned

The Company leases the following LPTV transmitter sites:

Atlanta, GA	Pensacola, FL
Birmingham, AL	Portsmouth, VA
Champaign, IL	Raleigh, NC
Columbus, OH	Roanoke, VA
Des Moines, IA	Shreveport, LA
Huntington, WV	Springfield, IL
Jacksonville, FL	Spokane, WA
Kansas City, MO	St. Louis, MO
Knoxville, TN	St. Petersburg, FL
Minneapolis, MN	Toledo, OH
Mobile, AL	Tulsa, OK
New Orleans, LA	Tucson, AZ
New York, NY	Wichita, KS

All of the Company's leases are at prevailing market rates and with unaffiliated parties, and the Company believes that the duration of each lease is adequate. The Company believes that its principal properties, whether owned or leased, are adequate for the purposes for which they are used and are suitably maintained for such purposes. Most of the office/studio space is substantially utilized, and where significant excess space exists, the Company leases or subleases such space to the extent possible. The Company anticipates no future problems in renewing or obtaining suitable leases for its principal properties.

ITEM 3. LEGAL PROCEEDINGS

On August 26, 1996, after announcement that Silver King, House Acquisition Corp., a newly formed subsidiary of Silver King, Liberty HSN, and Home Shopping had entered into the Agreement and Plan of Exchange and Merger dated as of August 25, 1996 (the "Home Shopping Merger Agreement"), a class action complaint titled *Andre Engle v. Leo J. Hindery, et. al.* was filed in the Court of Chancery of the State of Delaware, in and for the County of New Castle (the "Delaware Court"), against Home Shopping, Leo J. Hindery, Jr., Gen. H. Norman Schwarzkopf, Eli J. Segal, Peter R. Barton, Robert R. Bennett, Barry Diller, James G. Held, Silver King, Liberty and TCI by a shareholder of Home Shopping on behalf of a purported class consisting of all public shareholders of Home Shopping (other than Liberty and its controlled affiliates). Shortly thereafter, four other class action complaints were filed against the foregoing defendants with the Delaware Court by shareholders of Home Shopping on behalf of a purported class consisting of all public shareholders of Home Shopping (other than Liberty and its controlled affiliates); one of these actions also named as defendants, J. Anthony Forstmann and Victor A. Kaufman. Plaintiffs allege, among other things, that, by approving the Home Shopping Merger Agreement, the Home Shopping's director defendants and, by supporting the merger, Liberty breached their fiduciary duties to the stockholders and that the consideration to be paid to stockholders in the Home Shopping Merger is unfair and inadequate. Plaintiffs sought, among other things, an injunction preventing the defendants from taking actions toward consummation of the Home Shopping Merger and related transactions, and now seek rescission or rescissory damages and an award of unspecified compensatory damages to the members of the plaintiffs class. On October 7, 1996, the five class action lawsuits were consolidated for all purposes in an action titled *In Re: Home Shopping Network, Inc. Shareholders Litigation, Consolidated Civil Action No. 15179*.

The Company believes that the claims in the consolidated action are without merit, and does not believe it is reasonably possible that the actions will be successful or otherwise materially adversely affect the Company or its businesses. There can be no assurance, however, that the plaintiffs will not be successful, and the Company cannot estimate, based on facts available as of the date of this Report, the possible adverse effects of such a result.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

On December 19, 1996, the annual meeting of stockholders was held. At the annual meeting, stockholders representing 2,415,945 shares of Class B Common Stock and 7,083,132 shares of Common Stock were entitled to vote. Stockholders present or in person by proxy, representing 2,415,945 shares of Class B Common Stock and 6,118,028 shares of Common Stock, voted on the following matters:

The stockholders of both the Common Stock and the Class B Common Stock voting as a single class approved the Savoy Merger:

NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES CAST AGAINST	NUMBER OF VOTES ABSTAINING
29,452,630	59,422	15,226

The stockholders of both the Common Stock and the Class B Common Stock voting as a single class approved the Home Shopping Merger:

NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES CAST AGAINST	NUMBER OF VOTES ABSTAINING
29,402,671	110,537	14,070

The stockholders of the Common Stock and the Class B Common Stock voting as separate classes approved increases in the authorized capital stock of the Company:

COMMON STOCK

NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES CAST AGAINST	NUMBER OF VOTES ABSTAINING
5,239,876	116,069	11,883

CLASS B COMMON STOCK

NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES CAST AGAINST	NUMBER OF VOTES ABSTAINING
2,415,945	-0-	-0-

The stockholders of the Common Stock and the Class B Common Stock voting as separate classes approved the change in the name of the Company:

COMMON STOCK

NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES CAST AGAINST	NUMBER OF VOTES ABSTAINING
5,315,458	38,338	14,032

CLASS B COMMON STOCK

NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES CAST AGAINST	NUMBER OF VOTES ABSTAINING
2,415,945	-0-	-0-

The stockholders of the Common Stock and the Class B Common Stock voting as separate classes approved the change in voting of the Company by classes:

COMMON STOCK

NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES CAST AGAINST	NUMBER OF VOTES ABSTAINING
4,316,743	1,029,429	21,656

CLASS B COMMON STOCK

NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES CAST AGAINST	NUMBER OF VOTES ABSTAINING
2,415,945	-0-	-0-

The stockholders elected the following six directors of the Company to hold office until the next annual meeting of stockholders or until their successors have been duly elected:

Elected by holders of Common Stock voting as a separate class:

	NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES WITHHELD
Bruce M. Ramer.....	5,987,001	131,027
Sidney V. Sheinberg.....	5,986,913	131,115

Elected by holders of Common Stock and Class B Common Stock voting as a single class:

	NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES WITHHELD
Barry Diller.....	30,214,603	62,875
Victor A. Kaufman.....	30,213,701	63,777
John E. Oxendine.....	30,313,371	64,107
Richard E. Snyder.....	30,212,656	64,122

The stockholders of both the Common Stock and Class B Common Stock voting as a single class approved the adoption of the Company's 1995 Stock Incentive Plan and the Company's Directors' Stock Option Plan as follows:

1995 STOCK OPTION PLAN

NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES CAST AGAINST	NUMBER OF VOTES ABSTAINING
24,623,019	538,326	48,149

DIRECTORS' STOCK OPTION PLAN

NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES CAST AGAINST	NUMBER OF VOTES ABSTAINING
30,002,872	193,578	13,044

The stockholders of both the Common Stock and the Class B Common Stock voting as a single class ratified the appointment of Ernst & Young LLP as the Company's Independent Auditors:

NUMBER OF VOTES CAST IN FAVOR	NUMBER OF VOTES CAST AGAINST	NUMBER OF VOTES ABSTAINING
30,251,409	11,561	14,508

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is quoted on The Nasdaq Stock Market's National Market ("NASDAQ") (Symbol: HSNi after December 20, 1996, SKTV during the other periods reported below)

	HIGH	LOW
YEAR ENDED DECEMBER 31, 1996		
First Quarter.....	\$34.75	\$27.50
Second Quarter.....	34.50	28.00
Third Quarter.....	30.50	21.25
Fourth Quarter.....	26.50	21.00
YEAR ENDED DECEMBER 31, 1995		
First Quarter.....	\$10.75	\$ 8.75
Second Quarter.....	19.50	9.25
Third Quarter.....	39.75	15.50
Fourth Quarter.....	40.25	28.00

The bid prices reported for these periods reflect inter-dealer prices, without retail markup, markdown or commissions, and may not represent actual transactions.

There were approximately 11,907 stockholders of record as of March 14, 1997 and the closing price of HSNi Company Common Stock that day was \$27.63.

HSNi Common Stock began trading on December 28, 1992 on the OTC Electronic Bulletin Board. On January 19, 1993, HSNi Common Stock was listed on the NASDAQ Small-Cap Market. On August 26, 1993, HSNi Common Stock was listed on the NASDAQ National Market System; which is now the Nasdaq National Market.

The Company has paid no cash dividends on its common stock to date and does not anticipate paying cash dividends in the immediate future. Additionally, the Company's current and pending loan facilities preclude the payment of dividends.

ITEM 6. SELECTED FINANCIAL DATA

SUMMARY FINANCIAL DATA

SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS DATA	YEAR ENDED	FOUR MONTHS	YEARS ENDED AUGUST 31,			
	DECEMBER 31, 1996(1)	DECEMBER 31, 1995	1995	1994	1993	1992
			(In thousands, except per share data)			
Net revenue.....	\$75,172	\$15,980	\$47,918	\$46,563	\$46,136	\$ 46,729
Earnings (loss) before cumulative effect of change in accounting principle(2)....	(6,539)	(2,882)	115	(899)	(6,386)	(15,222)
Net earnings (loss)(3).....	(6,539)	(2,882)	115	(3,878)	(6,386)	(15,222)
Earnings (loss) per common share:						
Earnings (loss) before cumulative effect of change in accounting principle(4)....	(.61)	(.31)	.01	(.10)	(.72)	--
Net earnings (loss)(4).....	(.61)	(.31)	.01	(.44)	(.72)	--

SUMMARY CONSOLIDATED BALANCE SHEET DATA	DECEMBER 31,		AUGUST 31,			
	1996(1)	1995	1995	1994	1993	1992
			(In thousands)			
Working capital (deficit).....	\$ (24,444)	\$ 7,553	\$ 6,042	\$ 1,553	\$ 4,423	\$ (594)
Total assets.....	2,116,232	136,670	142,917	145,488	153,718	153,491
Long-term obligations.....	271,430	95,980	97,937	114,525	128,210	185
Stockholders' equity (deficit).....	1,158,749	7,471	9,278	2,614	6,396	(87,064)

(1) As a result of the Mergers, the results of operations for the year ended December 31, 1996 includes SKTV for the full year and 11 and 12 days of Home Shopping and Savoy, respectively. The balance sheet reflects purchase accounting adjustments for the consolidated entity. Commissions of \$3.4 million were not paid for 1996 as a result of the Mergers.

(2) In fiscal 1994, the Company adopted Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("Statement 109"). The cumulative effect of the accounting change resulted in a charge of approximately \$3.0 million. Prior years' financial statements were not restated.

(3) Beginning in fiscal 1992, the SKTV Stations were charged interest based on the historical cost of the SKTV Stations to SKTV and Home Shopping's then cost of long-term borrowings. In fiscal 1993, the SKTV Stations were charged interest expense on the note payable to HSN Capital Corporation ("HSNCC"), a wholly-owned subsidiary of Home Shopping, at a rate of 9.5% per annum. In fiscal 1994, the Company paid interest to HSNCC until August 1, 1994 when the Company repaid the long-term obligation to HSNCC.

(4) Net earnings (loss) per share for the year ended December 31, 1996, the four months ended December 31, 1995 and for the years ended August 31, 1995, 1994 and 1993 have been computed based upon the weighted average shares outstanding of 10,785,743; 9,394,696; 9,144,772; 8,881,380; and 8,851,339, respectively. Loss per share for fiscal year 1992 has been omitted due to lack of comparability.

ITEM 7. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

HSNi is a holding company, the subsidiaries of which conduct the operations of the Company's various business activities. The Company was incorporated in July 1986 in Delaware as part of a strategy to broaden the viewership of Home Shopping. On December 28, 1992, Home Shopping, the sole shareholder, distributed the capital stock of the Company to Home Shopping's stockholders in the form of a pro-rata stock dividend.

As discussed in Note A to the Consolidated Financial Statements, included herein, on October 25, 1995, the Company elected to change its year end from August 31 to December 31. This change was made effective January 1, 1996.

On December 19 and 20, 1996, the Company acquired 100% of the outstanding stock of Savoy and 80.1% of the outstanding stock of Home Shopping, respectively, and changed its name to HSN, Inc. The Mergers were accounted for using the purchase method of accounting. Following the Mergers, the Company's principal areas of business are electronic retailing and television broadcasting.

Home Shopping, through HSC, sells a variety of consumer goods and services by means of live, customer-interactive electronic retail sales programs which are transmitted via satellite to cable television systems, affiliated broadcast television stations and satellite dish receivers. Home Shopping operates the Programs, each 24 hours a day, seven days a week.

Currently the Company, through SKTV, owns and operates 12 independent full power UHF television stations, including one television satellite station, which primarily carry HSN.

As a result of the Savoy Merger, the Company acquired SF Broadcasting which operates four broadcast television stations affiliated with Fox. Savoy Stations owns 50% of the common equity and 100% of the voting stock of SF Broadcasting. A subsidiary of Fox owns 50% of the common equity of SF Broadcasting and also owns options, subject to certain conditions, to convert its non-voting interest into voting interests.

As a result of the Mergers, the future results of operations of the Company will change substantially from its historical results of operations as Home Shopping had revenues in excess of \$1.0 billion and an operating profit of \$41.2 million for the year ended December 31, 1996, primarily derived from the retail sales of the Programs. SF Broadcasting had revenues of \$50.7 million for the year ended December 31, 1996, principally derived from advertising revenues. See "Unaudited Pro Forma Combined Condensed Statements of Operations."

Each of the SKTV Stations, through the applicable subsidiaries, has entered into an Affiliation Agreement (the "Affiliation Agreement(s)") with Home Shopping pursuant to which each Station broadcasts HSN for approximately 164 hours per week. Home Shopping pays each SKTV Station compensation pursuant to the applicable hourly affiliation rate for such SKTV Station under its Affiliation Agreement. The Company is continuing to evaluate the status of the Affiliation Agreements following the Home Shopping Merger. The Company plans to determine on a market by market basis whether the SKTV Stations will continue to air HSN, or whether the Company will, instead, disaffiliate HSN and the SKTV Stations and develop and broadcast programming independently of Home Shopping. See "HSNi Broadcasting -- SKTV, Inc. -- Programming" above.

CONSOLIDATED RESULTS OF OPERATIONS

The following discussion presents the material changes in the consolidated results of operations of the Company which have occurred between the year ended December 31, 1996 and the fiscal year ended August 31, 1995, the pro forma year ended December 31, 1996 versus December 31, 1995, along with material changes between the four months ended December 31, 1995 and 1994 and the fiscal years ended August 31, 1995 and 1994. Reference should also be made to the Consolidated Financial Statements and Summary Financial Data included herein.

YEAR ENDED DECEMBER 31, 1996 VS. FISCAL YEAR ENDED AUGUST 31, 1995

As a result of the acquisitions of Home Shopping and Savoy, the consolidated results of operations for the year ended December 31, 1996 include the results of these two entities for 11 days and 12 days, respectively, in addition to the results of SKTV for the full year.

All discussion included herein calculates the percentage changes using actual dollar amounts, versus rounded dollar amounts.

NET REVENUES

BROADCASTING

For the year ended December 31, 1996, broadcasting revenue decreased \$1.2 million, or 2.7% to \$43.4 million from \$44.6 million for the year ended August 31, 1995. This decrease is primarily the result of the elimination of \$1.1 million of SKTV revenue for the 11 days ended December 31, 1996 due to the merger with Home Shopping. Future revenues from Home Shopping will be eliminated in consolidation as will the same amount of Home Shopping engineering and programming expenses. The year ended December 31, 1996 also includes \$1.5 million of revenue of SF Broadcasting for the 12 days ended December 31, 1996.

HOME SHOPPING

Home Shopping was acquired on December 20, 1996 and, accordingly, \$30.6 million of revenue for the 11 day period ended December 31, 1996 is reflected in total revenues. Home Shopping revenues are generated primarily from retail sales of the Programs.

OTHER

For the year ended December 31, 1996, other revenue decreased \$2.1 million, or 63.5%, to \$1.2 million from \$3.4 million for the fiscal year ended August 31, 1995. This decrease primarily is the result of a decrease in production revenue due to the closing of the Denver Telemation facility in December 1995.

OPERATING EXPENSES:

COST OF SALES, SELLING AND MARKETING AND ENGINEERING AND PROGRAMMING

Cost of sales increased \$20.4 million for the year ended December 31, 1996 compared to the fiscal year ended August 31, 1995 as a result of the inclusion of 11 days of Home Shopping. In addition, increases in selling and marketing and engineering and programming of \$5.0 million and \$1.8 million, respectively, also related to 11 days of activity for Home Shopping.

GENERAL AND ADMINISTRATIVE

For the year ended December 31, 1996, general and administrative expenses increased \$3.9 million primarily due to the inclusion of \$2.8 million of expense as a result of the Home Shopping and Savoy mergers. The remaining increase of \$1.1 million is attributable to an equity and bonus compensation arrangement with the Company's Chairman and Chief Executive Officer, offset by decreases in payroll due to the restructuring of the Company in 1995.

DEPRECIATION AND AMORTIZATION

The increase in depreciation and amortization of \$.8 million for the year ended December 31, 1996 was primarily due to the inclusion of \$1.4 million of expense as a result of the Mergers. In addition, an increase of \$.9 million was due to goodwill amortization related to the Mergers. These increases were offset by decreases of \$1.5 million, primarily related to the closure and subsequent sale of fixed assets related to the Denver Telemation facility.

OTHER INCOME (EXPENSE)

For the year ended December 31, 1996, net other expense increased \$1.6 million compared to the year ended August 31, 1995. This increase is primarily due to non-cash interest expense related to the acceleration of upfront bank fees in anticipation of the refinancing of the Company's debt in early 1997, offset by decreased interest expense attributable to a reduction in the Company's long-term debt in 1996. In addition, \$.5 million of net interest expense was due to the inclusion of partial periods for Home Shopping and Savoy.

INCOME TAXES

The Company's effective tax rate is higher than the statutory rate due primarily to the amortization of goodwill and other acquired intangibles, certain non-deductible executive compensation and a deduction for certain dividends received. In addition, some states require separate company tax filings which cause state income taxes to be disproportionate with consolidated earnings.

MINORITY INTEREST

Minority interest represents Liberty HSN's 19.9% interest in Home Shopping's earnings and Fox's 50% interest in the SF Broadcasting loss for the 11 and 12 day periods, respectively.

PRO FORMA YEAR ENDED DECEMBER 31, 1996 VS. YEAR ENDED DECEMBER 31, 1995

The following unaudited pro forma combined condensed statements of operations of HSNi ("Combined Statements") have been prepared to give effect to the Mergers as if they had occurred January 1, 1995. In addition, the Combined Statements assume that SF Broadcasting was acquired by Savoy as of January 1, 1995 giving effect to the Mergers and the acquisition of SF Broadcasting using the purchase method of accounting. During 1996, Savoy ceased its activities in the motion picture business. Accordingly, the Combined Statements, were prepared excluding the operating results of the Savoy motion picture business, for the years ended December 31, 1996 and 1995.

The Combined Statements are presented for illustrative purposes only and are not necessarily indicative of the results of operations which would have actually been reported had any of the transactions occurred as of January 1, 1995, nor is it necessarily indicative of future results of operations.

**UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENTS OF OPERATIONS
EXCLUDING SAVOY MOTION PICTURE BUSINESS**

	YEARS ENDED DECEMBER 31,	
	1996	1995
	(In thousands, except per share data)	
NET REVENUES		
Home Shopping.....	\$1,014,705	\$ 919,796
Broadcasting and production.....	53,215	65,257
	-----	-----
Total net revenues.....	1,067,920	985,053
OPERATING EXPENSES		
Cost of sales.....	626,090	603,440
Other costs.....	311,640	356,544
Depreciation and amortization.....	90,862	95,667
	-----	-----
Total operating expenses.....	1,028,592	1,055,651
	-----	-----
Operating profit (loss).....	39,328	(70,598)
Other income (expense), net.....	(34,345)	(36,075)
	-----	-----
Income (loss) before income taxes, and minority interest....	4,983	(106,673)
Income tax (expense) benefit.....	(22,582)	29,159
Minority interest.....	3,288	14,772
	-----	-----
Net loss.....	\$ (14,311)	\$ (62,742)
	=====	=====
Loss per common share.....	\$ (.29)	\$ (1.30)
Common shares outstanding.....	48,761	48,359

PRO FORMA REVENUES

For the year ended December 31, 1996, total revenues increased \$82.9 million or 8.4% compared to the year ended December 31, 1995. The increase in revenues for the year ended December 31, 1996, primarily resulted from an increase in net sales for Home Shopping of \$94.9 million, or 10.3%, to \$1.015 billion from \$919.8 million for the year ended December 31, 1995. Net sales of HSC increased \$108.3 million, or 13.8%, for the year ended December 31, 1996, reflecting a 12.0% increase in the number of packages shipped and a 1.5% decrease in the average price per unit sold compared to the year ended December 31, 1995. Sales by wholly-owned subsidiaries, Vela, HSN Mail Order, Inc. ("Mail Order") and ISN increased \$9.0 million, \$7.8 million and \$4.4 million, respectively, for the year ended December 31, 1996. These increases were partially offset by decreases related to HSN Direct Joint Venture ("HSND") and Ortho-Vent, Inc. ("Ortho-Vent") of \$17.7 million and \$15.6 million, respectively.

For the year ended December 31, 1996, HSC's merchandise return percentage decreased to 23.5% from 25.7%, in 1995. Management believes that the lower return rate is primarily attributable to the decrease in the

average price per unit sold. Promotional price discounts remained constant at 2.8% of HSC sales for the year ended December 31, 1996, compared to 1995.

The Company believes that the improvement in sales in the year ended December 31, 1996 compared to 1995 was primarily the result of changes made by new management to Home Shopping's merchandising and programming strategies. In addition, Home Shopping offered a "no interest-no payment" credit promotion through September 1996 for certain purchases made during June 1996 using Home Shopping's private label credit card and offered a similar promotion during the fourth quarter of 1996 with the payment deferral period extending to March 1997. Management is taking additional steps designed to attract both first-time and active customers which include changing the merchandising approach to broaden product assortment, changing the sales mix, optimizing product variety and value, maintaining the average price per unit at the desired level, improving inventory management and better planning of programmed shows. There can be no assurance that additional changes to Home Shopping's merchandising and programming strategies will achieve management's intended results.

PRO FORMA OPERATING EXPENSES

COST OF SALES

For the year ended December 31, 1996, cost of sales increased \$22.7 million, or 3.8%, compared to the year ended December 31, 1995. The increase in cost of sales primarily relates to Home Shopping's cost of sales which increased \$22.8 million, or 3.8%, to \$625.7 million from \$602.8 million for the year ended December 31, 1995. As a percentage of net sales, Home Shopping's cost of sales decreased to 61.7% from 65.5% compared to the year ended December 31, 1995.

Cost of sales of Home Shopping and Vela increased \$17.2 million and \$5.0 million, respectively, for the year ended December 31, 1996, compared to 1995. These increases were partially offset by decreases related to HSND and Ortho-Vent of \$6.6 million and \$9.4 million, respectively, for the year ended December 31, 1996, compared to 1995. As a percentage of Home Shopping net sales, cost of sales decreased to 62.3% for the year ended December 31, 1996, from 68.7% in 1995.

The dollar increases in Home Shopping's cost of sales relate in part to the higher sales volume. The comparative decreases in Home Shopping's cost of sales percentage in the year ended December 31, 1996, relate in part to warehouse sales and other promotional events held during 1995. In addition, the 1996 product sales mix was composed of higher gross profit merchandise. Also, Home Shopping's cost of sales for the year ended December 31, 1996 reflects a \$5.4 million decrease in Home Shopping's inventory carrying adjustment. In 1997, management expects a slight decrease in Home Shopping's cost of sales percentage from 1996.

OTHER COSTS

For the year ended December 31, 1996, other costs decreased \$44.9 million, or 12.6%, compared to the year ended December 31, 1995. This primarily relates to a \$44.1 million decrease in operating costs at Home Shopping resulting from the sale of HSND and Ortho-Vent which decreased a total of \$13.9 million, additional costs incurred in 1995 totaling \$3.1 million in connection with a change in programming strategies and a \$6.9 million decrease in expenses resulting from management's actions to streamline operations primarily through workforce reductions. In addition, other charges decreased \$13.4 million. Additional amounts were also incurred in 1995 relating to the Denver Telemation facility closure, severance and payments to executives as provided for under their employment agreements. These decreases were offset in part by an increase in other costs of SF Broadcasting.

DEPRECIATION AND AMORTIZATION

For the year ended December 31, 1996, depreciation and amortization expense decreased \$4.8 million, or 5.0%. This decrease primarily relates to a \$5.8 million decrease in depreciation and amortization of Home Shopping assets that became fully depreciated in 1995, the retirement of certain equipment in the fourth quarter of 1995 and lower capital expenditure levels in the year ended December 31, 1996, compared to 1995. Depreciation expense will increase in 1997 compared to 1996 related to increased capital expenditures in 1997.

In addition, amortization expense for name lists decreased \$3.9 million for the year ended December 31, 1996, compared to 1995, relating to the sale of Ortho-Vent assets in the fourth quarter of 1995. These decreases were offset by increased amortization of cable distribution fees of \$4.4 million for the year ended December 31, 1996, compared to 1995. Amortization of these fees is expected to total \$19.0 million in 1997 based on existing agreements. Amortization amounts will increase if additional long-term cable contracts containing upfront payments of cable distribution fees are consummated during 1997.

OTHER INCOME (EXPENSE), NET

For the year ended December 31, 1996, other expense decreased \$1.7 million, or 4.8%, compared to the year ended December 31, 1995. Home Shopping's other expense decreased \$7.0 million for the year ended December 31, 1996, compared to the year ended December 31, 1995, resulting from litigation settlement income of \$2.1 million in 1996 which represents the reversal of amounts accrued in prior years which were in excess of the actual settlement on certain litigation. This income was offset by equity losses totaling \$5.7 million relating to the Company's investments in HOT and Shop Channel which were partially offset by a gain on the sale of a controlling interest in HSND of \$1.9 million and a one-time \$1.5 million payment received in the first quarter of 1996 in connection with the termination of the Canadian Home Shopping Network license agreement. Litigation expense for the year ended December 31, 1995, of \$6.4 million, represents litigation settlements and anticipated costs in connection with the resolution of certain pending litigation. In addition in 1995, \$6.0 million in losses recorded in connection with the retirement of equipment was offset by receipts from lawsuit settlements, royalty income and other miscellaneous income totaling \$5.6 million.

The net decrease was offset in part by increased net interest expense related to SF Broadcasting which reflects increased borrowing levels and lower investment balances.

MINORITY INTEREST

For the year ended December 31, 1996, minority interest decreased \$11.5 million, or 77.7%, compared to the year ended December 31, 1995, related to Liberty HSN's minority interest in the pretax profit of Home Shopping in 1996 compared to its pretax loss in 1995 offset by the Fox minority interest in SF Broadcasting pretax loss in the 1996 compared to their profit in 1995.

FOUR MONTHS ENDED DECEMBER 31, 1995 VS. FOUR MONTHS ENDED DECEMBER 31, 1994

REVENUES

For the four months ended December 31, 1995, net revenue decreased \$1.3 million to \$16.0 million from \$17.3 million when compared to the same period in 1994. The decrease primarily related to the receipt of \$1.8 million of additional fees in fiscal 1995, compared to \$.8 million in fiscal 1994 under the Affiliation Agreements and a decrease of \$.4 million due to a reduction in production revenue. The Company closed the Denver Telemation facility effective November 1995.

OPERATING EXPENSES

GENERAL AND ADMINISTRATIVE

For the four months ended December 31, 1995, general and administrative expenses increased \$1.7 million to \$9.2 million from \$7.5 million when compared to the same period in 1994. An additional \$1.1 million is attributable to an equity and bonus compensation arrangement with the Company's Chairman and Chief Executive Officer. The remaining increase was due to additional consulting and legal expenses associated with new executive management.

OTHER

In December 1995, the Company implemented a formal plan to increase operating efficiency, reduce personnel at the SKTV Stations and the Company's corporate offices and close the Denver Telemation facility. As a result, the Company recorded a \$2.6 million charge to operations for the four months ended

December 31, 1995, which included severance costs, facility closure and non-cancellable lease costs and the write-down of property, plant and equipment.

OTHER INCOME (EXPENSE)

For the four months ended December 31, 1995, interest income increased \$.5 million to \$.9 million from \$.4 million when compared to the same period in 1994. The increase is primarily due to the settlement of the Company's lawsuit against Urban Broadcasting Corporation ("Urban"). The Company did not recognize any interest income from a note receivable from Urban in the four month period ended December 31, 1994 until the settlement was reached and the funds were received in May 1995.

INCOME TAXES

The Company's effective tax rate for these periods differed from the statutory rate due primarily to the amortization of goodwill and other acquired intangible assets relating to acquisitions from prior years, other non-deductible items, and state income taxes.

FISCAL YEAR ENDED AUGUST 31, 1995 VS. FISCAL YEAR ENDED AUGUST 31, 1994

REVENUES

For the year ended August 31, 1995, net revenue increased \$1.3 million to \$47.9 million from \$46.6 million for the year ended August 31, 1994. The increase primarily relates to the receipt of \$1.3 million of additional fees in fiscal 1995, compared to fiscal 1994, under the Affiliation Agreements.

Additionally, during fiscal 1995, the Company received \$.4 million from direct response television spots which was offset by a decrease of \$.4 million due to the declining production revenue of Telemation and from the closing of the Chicago Telemation facility in fiscal 1994 described below.

OPERATING EXPENSES

COST OF SALES

For the year ended August 31, 1995, cost of sales decreased \$.3 million to \$.6 million from \$.9 million for the year ended August 31, 1994 due to the declining production revenue of Telemation and the closing of the Chicago Telemation facility in fiscal 1994 described below.

GENERAL AND ADMINISTRATIVE

For the year ended August 31, 1995, general and administrative expenses increased \$3.1 million to \$24.4 million from \$21.3 million for the year ended August 31, 1994. The Company recognized approximately \$2.0 million in additional compensation expense in fiscal 1995 related to the issuance of 441,988 shares attributable to an equity and bonus compensation arrangement with the Company's Chairman and Chief Executive Officer, and an increase of \$.8 million in legal and consulting fees.

OTHER

The Company closed the Chicago unit of Telemation in fiscal 1994 after management determined that this unit could not meet the Company's financial objectives in Chicago's highly competitive video production marketplace due to the turnover of key employees and the need for additional capital assets.

During fiscal 1994, the Company recorded a \$1.2 million charge to operations to close the Chicago unit. Approximately \$.5 million was attributable to the write-off of leasehold improvements, production equipment and other assets and liabilities. Additionally, the Company made cash payments of \$.7 million to buy out the lease obligations of the building and equipment and to fund other miscellaneous expenses including severance payments to terminated employees.

OTHER INCOME (EXPENSE)

For the year ended August 31, 1995 net other income (expense) decreased \$.5 million to \$7.0 million from \$7.5 million for the year ended August 31, 1994.

Interest expense decreased \$1.2 million to \$11.0 million in fiscal 1995 from \$12.2 million in fiscal 1994. The decrease is due to both a reduction in long-term obligations and interest rates in fiscal 1995. The Company refinanced its long-term obligation effective August 1, 1994.

Interest income increased \$2.1 million to \$3.4 million in fiscal 1995 from \$1.3 million in fiscal 1994 primarily due to the receipt of interest from Urban and interest earned on the Company's invested cash equivalents.

Miscellaneous income from dividends decreased \$2.8 million to \$.6 million in fiscal 1995 from \$3.4 million in fiscal 1994. The decrease is due to the restructuring and receipt of the preferred dividends owed to the Company by Blackstar during fiscal 1994. On November 5, 1993, the Company amended the shareholders' agreement with Blackstar's other shareholders. Under the terms of the amended shareholders' agreement, Blackstar and the Company reduced the cumulative preferred dividend rate from 14% to 9.25% retroactive to April 20, 1988. The Company received \$1.0 million in cash of the total dividends in arrears amount of approximately \$2.8 million as of November 5, 1993. Additional scheduled dividend payments of \$.5 million and \$.4 million were made on April 4, 1994 and July 1, 1994, respectively. In addition, on August 10, 1994, Blackstar made a final dividend in arrears payment of \$1.5 million to the Company which brought Blackstar current on all dividends as of that date. On March 31, 1995, the Company received the annual preferred dividend of \$.5 million.

INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE FOR INCOME TAXES

During fiscal 1994, the Company adopted Statement 109 and reported the cumulative effect of the change in the method of accounting for income taxes in the Consolidated Statement of Operations. The cumulative effect of the accounting change resulted in a charge of approximately \$3.0 million. Prior years' financial statements were not restated.

The Company's effective tax rate is higher than the statutory rate of 34% due primarily to the amortization of goodwill and other acquired intangibles, certain non-deductible executive compensation and a deduction for certain dividends received. In addition, states require separate company tax filings which causes state income taxes to be disproportionate with consolidated earnings.

SEASONALITY

The Company believes that seasonality does impact its retailing segment but not to the same extent it impacts the retail industry in general.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$12.0 million for the year ended December 31, 1996. In addition, in connection with the Mergers, the Company acquired cash of \$52.7 million. These cash proceeds were used principally to repay outstanding borrowings of \$39.7 million under the Company's senior term loans (the "Facility"). Net earnings adjusted for non-cash items totaled \$13.2 million for the year ended December 31, 1996. The decrease in working capital of \$32.0 million for the year ended December 31, 1996 is primarily the result of the Mergers and the purchase accounting adjustments recorded in connection therewith.

Accounts and notes receivable at December 31, 1996 included "FlexPay" accounts receivable totaling \$20.3 million. It is expected that the Company's financing of "FlexPay" accounts receivable will not have a significant impact on its liquidity position.

The inventory balance is net of a carrying adjustment of \$27.9 million at December 31, 1996, which is primarily related to product which is inconsistent with Home Shopping's new sales and merchandising philosophy.

Capital expenditures were \$1.1 million for the year ended December 31, 1996. Home Shopping has initiated a plan to improve and expand the capabilities of its computer systems and accordingly, capital expenditures in 1997 are expected to range from \$25.0 to \$30.0 million. When completed, Home Shopping expects to achieve savings in its call center and fulfillment operations.

The Company is considering the orderly disaffiliation of the SKTV Stations and the development and broadcasting of independent programming. In the event of disaffiliation, substantial capital expenditures would be required to develop SKTV programming. SKTV expects these capital expenditures, combined with capital expenditures for SF Broadcasting, to range from \$15.0 to \$20.0 million for 1997.

Home Shopping has a \$150.0 million revolving credit facility (the "Home Shopping Facility") with a \$25.0 million sub-limit for import letters of credit. The Home Shopping Facility expires on August 2, 1999, and is secured by the stock of HSC and HSN Realty, Inc. There were no outstanding borrowings under the Home Shopping Facility as of December 31, 1996, and \$138.0 million was available for borrowing after taking into account outstanding letters of credit. As of March 28, 1997, there were no outstanding borrowings under the Home Shopping Facility. The Company anticipates that it will use its borrowing capacity under the Home Shopping Facility or its replacement for working capital requirements, capital expenditures and general corporate purposes.

As a result of the Mergers, the Company is renegotiating the Facility and the Home Shopping Facility and believes that it will obtain financing at a higher borrowing level with terms similar to those which currently exist.

On April 26, 1996, an entity in which the Company holds a 49% nonvoting common stock interest acquired KPST-TV, Vallejo, California which serves the San Francisco market. SKC Investments, Inc., a subsidiary of the Company, loaned the purchasing entity \$7.9 million to finance the acquisition.

On May 8, 1996, the Company received a prepayment of approximately \$1.6 million in full satisfaction of the note receivable from Roberts. The Company still retains a 45% nonvoting convertible common stock interest in Roberts. In addition, during the year ended December 31, 1996, collections from other notes receivable were \$2.5 million.

As discussed in Note F to the Consolidated Financial Statements included herein, on October 10, 1996, Home Shopping entered into a binding Memorandum of Understanding to purchase a 29% equity interest in HOT and its general partner for \$15.0 million (the "HOT Interest"). The Company has paid \$5.0 million for the HOT Interest and has recorded a \$10.0 million subscription payable; \$5.0 million is expected to be paid in each of April 1997 and September 1997.

In addition, on November 14, 1996, Home Shopping and JPC formed Shop Channel for the primary purpose of broadcasting televised shopping in Japan. Home Shopping paid \$1.8 million for its 30% interest in Shop Channel. The remaining 70% interest is held by JPC.

The Company has certain ongoing funding obligations as discussed in Note K in the Consolidated Financial Statements included herein.

During 1997, management expects to pay cable distribution fees of \$35.0 to \$40.0 million, relating to new and current contracts with cable system operators to carry Home Shopping's programming.

During 1996, the Company received cash proceeds of \$1.2 million from the exercise of .1 million options to purchase HSNi Common Stock.

In management's opinion, available cash, internally generated funds and the Home Shopping Facility or its replacement will provide sufficient capital resources to meet the Company's foreseeable needs.

During 1996, the Company did not pay any cash dividends, and none are permitted under the Company's existing and pending credit facilities.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
HSN, Inc.

We have audited the accompanying consolidated balance sheet of HSN, Inc. and subsidiaries (formerly Silver King Communications, Inc.) as of December 31, 1996 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the index at Item 14(a). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HSN, Inc. and subsidiaries as of December 31, 1996 and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

New York, New York
February 26, 1997

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
HSN, Inc.

We have audited the accompanying consolidated balance sheet of HSN, Inc. (formerly Silver King Communications, Inc.) and subsidiaries as of December 31, 1995 and the related consolidated statements of operations, stockholders' equity, and cash flows for the period September 1, 1995 through December 31, 1995 and for each of the two years in the period ended August 31, 1995. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules 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, such consolidated financial statements present fairly, in all material respects, the financial position of HSN, Inc. and subsidiaries at December 31, 1995 and the results of their operations and their cash flows for the period September 1, 1995 through December 31, 1995 and for each of the two years in the period ended August 31, 1995 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note B-8 to the consolidated financial statements, HSN, Inc. and subsidiaries changed their method of accounting for income taxes effective September 1, 1993 to conform with Statement of Financial Accounting Standards No. 109.

DELOITTE & TOUCHE LLP

Tampa, Florida
July 2, 1996

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31, 1996	FOUR MONTHS ENDED DECEMBER 31, 1995	YEARS ENDED AUGUST 31, 1995	1994
(In thousands, except per share data)				
NET REVENUES				
Broadcasting (\$41,128 from a related party in 1994).....	\$ 43,359	\$15,061	\$ 44,563	\$ 42,682
Home Shopping.....	30,588	--	--	--
Other.....	1,225	919	3,355	3,881
Total net revenues.....	75,172	15,980	47,918	46,563
Operating costs and expenses:				
Cost of sales.....	20,974	193	614	938
General and administrative.....	28,254	9,163	24,394	21,309
Depreciation and amortization.....	15,486	4,701	14,674	15,000
Selling and marketing.....	4,951	--	--	--
Engineering and programming.....	1,812	--	--	--
Other.....	83	2,603	--	1,205
Total operating expenses.....	71,560	16,660	39,682	38,452
Operating profit (loss).....	3,612	(680)	8,236	8,111
Other income (expense):				
Interest expense (\$11,456 to a related party in 1994).....	(11,841)	(3,463)	(10,963)	(12,178)
Interest income.....	3,238	888	3,410	1,321
Miscellaneous.....	44	--	570	3,352
	(8,559)	(2,575)	(6,983)	(7,505)
Earnings (loss) before income taxes, minority interest and cumulative effect of change in accounting principle.....	(4,947)	(3,255)	1,253	606
Income tax (expense) benefit.....	(1,872)	373	(1,138)	(1,505)
Minority interest.....	280	--	--	--
Earnings (loss) before cumulative effect of change in accounting principle.....	(6,539)	(2,882)	115	(899)
Cumulative effect of change in accounting principle for income taxes.....	--	--	--	(2,979)
NET EARNINGS (LOSS).....	\$ (6,539)	\$ (2,882)	\$ 115	\$ (3,878)
Earnings (loss) per common share:				
Earnings (loss) before cumulative effect of change in accounting principle.....	\$ (.61)	\$ (.31)	\$.01	\$ (.10)
Cumulative effect of change in accounting principle.....	--	--	--	(.34)
Net earnings (loss) per common share.....	\$ (.61)	\$ (.31)	\$.01	\$ (.44)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1996	1995
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 42,606	\$ 19,140
Accounts and notes receivable (net of an allowance for doubtful accounts of \$2,679 and \$68, respectively).....	56,832	4,237
Inventories, net.....	100,527	--
Deferred income taxes.....	40,842	1,797
Other current assets, net.....	7,791	1,199
	-----	-----
Total current assets.....	248,598	26,373
PROPERTY, PLANT AND EQUIPMENT		
Computer and broadcast equipment.....	95,472	76,033
Buildings and leasehold improvements.....	63,739	19,520
Furniture and other equipment.....	20,414	2,991
	-----	-----
Less accumulated depreciation and amortization....	179,625	98,544
	73,959	72,851
	-----	-----
Land.....	105,666	25,693
Construction in progress.....	14,944	3,334
	1,365	244
	-----	-----
	121,975	29,271
OTHER ASSETS		
Intangible assets, net.....	1,545,947	59,984
Cable distribution fees, net (\$40,892 to related parties)...	113,594	--
Long-term investments (\$5,581 in related parties at December 31, 1996).....	30,121	5,135
Notes receivable, net of current portion (\$1,639 from related parties at December 31, 1996).....	17,741	12,188
Deferred income taxes.....	1,926	--
Deferred charges and other, net.....	36,330	3,719
	-----	-----
	1,745,659	81,026
	-----	-----
	\$2,116,232	\$136,670
	=====	=====

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS -- (CONTINUED)

	DECEMBER 31,	
	1996	1995
	(In thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term obligations.....	\$ 42,906	\$ 12,456
Accounts payable.....	95,421	--
Programming fees (\$9,051 to related parties).....	40,717	--
Other accrued liabilities.....	93,998	6,364
	-----	-----
Total current liabilities.....	273,042	18,820
LONG-TERM OBLIGATIONS (net of current maturities).....	271,430	95,980
DEFERRED INCOME TAXES.....	--	14,399
OTHER LONG-TERM LIABILITIES, net.....	56,875	--
MINORITY INTEREST.....	356,136	--
COMMITMENTS AND CONTINGENCIES.....	--	--
STOCKHOLDERS' EQUITY		
Preferred stock -- \$.01 par value; authorized 15,000,000 shares; no shares issued and outstanding at December 31, 1996 and 1995.....	--	--
Common stock -- \$.01 par value; authorized 150,000,000 shares; issued and outstanding 35,992,903 and 6,996,332 shares at December 31, 1996 and 1995, respectively.....	360	70
Class B -- convertible common stock -- \$.01 par value; authorized, 30,000,000 shares; issued and outstanding, 10,225,056 shares at December 31, 1996; and 2,415,945 shares authorized, issued and outstanding at December 31, 1995.....	102	24
Additional paid-in capital.....	1,285,277	126,119
Accumulated deficit.....	(116,662)	(110,123)
Unearned compensation.....	(5,330)	(3,621)
Note receivable from key executive for common stock issuance.....	(4,998)	(4,998)
	-----	-----
	1,158,749	7,471
	-----	-----
	\$2,116,232	\$136,670
	=====	=====

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK	CLASS B CONVERTIBLE COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	UNEARNED COMPENSATION	NOTE RECEIVABLE FROM KEY EXECUTIVE FOR COMMON STOCK ISSUANCE	TOTAL
				(In thousands)			
BALANCE AT AUGUST 31, 1993.....	\$ 64	\$ 24	\$ 109,786	\$(103,478)	\$ --	\$ --	\$ 6,396
Issuance of common stock upon exercise of stock options.....	1	--	95	--	--	--	96
Net loss for the year ended August 31, 1994.....	--	--	--	(3,878)	--	--	(3,878)
BALANCE AT AUGUST 31, 1994.....	65	24	109,881	(107,356)	--	--	2,614
Issuance of common stock upon exercise of stock options.....	--	--	180	--	--	--	180
Unearned compensation related to grant of stock options to key executive.....	--	--	3,973	--	(3,973)	--	--
Amortization of unearned compensation related to grant of stock options to key executive.....	--	--	--	--	20	--	20
Income tax benefit related to stock options exercised.....	--	--	421	--	--	--	421
Issuance of common stock to key executive.....	4	--	9,996	--	--	(4,998)	5,002
Value of common stock in excess of key executive's purchase price.....	--	--	926	--	--	--	926
Net earnings for year ended August 31, 1995.....	--	--	--	115	--	--	115
BALANCE AT AUGUST 31, 1995.....	69	24	125,377	(107,241)	(3,953)	(4,998)	9,278
Issuance of common stock upon exercise of stock options.....	1	--	187	--	--	--	188
Amortization of unearned compensation related to grant of stock options to key executive.....	--	--	--	--	332	--	332
Income tax benefit related to stock options exercised.....	--	--	555	--	--	--	555
Net loss for the four month period ended December 31, 1995.....	--	--	--	(2,882)	--	--	(2,882)
BALANCE AT DECEMBER 31, 1995....	70	24	126,119	(110,123)	(3,621)	(4,998)	7,471
Issuance of common stock upon exercise of stock options.....	1	--	1,155	--	--	--	1,156
Amortization of unearned compensation related to grant of stock options to key executive.....	--	--	--	--	1,028	--	1,028
Income tax benefit related to stock options exercised.....	--	--	841	--	--	--	841
Issuance of common stock related to the Home Shopping merger...	247	78	1,044,487	--	--	--	1,044,812
Issuance of common stock related to the Savoy merger.....	42	--	112,675	--	--	--	112,717
Unearned compensation related to employee equity participation plan.....	--	--	--	--	(2,737)	--	(2,737)
Net loss for year ended December 31, 1996.....	--	--	--	(6,539)	--	--	(6,539)
BALANCE AT DECEMBER 31, 1996....	\$360	\$102	\$1,285,277	\$(116,662)	\$(5,330)	\$(4,998)	\$1,158,749

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A -- ORGANIZATION

HSN, Inc., formerly Silver King Communications, Inc., (the "Company" or "HSNi") is a holding company, the subsidiaries of which conduct the day-to-day operations of the Company's various business activities. The Company's principal business operations include electronic retailing and television broadcasting. The consolidated financial statements include the operations of Savoy Pictures Entertainment, Inc. and subsidiaries ("Savoy") and the operations of Home Shopping Network, Inc. and subsidiaries ("Home Shopping") from the date of their acquisitions (collectively, the "Mergers") on December 19, 1996 and December 20, 1996, respectively, as discussed in Note C.

On October 25, 1995, the Company elected to change its annual reporting period from a year ending August 31 to a year ending December 31, effective January 1, 1996. All subsidiaries of the Company are on a calendar year basis, except for SF Broadcasting of Wisconsin, Inc. and SF Multistations, Inc. and Subsidiaries (collectively known as "SF Broadcasting") which are on a 52/53 week fiscal year ending the last Sunday in December.

NOTE B -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all wholly-owned and majority owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

Investments in which the Company owns a 20%, but not in excess of 50%, interest and where it can exercise significant influence over the operations of the investee, are accounted for using the equity method. All other investments are accounted for using the cost method. The Company periodically evaluates the recoverability of investments recorded under the cost method and recognizes losses if a decline in value is determined to be other than temporary.

2. REVENUES

Revenues from Home Shopping primarily consist of merchandise sales and are reduced by incentive discounts and sales returns to arrive at net sales. Revenues are recorded for credit card sales upon transaction authorization, and for check sales upon receipt of customer payment, which does not vary significantly from the time goods are shipped. Home Shopping's sales policy allows merchandise to be returned at the customer's discretion, generally up to 30 days. Allowances for returned merchandise and other adjustments are provided based upon past experience.

Prior to December 20, 1996, television broadcasting revenue was principally derived from the broadcasting of Home Shopping programming. The Company was compensated by Home Shopping based on an applicable hourly affiliation rate per station and, upon reaching certain sales levels, commissions on net sales. Revenue was recognized as services were provided or when additional commissions were earned. Subsequent to the Mergers, as discussed in Note C, intercompany revenues and expenses are eliminated in consolidation.

Broadcast advertising revenues are recognized in the period the services are provided.

3. CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents include cash and short-term investments. Short-term investments consist primarily of U.S. Treasury Securities, auction preferred shares, U.S. Government agencies and certificates of deposit with original maturities of less than 91 days.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

4. SOFTWARE DEVELOPMENT COSTS

The Company capitalizes certain costs associated with the internal development of software for use in its primary business.

5. INVENTORIES, NET

Merchandise inventories are valued at the lower of cost or market, cost being determined using the first-in, first-out method. Cost includes freight, certain warehouse costs and other allocable overhead. Market is determined on the basis of net realizable value, giving consideration to obsolescence and other factors. Inventories are presented net of an inventory carrying adjustment of \$27.9 million at December 31, 1996.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including significant improvements, are recorded at cost. Repairs and maintenance and any gains or losses on dispositions are included in operations.

Depreciation and amortization is provided for on a straight-line basis to allocate the cost of depreciable assets to operations over their estimated service lives.

ASSET CATEGORY	DEPRECIATION/ AMORTIZATION PERIOD
Computer and broadcast equipment.....	3 to 13 Years
Buildings and building improvements.....	30 to 40 Years
Leasehold improvements.....	4 to 20 Years
Furniture and other equipment.....	3 to 10 Years

Depreciation and amortization expense on property, plant and equipment was \$4.3 million, \$1.6 million, \$5.3 million and \$5.3 million for the year ended December 31, 1996, the four months ended December 31, 1995 and the years ended August 31, 1995 and 1994, respectively.

For income tax purposes, certain assets are depreciated using allowable accelerated methods, which result in different depreciation amounts than would be calculated for financial statement purposes. At least annually, and more often if circumstances dictate, the Company evaluates the recoverability of net carrying value of its property, plant and equipment on a consolidated basis. As part of this evaluation, the fair value of the property, plant and equipment is estimated (in some cases with the assistance of outside real estate consultants) based on discounted cash flows. The fair value is compared to the carrying amount in the financial statements. A deficiency in fair value relative to carrying amount is an indication of the need for a write-down due to impairment. If the total of these future undiscounted cash flows were less than the carrying amount of the property, plant and equipment, the asset would be written-down to its fair value, and a loss on impairment recognized by a charge to earnings. The Company's accounting policy complies with Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for the Long-Lived Assets to be Disposed of."

7. INTANGIBLE ASSETS

The Company periodically analyzes the value of its intangible assets, including cable distribution fees and deferred and other charges, to determine if an impairment has occurred. The Company measures the potential impairment based on the undiscounted value of expected future operating cash flows of the assets. Based on its analysis, the Company does not believe that an impairment of these assets has occurred.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

8. INCOME TAXES

Under Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("Statement 109"), deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

During fiscal 1994, the Company adopted Statement 109 and reported the cumulative effect of a change in method of accounting for income taxes. The cumulative effect of an accounting change resulted in a charge of \$3.0 million. Prior years' financial statements were not restated. Prior to the implementation of Statement 109, the Company accounted for income taxes using Accounting Principles Board Opinion ("APB") 11.

9. EARNINGS (LOSS) PER SHARE

Primary earnings (loss) per share is based on net earnings (loss) divided by the weighted average number of common shares outstanding giving effect to stock options, warrants and convertible debt, when dilutive. Fully diluted earnings per share is not materially different from primary earnings per share in any period presented.

The weighted average number of common shares outstanding was 10,785,743 for the year ended December 31, 1996, 9,394,696 for the four months ended December 31, 1995, and 9,144,772 and 8,881,380 for the years ended August 31, 1995 and 1994, respectively.

10. STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with APB 25, "Accounting for Stock Issued to Employees", and in cases where exercise prices equal or exceed fair market value, recognizes no compensation expense for the stock option grants. In cases where exercise prices are less than fair value, compensation is recognized over the period of performance or the vesting period.

The Company is subject to the disclosure requirements of Statement of Financial Accounting Standards No. 123 "Accounting and Disclosure of Stock-Based Compensation" ("Statement 123"), which encourages, but does not require, companies to recognize stock awards based on their fair value at the date of grant. Unaudited pro forma financial information, assuming that the Company had adopted the measurement standards of Statement 123, is included in Note O.

11. MINORITY INTEREST

Minority interest in the Company's consolidated balance sheet represents Liberty HSN, Inc.'s ("Liberty HSN") 19.9% ownership in Home Shopping and Fox Television Stations, Inc.'s ("Fox") 50% non-voting ownership interest in SF Broadcasting which is consolidated as a result of voting and management control.

12. ACCOUNTING ESTIMATES

Management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with generally accepted accounting principles. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net income during any period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Significant estimates underlying the accompanying consolidated financial statements and notes include the inventory carrying adjustment, sales return accrual, allowance for doubtful accounts, recoverability of intangibles and other long lived assets, and various other operating allowances and accruals.

13. RECLASSIFICATIONS

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the 1996 presentation.

NOTE C -- MERGERS AND PRO FORMA RESULTS

SAVOY MERGER

On August 13, 1996, HSNi entered into an amendment to the Agreement and Plan of Merger, dated as of November 27, 1995, between HSNi and Savoy, pursuant to which Savoy would become a wholly-owned subsidiary of HSNi (the "Savoy Merger"). Each outstanding share of Savoy common stock was converted into the right to receive .14 of a share of common stock of the Company ("HSNi Common Stock") and each outstanding option or warrant to acquire a conversion right to receive Savoy common stock was assumed by the Company at the .14 conversion ratio. On December 19, 1996, HSNi consummated the Savoy Merger by issuing 4,205,870 shares of HSNi Common Stock in exchange for all the then outstanding Savoy common stock. One thousand shares of Savoy non-voting preferred stock were not exchanged in the Savoy Merger and remain outstanding.

HOME SHOPPING MERGER

On August 25, 1996, the Company entered into an Agreement and Plan of Exchange and Merger (the "Home Shopping Merger Agreement") with Home Shopping, a newly-formed subsidiary of the Company ("Merger Sub") and Liberty HSN. On December 20, 1996, pursuant to the Home Shopping Merger Agreement, Merger Sub was merged with and into Home Shopping (the "Home Shopping Merger") and Home Shopping became a subsidiary of the Company. Pursuant to the Home Shopping Merger, each share of Home Shopping common stock ("Home Shopping Common Stock") issued and outstanding immediately prior to the Home Shopping Merger (except for certain shares which were cancelled) was converted into the right to receive .45 of a share (the "Common Conversion Ratio") of HSNi Common Stock, and each share of Home Shopping Class B common stock ("Home Shopping Class B Common Stock") issued and outstanding immediately prior to the Home Shopping Merger (all of which shares, except for certain shares which were cancelled in the Home Shopping Merger, were beneficially owned by Liberty HSN) was converted into the right to receive .54 of a share (the "Class B Conversion Ratio") of the Company's Class B common stock ("HSNi Class B Common Stock" and, together with HSNi Common Stock, the "HSNi Securities"). A portion of the shares of HSNi Class B Common Stock (2,591,752 shares) issuable to Liberty HSN were not issued at the time of the Home Shopping Merger but are instead represented by the Company's contractual obligation to issue to Liberty HSN such shares upon the occurrence of certain events (such contractual rights, the "Contingent Rights" and such underlying shares, the "Contingent Rights Shares"). These events relate primarily to regulatory limitations under rules and regulations of the Federal Communications Commission ("FCC") regarding the permitted ownership interest of Liberty Media Corporation ("Liberty") in the Company. Additionally, in the Home Shopping Merger each outstanding option to acquire or conversion right to receive Home Shopping Common Stock was assumed by the Company and converted into an option to acquire or a conversion right to receive HSNi Common Stock at a conversion rate equal to the Common Conversion Ratio.

Liberty HSN is an indirect, wholly-owned subsidiary of Liberty, which, in turn, is a wholly-owned subsidiary of Tele-Communications, Inc. ("TCI"). Prior to the Home Shopping Merger, TCI, through Liberty and Liberty HSN, maintained voting control over Home Shopping. Immediately prior to the Home

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Shopping Merger, Liberty HSN exchanged all of its 17,566,712 shares of Home Shopping Common Stock and 739,141 shares of Home Shopping Class B Common Stock, for an equal number of shares of common stock and Class B common stock, respectively, of Merger Sub. As a result of the Home Shopping Merger, Liberty HSN's shares of common stock and Class B common stock of Merger Sub were converted into shares of Home Shopping Common Stock and Home Shopping Class B Common Stock, respectively. Home Shopping was the surviving corporation in the Home Shopping Merger.

Upon consummation of the Home Shopping Merger, and because the Home Shopping Class B Common Stock is entitled to ten votes per share on matters on which both classes of common stock vote together as a single class, the Company owned 80.1% of the equity and 90.8% of the voting power of Home Shopping, and Liberty HSN owned 19.9% of the equity and 9.2% of the voting power of Home Shopping.

After the Home Shopping Merger, pursuant to an exchange agreement, dated as of December 20, 1996, between the Company and Liberty HSN (the "Exchange Agreement"), at such time from time to time as Liberty HSN or its permitted transferee may be allowed under applicable FCC regulations to hold additional shares of the Company's stock, Liberty HSN or its permitted transferees will exchange its Home Shopping Common Stock and its Home Shopping Class B Common Stock for shares of HSNi Common Stock and HSNi Class B Common Stock, respectively, at the applicable conversion ratio. Liberty HSN, however, is obligated to effect such exchange only after all of the Contingent Rights Shares have been issued, subject to certain conditions. Upon completion of such exchange, Home Shopping will become a wholly-owned subsidiary of the Company.

Based on the number of shares of Home Shopping Common Stock and Home Shopping Class B Common Stock issued and outstanding immediately prior to the Home Shopping Merger, 24,665,651 shares of HSNi Common Stock and 7,809,111 shares of HSNi Class B Common Stock were issuable in the Home Shopping Merger to Home Shopping shareholders.

Both the Savoy Merger and the Home Shopping Merger have been accounted for using the purchase method of accounting. The purchase price, including expenses, for the Savoy Merger and the Home Shopping Merger, which were \$113.4 million and \$1.2 billion, respectively, have been preliminarily allocated to the assets and liabilities of Savoy and Home Shopping based on their respective fair values at the dates of purchase. The fair value of the assets and liabilities acquired are summarized below, along with the excess of the purchase price, including expenses, over the fair value of net assets, which has been assigned to goodwill:

	SAVOY	HOME SHOPPING
	(In thousands)	
Current assets.....	\$ 36,000	\$ 192,000
Non-current assets.....	65,800	258,000
Goodwill and broadcast licenses.....	306,000	1,186,000
Current liabilities.....	64,000	192,000
Non-current liabilities.....	230,400	223,000

The operations of Savoy and Home Shopping have been included in the operations of the Company since the respective dates of their acquisition. The following unaudited pro forma condensed consolidated financial information gives effect to the Savoy Merger and the Home Shopping Merger as if each had occurred as of January 1, 1995. The pro forma results include certain adjustments, including increased amortization related to goodwill, the reduction of cable and broadcast fees for fair value adjustments related to purchase accounting and the elimination of intercompany revenues and expenses, and are not necessarily indicative of what the results would have been had the Mergers actually occurred as of January 1, 1995. The pro forma information includes the operations of Savoy's motion picture production and distribution business which generated losses of \$145.0 million and \$78.2 million in 1996 and 1995, respectively. Savoy ceased its motion picture production activities, and these losses are not expected to continue.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	YEARS ENDED DECEMBER 31,	
	1996	1995
	(In thousands, except per share data)	
Net revenues.....	\$1,135,191	\$1,052,353
Net loss.....	(157,983)	(139,620)
Net loss per common share.....	(3.24)	(2.89)

NOTE D -- INTANGIBLE ASSETS

Intangible assets include the costs associated with the acquisition of the following assets which are amortized using the straight-line method over their estimated lives, generally 40 years.

	DECEMBER 31,		PERIOD OF AMORTIZATION
	1996	1995	
	(In thousands)		
Intangible Assets:			
Goodwill.....	\$1,193,322	\$ 6,864	30 to 40 Years
Broadcast licenses.....	350,118	46,287	30 to 40 Years
Other.....	2,507	6,833	3 to 10 Years
	\$1,545,947	\$59,984	
	=====	=====	

Goodwill at December 31, 1996 primarily relates to the Mergers, as discussed in Note C and is net of accumulated amortization of \$4.1 million at December 31, 1996.

Broadcast licenses represent the costs of acquiring FCC licenses related to broadcast operations and is net of accumulated amortization of \$21.5 million as of December 31, 1996.

Other intangibles are net of accumulated amortization of \$72.3 million as of December 31, 1996.

Intangible assets at December 31, 1995 include costs associated with the acquisition of certain assets included in the acquisitions of the 12 UHF television stations operated by the Company, certain broadcast licenses and other identifiable intangibles. Intangible assets are net of total accumulated amortization of \$83.8 million as of December 31, 1995.

NOTE E -- CABLE DISTRIBUTION FEES

In connection with the Home Shopping Merger on December 20, 1996, as discussed in Note C, assets related to upfront fees for long term cable contracts for carriage of Home Shopping's programming were recorded. These fees are amortized to expense on a straight line basis over the terms of the respective contracts, with original terms from 5 to 15 years. Amortization expense for cable distribution fees was not significant for the 11 days ending December 31, 1996.

NOTE F -- LONG-TERM INVESTMENTS

Investments accounted for under the equity method include the following:

On October 10, 1996, Home Shopping, Quelle Schickedanz AG & Co., Thomas Kirch and Dr. Georg Kofler entered into a binding Memorandum of Understanding in connection with their joint participation in Home Order Television GmbH & Co. KG ("HOT"), Germany's first television shopping network. Definitive documents were executed during January 1997. Home Shopping purchased a 29% equity interest in HOT and its general partner for \$15.0 million (the "HOT Interest"). Home Shopping has paid \$5.0 million for the HOT Interest and has recorded a \$10.0 million subscription payable; \$5.0 million is expected to be paid in

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

each of April 1997 and September 1997. The agreement contains restrictions and other provisions regarding transfers of equity interests in HOT.

The Company's investment in HOT includes the unamortized excess goodwill of Home Shopping's investment over its equity in net assets. This goodwill amount was \$10.3 million at December 31, 1996 and is being amortized on a straight-line basis over ten years.

On November 14, 1996, Home Shopping and Jupiter Programming Co., Ltd. ("JPC") formed Jupiter Shop Channel Co., Ltd. ("Shop Channel") for the primary purpose of broadcasting televised shopping in Japan. Home Shopping paid \$1.8 million for its 30% interest in Shop Channel. The remaining 70% interest is held by JPC.

Through December 31, 1996, the Company's equity in losses of affiliates was \$.4 million. The Company has certain ongoing funding obligations as discussed in Note K.

Investments accounted for under the cost method include the following:

	DECEMBER 31,	
	1996	1995
	(In thousands)	
BODY BY JAKE ENTERPRISES LLC ("BBJ")		
20% interest purchased for \$4,000,000.....	\$ 3,875	\$ --
THE NATIONAL REGISTRY, INC. ("NRI")		
100,000 shares of Series A non-voting Preferred Stock, \$.01 par value, with a liquidation preference of \$100 per share.....	10,000	--
BLACKSTAR COMMUNICATIONS, INC. ("BLACKSTAR")		
1,000 shares of Preferred Stock \$5,000 per share, non-voting, 9.25% per annum cumulative dividend.....	5,000	5,000
4,500 shares of Series 1 Class B non-voting Convertible Common Stock, \$10 per share, convertible on a one-to-one basis to Series 2 voting Common Stock.....	45	45
ROBERTS BROADCASTING COMPANY ("ROBERTS")		
4,500 shares of Series 1 Class B non-voting Convertible Common Stock, \$10 per share convertible on a one-to-one basis to Series 2 voting Common Stock.....	45	45
ROBERTS BROADCASTING COMPANY OF DENVER		
45 shares Series 1 Class B non-voting Convertible Common Stock, \$10 per share; convertible on a one-to-one basis to Series 2 voting Common Stock.....	--	--
URBAN BROADCASTING CORPORATION ("URBAN")		
4,500 shares of Series 1 Class B non-voting Convertible Common Stock, \$10 per share, convertible on a one-to-one basis to Series 2 voting Common Stock.....	45	45
OTHER.....	5	--
	-----	-----
	\$19,015	\$5,135
	=====	=====

In addition to the investment in BBJ, Home Shopping entered into a long-term marketing agreement with BBJ to provide for the sale and promotion of merchandise. The Company has the option to convert the NRI investment into 6,336,154 shares of NRI common stock; however, conversion is automatic in the event cumulative gross revenues for NRI reach \$15.0 million.

The Company has the option to convert the Blackstar, Roberts and Urban non-voting common stock interests into voting common stock investments. The Company does not currently intend to convert these interests because conversion would be in violation of FCC rules and regulations. The Company has certain limited approval rights related to investee corporate actions.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company has an option to purchase a 45% nonvoting common stock interest in Jovon Broadcasting Company, the licensee of Station WJYS(TV), Hammond, Indiana, serving the Chicago, Illinois television market. In a Memorandum Opinion and Order and Notice of Apparent Liability released June 14, 1996, the FCC ruled that, consistent with FCC regulations and policies, the Company may exercise that portion of the option which will provide it with a 33% non-voting common stock interest in Station WJYS(TV). SKTV has a loan agreement with the station licensee and the FCC also required that certain aspects of the loan documents between the licensee of WJYS(TV) and SKTV be reformed. The licensee of WJYS(TV) has filed a petition with the FCC requesting clarification as to whether the agency intended to rewrite the option to permit a partial exercise and arguing that if it did so intend, the FCC lacked the authority to do so. The Company has opposed that petition.

NOTE G -- NOTES RECEIVABLE

The Company has notes receivable as follows:

	DECEMBER 31,	
	1996	1995
	(In thousands)	
ROBERTS BROADCASTING COMPANY		
Note receivable, interest at 12.8%, principal and interest payments of \$69,055 due monthly and maturing March 1998.....	\$ --	\$ 1,613
ROBERTS BROADCASTING COMPANY OF DENVER		
Note receivable, interest at 11.5%, principal and interest payments of \$64,330 due monthly, commencing during fiscal year 1996.....	3,492	3,700
URBAN BROADCASTING CORPORATION		
Note receivable, interest at 11.5%, principal and interest payments of \$182,558 due monthly and maturing October 2000.....	6,765	8,094
JOVON BROADCASTING CORPORATION		
Note receivable, interest at 12.8%, principal and interest payments of \$65,100 due monthly and maturing May 1998.....	1,007	1,616
VALLEJO CALIFORNIA, INC.		
Note receivable, interest at 11.5%, principal and interest payments of \$150,000 due monthly and maturing July 2003.....	8,306	--
RELATED PARTY NOTE		
Note receivable, interest at 5.0%, interest payable monthly, principal due one year following termination of the Vice Chairman's employment.....	1,000	--
OTHER (from related party).....	832	--
	-----	-----
	21,402	15,023
Less current portion of notes receivable.....	3,661	2,835
	-----	-----
	\$17,741	\$12,188
	=====	=====

Certain notes receivable are collateralized by stock pledges and security interests in all of the tangible and intangible assets in the investee companies to the full extent permitted by law. The loan made to the Vice Chairman is for the purchase or renovation of a residence and is secured by a mortgage on that property.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE H -- DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets primarily consist of the film library and broadcast rights acquired in connection with the acquisition of Savoy; satellite and other deposits acquired in connection with the acquisition of Home Shopping; and deferred financing costs. Deferred charges and other assets are net of accumulated amortization of \$4.3 million and \$1.2 million as of December 31, 1996 and December 31, 1995, respectively.

NOTE I -- LONG-TERM OBLIGATIONS

	DECEMBER 31,	
	1996	1995
	(In thousands)	
Secured Senior Term Loan -- Tranche A (the "Tranche A Loan"); payable in quarterly installments and maturing July 31, 2000. The interest rate was 7.69% at December 31, 1996. At the Company's option, the interest rate (the "Rate") is tied to the London Interbank Offered Rate ("LIBOR"), or the Alternate Base Rate ("ABR") (as defined), plus an applicable margin.....	\$ 34,704	\$ 60,399
Secured Senior Term Loan -- Tranche B (the "Tranche B Loan"); payable in quarterly installments and maturing July 31, 2002. The Rate was 8.69% at December 31, 1996. At the Company's option, the Rate is tied to LIBOR, or the ABR, plus an applicable margin.....	33,968	48,037
Unsecured \$100,000,000 5 7/8% Convertible Subordinated Debentures (the "Home Shopping Debentures") due March 1, 2006 convertible into HSNi Common Stock at anytime after May 1, 1996, at a conversion price of \$26.67 per share. The Debentures were sold March 1, 1996 with net proceeds received of \$97,200,000.....	107,007	--
Secured Broadcast Facility (the "Broadcast Facility"); payable in 20 consecutive quarterly installments commencing on September 30, 1997, subject to mandatory prepayment out of excess SF Broadcasting cash flow (as defined). The interest rate was 8.3% at December 31, 1996. At the Company's option, Rate is tied to the ABR, or LIBOR, plus an applicable margin.....	92,500	--
Secured \$150,000,000 Revolving Credit Facility with a \$25,000,000 sub-limit for import letters of credit, entered into on August 2, 1996, ("the Home Shopping Facility") which expires August 2, 1999. Borrowings can be used for general corporate purposes. At the Company's option, the Rate on borrowings is tied to the ABR or LIBOR plus an applicable margin. The interest rate on borrowings ranged from 6.31% to 8.25%.....	--	--
12% Convertible Senior Subordinated Note due February 28, 1997, convertible into HSNi Common Stock at a conversion price of \$92.86.....	12,500	--
Unsecured \$37,782,000 7% Convertible Subordinated Debentures sold at a premium due July 1, 2003 ("Savoy Debentures") convertible into HSNi Common Stock at a conversion price of \$132.86 per share.....	32,331	--
Other long-term obligations.....	1,326	--
Total long-term obligations.....	314,336	108,436
Less current maturities.....	42,906	12,456
Long-term obligations, net of current maturities.....	\$271,430	\$ 95,980

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In connection with the Mergers discussed in Note C, the Company made adjustments to reflect the fair value of the Home Shopping Debentures and the Savoy Debentures from their historical carrying values of \$97.4 million and \$38.9 million, respectively.

On August 1, 1994, the Company consummated a senior secured credit facility in an aggregate principal amount of \$140.0 million (the "Facility"). The Facility consists of the Tranche A and Tranche B loans, as described above and a Secured Senior \$15.0 million Revolving Credit Facility (the "RCF"). The RCF is available for general corporate purposes. Borrowings under the RCF are on terms identical to those listed above for the Tranche A Loan. The RCF requires a commitment fee of 50 basis points per annum on the unused portion. Under the terms of the Facility, the Company is restricted from entering into certain corporate transactions such as the sale or issuance of debt and/or equity securities and the payment of dividends. Under certain conditions, the Company is required to fund prepayments in advance of scheduled principal payments.

The Home Shopping Debentures are redeemable by the Company for cash at any time on or after March 1, 1998 at specified redemption prices, plus accrued interest, except that prior to March 1, 1999, the Home Shopping Debentures may not be redeemed unless the closing price of HSNi Common Stock equals or exceeds 140% of the conversion price per share, or \$37.33 for a specified period of time. The Home Shopping Debentures are subordinated to all existing and future senior debt of the Company. In connection with the Home Shopping Merger, HSNi became a joint and several obligor with respect to the Home Shopping Debentures.

The Broadcast Facility, which expires on June 30, 2002, is secured by substantially all assets of SF Broadcasting. Restrictions contained in the Broadcast Facility include, but are not limited to, limitations on additional indebtedness, payment of dividends and the maintenance of various financial covenants and ratios. Under certain limited circumstances, Savoy and Fox may be required to contribute additional capital to SF Broadcasting if certain covenants are not met. Savoy and Fox each made a capital contribution of \$19.5 million in 1996 which was used to repay borrowings under the Broadcast Facility.

The Home Shopping Facility, which expires on August 2, 1999, is secured by the stock of HSC and HSN Realty, Inc. At December 31, 1996, there were no outstanding borrowings under the Home Shopping Facility and \$138.0 million was available for borrowing after taking into account outstanding letters of credit. The Company was in compliance with all covenants contained in the Home Shopping Facility as of December 31, 1996. Restrictions contained in the Home Shopping Facility include, but are not limited to, limitations on the encumbrance and disposition of assets and the maintenance of various financial covenants and ratios.

Interest on the Savoy Debentures is payable semi-annually on January 1 and July 1. The Savoy Debentures are redeemable at the option of the Company at varying percentages of the principal amount each year, ranging from 105.25% to 100.75%, plus applicable interest. In connection with the Savoy Merger, HSNi became a joint and several obligor with respect to the Savoy Debentures.

Aggregate contractual maturities of long-term obligations are as follows:

Years Ending	
December 31,	

	(In thousands)
1997.....	\$ 42,906
1998.....	24,270
1999.....	28,749
2000.....	24,338
2001.....	35,700
Thereafter.....	157,977

	\$313,940
	=====

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE J -- INCOME TAXES

A reconciliation of total income tax expense (benefit) to the amounts computed by applying the statutory federal income tax rate to earnings (loss) before income taxes is shown as follows:

	YEAR ENDED DECEMBER 31, 1996	FOUR MONTHS ENDED DECEMBER 31, 1995	YEARS ENDED AUGUST 31, ----- 1995 1994	
(In thousands)				
Income tax expense (benefit) at the federal statutory rate of 34%.....	\$(1,682)	\$(1,107)	\$ 426	\$ 206
Amortization of goodwill and other intangibles.....	548	61	192	188
Dividends received deduction.....	--	--	(110)	(260)
State income taxes, net of effect of federal tax benefit.....	581	22	558	837
Non-deductible portion of executive compensation.....	1,385	426	321	--
Increase (decrease) in valuation allowance for deferred tax assets.....	966	264	(212)	491
Other, net.....	74	(39)	(37)	43
Income tax expense (benefit).....	=====	=====	=====	=====
	\$ 1,872	\$ (373)	\$1,138	\$1,505

The components of income tax expense (benefit) are as follows:

	YEAR ENDED DECEMBER 31, 1996	FOUR MONTHS ENDED DECEMBER 31, 1995	YEARS ENDED AUGUST 31, ----- 1995 1994	
(In thousands)				
Current income tax expense:				
Federal.....	\$ 602	\$ 104	\$ 110	\$ --
State.....	852	233	809	639
Current income tax expense.....	-----	-----	-----	-----
	1,454	337	919	639
Deferred income tax expense (benefit):				
Inventory costing.....	(479)	--	--	--
Provision for accrued liabilities.....	609	(691)	--	--
Depreciation for financial statements in excess of tax.....	(276)	(201)	(608)	(344)
Amortization of goodwill and other broadcast related intangibles.....	(52)	(1)	3	(365)
Net operating loss carryover.....	(1,561)	(412)	845	--
Increase (decrease) in valuation allowance for deferred tax assets.....	1,305	264	(212)	491
Other, net.....	872	331	191	1,084
Change in net deferred tax liability.....	-----	-----	-----	-----
	418	(710)	219	866
Total income tax expense (benefit).....	=====	=====	=====	=====
	\$ 1,872	\$ (373)	\$1,138	\$1,505

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The tax effects of cumulative temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1996 and 1995, are presented below. The valuation allowance represents that portion of deferred tax assets recorded for net losses and basis differences on intangible assets for which it is more likely than not that the tax benefit will not be realized.

	DECEMBER 31,	
	1996	1995
	(In thousands)	
Current deferred tax assets:		
Net federal operating loss carryforward.....	\$ 85,929	\$ 719
Inventory costing.....	30,102	--
Provision for accrued expenses.....	11,310	1,171
Amortization of broadcast related intangibles.....	8,767	7,900
Other.....	17,694	--
	-----	-----
Total gross deferred tax assets.....	153,802	9,790
Less valuation allowance.....	(112,960)	(7,993)
	-----	-----
Current deferred tax assets after valuation allowance.....	\$ 40,842	\$ 1,797
	=====	=====
Non-current deferred tax assets (liabilities):		
Broadcast and cable fee contracts.....	\$ 17,010	\$ --
Depreciation for tax in excess of financial statements....	(8,704)	(3,596)
Amortization of FCC licenses and broadcast related intangibles.....	(17,734)	(10,038)
Other.....	13,095	(765)
	-----	-----
Net deferred tax assets.....	3,667	(14,399)
Less valuation allowance.....	(1,741)	--
	-----	-----
Non-current deferred tax assets (liabilities) after valuation allowance.....	\$ 1,926	\$(14,399)
	=====	=====

The Company recognized income tax deductions related to the issuance of common stock pursuant to the exercise of stock options for which no compensation expense was recorded for accounting purposes. The related income tax benefit of \$.9 million and \$.6 million as of December 31, 1996 and 1995, respectively, was recorded as an increase to additional paid-in capital.

At December 31, 1996 and 1995 the Company has net operating loss carryforwards ("NOL") for federal income tax purposes of \$225.0 million and \$1.8 million, respectively, which are available to offset future federal taxable income, if any, through 2011. Approximately \$217.6 million of the NOL as of December 31, 1996, are pre-acquisition losses which are subject to certain tax loss limitations. Accordingly, the Company has established a valuation allowance for those pre-acquisition losses. Recognition of these tax benefits in the future periods would be applied as a reduction of goodwill related to the acquisition.

Management believes the ultimate resolution of any tax audits for the open years, those years ending after August 31, 1989, will not have a significant impact on the Company's consolidated financial position or results of operations.

NOTE K -- COMMITMENTS AND CONTINGENCIES

The Company leases satellite transponders, computers, warehouse and office space, as well as broadcast and production facilities and equipment used in connection with its operations under various operating leases, many of which contain escalation clauses.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Future minimum payments under non-cancellable leases are as follows:

----- YEARS ENDING DECEMBER 31, -----	
	(In thousands)
1997.....	\$ 16,016
1998.....	9,539
1999.....	7,630
2000.....	7,165
2001.....	8,788
Thereafter.....	26,276

	\$ 75,414
	=====

Rent and lease expense charged to operations were \$2.9 million, \$.8 million, \$2.7 million and \$3.2 million for the year ended December 31, 1996, the four months ended December 31, 1995, and the years ended August 31, 1995 and 1994, respectively.

In connection with the Home Shopping Merger, the Company assumed an obligation for a satellite transponder which is no longer in use by Home Shopping, but for which there is an obligation under a non-cancellable operating lease calling for monthly payments ranging from \$140,000 to \$150,000 through December 2006. The satellite transponder has been subleased, beginning December 1, 1996, for a term of ten years with an option to cancel after four years, for \$165,000 monthly.

In connection with the Home Shopping Merger, the Company has assumed an agreement for inbound 800 service usage with MCI Telecommunications Corporation ("MCI") ending in August 2000 which requires minimum annual payments of \$9.6 million based on usage. If the Company terminates the agreement for reasons other than cause, payment of 50% of the aggregate of the minimum amounts for the remainder of the unexpired term will be due 30 days after the termination. Home Shopping's payments to MCI for such services during the years ended December 31, 1996 and 1995 exceeded the above mentioned minimum.

In addition, in connection with the Home Shopping Merger, the Company has assumed an agreement with MCI covering equipment maintenance for a term from April 1996 through April 2001, requiring minimum annual payments of \$2.7 million. Upon payment of \$13.4 million under the terms of the contract, the Company is no longer required to pay any fees for these services. The Company receives a credit for any annual fees over \$3.2 million. Management expects annual payments under this contract to exceed the minimum agreement.

The Company is required to provide funding, from time to time, for operations of Shop Channel and HOT. Future contributions to Shop Channel, amounting to \$8.7 million in the next two years, are based upon estimated shareholder contributions set forth in the initial business plan of the venture. Future contributions to HOT are limited as set forth in the agreement to \$11.4 million over the term of the partnership. No payments were made under these funding requirements for the year ended December 31, 1996. The amounts shown above were translated from the respective foreign currency using conversion rates in effect at December 31, 1996.

Mr. Barry Diller, the Chairman and Chief Executive Officer of the Company, was granted an equity and bonus arrangement pursuant to which he will receive a bonus payment of approximately \$2.5 million on August 24, 1997, except that the bonus will be paid immediately upon a change in control of the Company or upon termination of Mr. Diller's employment either by the Company other than for cause or by Mr. Diller prior to the change of control with good reason.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE L -- STOCKHOLDERS' EQUITY

DESCRIPTION OF COMMON STOCK AND CLASS B -- CONVERTIBLE COMMON STOCK

Holders of HSNi Common Stock have the right to elect, and the holders of HSNi Class B Common Stock have no vote on, 25% of the entire Board of Directors, rounded upward to the nearest whole number of directors. As to the election of the remaining directors, the holders of HSNi Class B Common Stock are entitled to 10 votes for each HSNi Class B Common Stock share, and the holders of the HSNi Common Stock are entitled to one vote per share. There are no cumulative voting rights.

The holders of both classes of the Company's common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available for the payment of dividends. In the event of the liquidation, dissolution or winding up of the Company, the holders of both classes of common stock are entitled to share ratably in all assets of the Company remaining after provision for payment of liabilities. HSNi Class B Common Stock is convertible at the option of the holder into HSNi Common Stock on a share-for-share basis. Upon conversion, the HSNi Class B Common Stock will be retired and not subject to reissue.

In February 1993, RMS Limited Partnership ("RMSLP"), the then controlling shareholder of the Company, and Liberty entered into an Option Agreement pursuant to which RMSLP granted an irrevocable assignable option (the "Option") to Liberty to purchase from RMSLP 2,000,000 shares of HSNi Class B Common Stock. In August 1996, Liberty contributed its Option to BDTV, which subsequently exercised the Option. See further description under Diller-Liberty Stockholders' Agreement.

At the 1996 Annual Meeting of Stockholders, stockholders of record of HSNi approved the increase in the number of authorized shares of HSNi Common Stock from 30,000,000 shares to 150,000,000 shares, the number of authorized shares of HSNi Class B Common Stock from 2,415,945 shares to 30,000,000 shares and the number of authorized shares of HSNi preferred stock from 50,000 shares to 15,000,000 shares. In addition, the stockholders approved the elimination of the separate class votes of the holders of HSNi Common Stock and HSNi Class B Common Stock in certain specified circumstances at any time that there are at least 2,280,000 shares of HSNi Class B Common Stock outstanding.

NOTE RECEIVABLE FROM KEY EXECUTIVE FOR COMMON STOCK ISSUANCE

In August 1995, Mr. Barry Diller became Chairman of the Board and Chief Executive Officer of the Company. In connection with Mr. Diller's employment, the Company agreed to sell Mr. Diller 441,988 shares of HSNi Common Stock ("Diller Shares") at \$22.625 per share for cash and a non-recourse promissory note in the amount of \$5.0 million, secured by approximately 265,000 shares of HSNi Common Stock. The promissory note is due on the earlier of (i) the termination of Mr. Diller's employment, or (ii) the second anniversary of the issuance of the note. The Company recognized \$926,138 of compensation expense, with a corresponding increase in additional paid-in capital, related to the issuance of the Diller Shares. The compensation expense resulted from the difference in the per share fair market value of HSNi Common Stock and the per share purchase price.

DILLER-LIBERTY STOCKHOLDERS' AGREEMENT

Mr. Diller and Liberty are parties to a stockholders agreement, dated as of August 24, 1995 (the "August Stockholders Agreement"), as amended by the first amendment (the "First Amendment") thereto, dated as of August 25, 1996 (the First Amendment, together with the August Stockholders Agreement, the "Stockholders Agreement"), pursuant to which the parties thereto and certain of their affiliates have formed the BDTV Entities, which are, collectively, the holder of record of 9,809,111 shares of HSNi Class B Common Stock (representing approximately 95.9% of the outstanding HSNi Class B Common Stock as of December 31, 1996). Mr. Diller is the President of each of the BDTV entities and beneficially owns all of the

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

voting stock of each of them. Liberty currently holds all of the non-voting common stock of each of the BDTV entities, representing in excess of 99% of the equity of each of them, which shares are convertible under certain circumstances into shares of voting common stock.

In addition to the 9,809,111 shares of HSNi Class B Common Stock held by the BDTV Entities, Mr. Diller, Liberty and Arrow Holdings, LLC ("Arrow"), an entity controlled by Mr. Diller, collectively hold 548,618 shares of HSNi Common Stock. These securities are subject to the terms of the Stockholders Agreement and represent, in the aggregate, approximately 1.5% of the outstanding HSNi Common Stock, 22% of the outstanding combined common equity of the Company and 71% of the outstanding total voting power of the Company. Assuming that all securities to be issued to Liberty pursuant to the Contingent Rights and the Exchange Agreement were issued (and that no other HSNi Securities were otherwise issued), the HSNi Securities subject to the Stockholders Agreement would represent in the aggregate approximately 19% of the then-outstanding HSNi Common Stock, 37% of the then-outstanding equity of the Company and 78% of the then-outstanding total voting power of the Company.

Pursuant to the Stockholders' Agreement, Mr. Diller exercises voting control over HSNi Securities held by the BDTV Entities, Mr. Diller, Liberty, Arrow and certain of their affiliates, subject to certain restrictions on Mr. Diller's authority to vote such shares with respect to certain matters relating to the Company and otherwise as provided in the Stockholders Agreement. Pursuant to the Stockholders' Agreement, Mr. Diller and Liberty have agreed that HSNi Securities owned by any of Mr. Diller, Liberty and certain of their affiliates will not be voted in favor of the taking of any action in connection with certain extraordinary matters except with the consent of each of Mr. Diller and Liberty.

In the Stockholders Agreement, Mr. Diller has agreed that, at any time following the consummation of the Home Shopping Merger that Liberty or Liberty HSN is no longer a subsidiary of TCI (and provided that a change in law, rule or regulation or circumstance that would permit Liberty to exercise full ownership and control over HSNi Securities (including its pro rata portion of HSNi Securities held by the BDTV Entities represented by Liberty's equity interest in the BDTV Entities), notwithstanding the Company's ownership of broadcast licenses (the "Licenses") granted by the FCC (a "Change in Law") has not theretofore otherwise occurred), Liberty may request that Mr. Diller and the Company use all reasonable efforts to take such actions as may be reasonably necessary in order that Liberty would be permitted to exercise full ownership rights with respect to HSNi Securities owned by it (including its pro rata interest in any HSNi Securities held by any BDTV Entity) (a "Restructuring Transaction"). In the event that a Restructuring Transaction has not occurred within 365 days following Liberty's notice of its request (or earlier, in certain circumstances) and a Change in Law has not otherwise occurred, Liberty would be permitted, subject to certain limitations and rights of first refusal in favor of Mr. Diller, to sell its HSNi Securities without regard to the restrictions on transfer contained in the Stockholders Agreement, and such transferee would purchase HSNi Securities free and clear of any rights (other than certain registration rights) or obligations under the Stockholders Agreement.

In view of the number of shares of HSNi Securities as to which the BDTV Entities or Mr. Diller will have voting power in connection with the matters described herein, it is anticipated that such persons will be able to control the outcome of any vote of stockholders as to any proposal or matter on which the holders of HSNi Common Stock and HSNi Class B Common Stock vote together as a single class and the outcome of any matter as to which only the holders of HSNi Class B Common Stock vote as a separate class. In addition, Mr. Diller, subject to the terms of the Stockholders Agreement, will effectively be able to control the outcome of all matters submitted to a vote or for the consent of stockholders (other than with respect to the election by the holders of HSNi Common Stock of 25% of the members of the Board of Directors (rounded up to the nearest whole number) and certain matters as to which a separate class vote of the holder of HSNi Common Stock is required under Delaware law).

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE M -- LITIGATION

The Company is engaged in various lawsuits either as plaintiff or defendant, including certain class action lawsuits initiated in connection with the Home Shopping Merger. In the opinion of management, the ultimate outcome of these various lawsuits should not have a material impact on the liquidity, results of operations or financial condition of the Company.

NOTE N -- BENEFIT PLANS

The Company offers plans pursuant to Section 401(k) of the Internal Revenue Code (the "Plans") covering substantially all full-time employees. The Plans do not cover those employees who are party to collective bargaining agreements. The Company's share of the matching employer contributions is set at the discretion of the Board of Directors or the applicable committee thereof. Contributions were \$.1 million, \$14,000, \$.1 million, and \$.1 million for the year ended December 31, 1996, the four months ended December 31, 1995 and the years ended August 31, 1995 and 1994, respectively.

In connection with the Home Shopping Merger, the Company has adopted the Home Shopping Network, Inc. Employee Equity Participation Plan (the "Equity Plan"). The Equity Plan covers all Home Shopping employees who have completed one year of service, at least 1,000 hours of service, are at least 21 years of age, are not highly compensated, and did not hold options to purchase shares of Home Shopping Common Stock.

Employees who met the eligibility requirements on December 31, 1994 and June 30, 1995, will receive grants under the Equity Plan. The stock vests ratably at 20% a year with the first vesting being effective as of the calendar year in which the eligible employee has worked at least 1,000 hours. The Board of Directors has not made any additional grants for any period subsequent to June 30, 1995.

NOTE O -- STOCK OPTION PLANS

The Company has granted options to purchase common stock under various stock option plans. In connection with the Mergers, the Company assumed and converted Home Shopping and Savoy options into options to acquire HSNi Common Stock based on the respective merger exchange ratios (see Note C), including corresponding adjustments to the option exercise price based on the exchange ratios. The following describes the various stock option plans, including the options under the plans assumed and converted in connection with the Mergers:

The Silver King Communications, Inc. 1995 Stock Incentive Plan provides for the grant of options to employees or consultants of the Company, its subsidiaries and affiliates, to purchase HSNi Common Stock for not less than fair market value on the date of grant. These options generally vest annually and equally over four years beginning one year from the date of grant, and expire ten years from the date of grant. The number of shares of HSNi Common Stock authorized under the Plan is 1,500,000 shares.

The Silver King Communications, Inc. Directors' Stock Option Plan provides for the grant of options to outside directors. Options to purchase 5,000 shares of HSNi Common Stock are automatically granted upon appointment to the Board of Directors and options to purchase an additional 5,000 shares are granted annually thereafter on the date of the Company's annual meeting. These options provide for the purchase of HSNi Common Stock at fair market value on the trading day immediately preceding the grant date, vest over three years and expire ten years from the date of grant. The number of shares of HSNi Common Stock authorized under the plan is 100,000 shares.

The Silver King Communications, Inc. Stock Option and Restricted Stock Plan (the "Employee Plan") provides for the grant of options to employees to purchase common stock at the fair market value on the date of grant. The options become exercisable in five equal, annual installments beginning on the date of grant. The

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

options expire five years from the date they vest and become exercisable. In connection with the downsizing of the Company's staff and the pending change in ownership of the Company, on October 25, 1995, the Compensation/Benefits Committee of the Board of Directors of the Company resolved to accelerate the vesting date of all existing unvested employee stock options granted under the Employee Plan, effective December 1, 1995. The expiration dates for the accelerated options shall remain five years from the date of their original scheduled vesting. At December 31, 1996, no options under this plan were available for grant.

The Silver King Communications, Inc. Stock Option Plan for Outside Directors provides for the grant of options to purchase common stock at the fair market value on the date of grant. The options become exercisable in five equal, annual installments beginning on the date of the grant. All options expire five years from the date they vest and become exercisable. At December 31, 1996, no options under this plan were available for grant.

The 1996 Home Shopping Employee Plan provides for the grant of options to purchase Home Shopping Common Stock at fair market value, subject to the discretion of the Compensation/Benefits Committee of the Board of Directors, as of the date of grant. The options vest annually and equally over five years, unless otherwise specified by the Compensation/Benefits Committee of the Board of Directors, beginning one year from the date of grant, and expire ten years from the date of grant.

The 1996 Home Shopping Director Plan provided for issuance of options to outside directors. Options for 5,000 shares of Home Shopping Common Stock were automatically granted upon appointment to the Board of Directors, and options for an additional 5,000 shares were to be granted annually thereafter. Such options provided for purchase at fair market value on the date of grant, vest over three years, and expire five years from the date of vesting.

The 1986 Home Shopping Stock Option Plan for Employees, as amended, provided for the grant of options to purchase Home Shopping Common Stock at the fair market value at date of grant. The options generally vest annually and equally over five years beginning one year from the date of grant, and expire ten years from the date of grant. At December 31, 1996, no options under this plan were available for grant.

The 1986 Home Shopping Stock Option Plan for Outside Directors, as amended, provided for the grant of options to purchase Home Shopping Common Stock at fair market value as of the date of grant. The options vest equally over two years beginning on the date of grant and expire five years from the date they vest. During 1992, the Board of Directors and shareholders approved certain amendments to the plan. The amendments provided for additional option grants after five years of service. At December 31, 1996, no options under this plan were available for grant.

The Savoy Stock Option Plan provided for the grant of options to employees to purchase Savoy common stock at the fair market value on the date of grant. Options generally become exercisable over a three-year period and expire ten years from the date they vest and become exercisable. At December 31, 1996, no options under this plan were available for grant.

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994, under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1996 and 1995: risk-free interest rates of 6.4%; a dividend yield of zero; volatility factors of the expected market price of HSNi Common Stock based on historical trends; and a weighted-average expected life of the options of five years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	YEAR ENDED DECEMBER 31, 1996	FOUR MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED AUGUST 31, 1995
	(In thousands, except per share data)		
Pro forma net loss.....	\$(21,225)	\$(6,007)	\$ (159)
Pro forma loss per share.....	\$ (1.97)	\$ (1.42)	\$ (.02)

A summary of changes in outstanding options under the stock option plans, is as follows:

	HSNi (formerly Silver King) Plans	Price Range	Home Shopping 1996 Plans	Price Range	Home Shopping 1986 Plans and Savoy 1995 Plan	Price Range	Total
	(In thousands, except price range)						
Total Authorized.....	5,996 =====		8,415 =====		987 =====		15,398 =====
Outstanding -- August 31, 1993.....	362	\$ 2.00 - 2.88	--		--		362
Granted.....	81	\$11.75 - 18.25	--		--		81
Exercised.....	(48)	\$ 9.50 - 17.50	--		--		(48)
Cancelled.....	(50)	\$ 2.00 - 18.00	--		--		(50)
Outstanding -- August 31, 1994.....	345	\$ 2.00 - 18.25	--		--		345
Granted.....	2,031	\$ 9.75 - 25.75	--		--		2,031
Exercised.....	(33)	\$ 2.00 - 18.00	--		--		(33)
Cancelled.....	(46)	\$ 2.00	--		--		(46)
Outstanding -- August 31, 1995.....	2,297	\$ 2.00 - 25.75	--		--		2,297
Granted.....	10	\$ 32.75	--		--		10
Exercised.....	(38)	\$ 2.00 - 18.00	--		--		(38)
Cancelled.....	--	--	--		--		0
Outstanding -- December 31, 1995...	2,269	\$ 2.00 - 32.75	--		--		2,269
Granted or issued in connection with mergers.....	975	\$21.38 - 32.88	7,328	\$18.88 - 31.94	987	\$7.21 - 148.21	9,290
Exercised.....	(117)	\$ 2.00 - 17.75	--		(2)	\$12.11 - 19.44	(119)
Cancelled.....	--	--	(4)	\$21.39 - 25.56	--	--	(4)
OUTSTANDING -- DECEMBER 31, 1996...	3,127 =====	\$ 2.00 - 32.75	7,324 =====	\$18.88 - 31.94	985 =====	\$7.21 - 148.21	11,436 =====
Options exercisable...	887 =====	\$ 2.00 - 32.75	1,784 =====	\$18.88 - 25.56	654 =====	\$7.21 - 148.21	3,325 =====
Available for grant...	625 =====		1,091 =====		0 =====		1,716 =====

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The weighted average exercise prices during the year ended December 31, 1996, were \$21.51, \$9.11 and \$24.17 for options granted or issued in connection with the Mergers, options exercised and options cancelled, respectively. The weighted average fair value of options granted during the year was \$15.84.

RANGE OF EXERCISE PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OUTSTANDING AT DECEMBER 31, 1996	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE AT DECEMBER 31, 1996	WEIGHTED AVERAGE EXERCISE PRICE
	(In thousands)			(In thousands)	
\$2.00 to \$10.00.....	269	3.9	\$ 5.02	269	\$ 5.02
\$10.01 to \$20.00.....	7,336	8.8	\$18.77	1,965	\$18.47
\$20.01 to \$30.00.....	2,677	8.6	\$23.13	723	\$23.28
\$30.01 to \$148.21.....	1,154	8.6	\$37.39	368	\$49.97
	-----	---	-----	-----	-----
	11,436	8.6	\$21.35	3,325	\$21.91
	=====	===	=====	=====	=====

In October 1990, Home Shopping adopted the 1990 Executive Stock Award Program (the "Program") pursuant to which 2,990,000 shares of common stock were granted to certain key employees and consultants. The Program was funded exclusively by the contribution of shares of common stock owned by a former chairman of the board and a former president of Home Shopping. Home Shopping did not issue any additional shares of stock in connection with the Program. The shares granted under the Program were distributed in five equal annual installments commencing one year from the grant date. Participants in the Program are entitled to receive dividends, if declared, on their unvested shares and certain officers are entitled to voting rights with respect to their unvested shares. Forfeitures are reissued at the discretion of the Compensation/Benefits Committee of the Board of Directors.

In August 1995, in connection with Mr. Diller's employment, the Company granted Mr. Diller an option (the "Diller Option") to acquire 1,895,847 shares of common stock at an exercise price of \$22.625 per share. In connection with granting the Diller Option, the Company recorded unearned compensation of \$4.0 million offset by a \$4.0 million increase to additional paid-in capital. The unearned compensation resulted from the difference in the exercise price and fair market value of the common stock at the date of grant and is being amortized over the four year vesting period of the options.

Over the next three years, the Company will recognize approximately \$1.8 million annually of non-cash compensation expense related to unearned compensation related to the Diller Option and other stock award programs.

NOTE P -- STATEMENTS OF CASH FLOWS

Supplemental disclosure of cash flow information:

	YEAR ENDED DECEMBER 31, 1996	FOUR MONTHS ENDED DECEMBER 31, 1995	YEARS ENDED AUGUST 31, ----- 1995 1994	
	(In thousands)			
CASH PAID DURING THE PERIOD FOR:				
Interest.....	\$8,939	\$3,200	\$10,000	\$12,400
Income taxes.....	458	100	1,500	300

Supplemental information of non-cash investing and financing activities:

- - During December 1996, the Company acquired Savoy and Home Shopping by issuing stock as discussed in Note C.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- - During August 1995, in connection with the retention of the Chairman and Chief Executive Officer, the Company issued 220,994 shares of HSNi Common Stock to its Chairman and Chief Executive Officer in exchange for \$2,000 in cash and a note receivable of \$5.0 million.

NOTE Q -- RELATED PARTY TRANSACTIONS

The Company is involved in several agreements with related parties as follows:

The Company, through its Home Shopping subsidiary, is a partner in Shop Channel, an entity in which TCI, through a subsidiary, has an indirect ownership interest. In the ordinary course of business, Home Shopping has sold inventory to Shop Channel and recorded a receivable of \$.7 million for those sales and other services provided at December 31, 1996. The Company's net investment in Shop Channel at December 31, 1996 was \$.5 million.

The Company has a secured, non-recourse note receivable of \$5.0 million from its Chairman and Chief Executive Officer, see Note L.

The Company has a note receivable of \$1.0 million from its Vice Chairman. See Note G.

Prior to the Home Shopping Merger, as discussed in Note C, the Company had affiliation agreements with Home Shopping for which the Company received \$42.4 million and \$42.7 million in calendar years 1996 and 1995, respectively. As a result of the Home Shopping Merger, these affiliation agreements are no longer considered related party transactions and \$3.4 million which had been accrued in 1996 on the books of Home Shopping was reversed.

In the normal course of business, Home Shopping enters into agreements with the operators of cable television systems and operators of broadcast television stations for the carriage of Home Shopping programming. Home Shopping has entered into agreements with a number of cable operators that are affiliates of TCI. These long-term contracts provide for a minimum subscriber guarantee and incentive payments based on the number of subscribers. Cash paid by Home Shopping to TCI and certain of its affiliates under these contracts for cable commissions and advertising was \$11.9 million and \$.8 million for calendar year 1996 and the 11 days subsequent to the Home Shopping Merger, respectively.

As of December 31, 1996, SKTV Inc., a wholly-owned subsidiary of the Company, owned a 33.4% membership interest in Blackstar. The Chairman and CEO of Blackstar is a director of the Company. Home Shopping currently maintains broadcast affiliation agreements with stations for which Blackstar is the parent company. Home Shopping recorded affiliation payments of \$4.7 million and \$.1 million relating to those stations, for calendar year 1996 and the 11 days subsequent to the Home Shopping Merger, respectively.

The President of Roberts Broadcasting Company served on the Board of Directors of the Company until January 1, 1995. Amounts receivable from or payable to Roberts Broadcasting Company through that date are classified as related party transactions.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE R -- QUARTERLY RESULTS (UNAUDITED)

	QUARTER ENDED DECEMBER 31,	QUARTER ENDED SEPTEMBER 30,	QUARTER ENDED JUNE 30,	QUARTER ENDED MARCH 31,
(In thousands, except per share data)				
YEAR ENDED DECEMBER 31, 1996				
Net revenues.....	\$41,923(a)	\$11,213	\$10,924	\$11,112
Operating profit (loss).....	(1,369)(a)	1,774	1,580	1,627
Net loss.....	(5,110)(a)	(371)	(452)	(606)
Net loss per common share (b).....	(.35)(a)	(.04)	(.05)	(.06)
YEAR ENDED DECEMBER 31, 1995				
Net revenues.....	\$12,145	\$11,658	\$11,510	\$11,315
Operating profit (loss).....	(1,135)	(121)	2,141	1,973
Net earnings (loss).....	(2,721)	(1,659)	820	153
Net earnings (loss) per common share.....	(.30)	(.18)	.09	.02

(a) The operating results for the fourth quarter 1996 reflect the impact of the Mergers discussed in Note C.

(b) Per common shares amounts for the quarters do not add to the annual amount because of differences in the average common shares outstanding during each period.

NOTE S -- SIGNIFICANT CUSTOMERS

For the year ended December 31, 1996, four months ended December 31, 1995 and the years ended August 31, 1995 and 1994, respectively, net revenue from a significant customer, Home Shopping, accounted for more than 10% of the Company's net revenue.

	YEAR ENDED DECEMBER 31, 1996	FOUR MONTHS ENDED DECEMBER 31, 1995	YEARS ENDED AUGUST 31,	
	-----	-----	1995	1994
(In thousands)				
Broadcasting revenue from significant customer.....	\$43,071	\$14,300	\$42,488	\$41,128
Total net revenues.....	\$75,172	\$15,980	\$47,918	\$46,563
Percentage of significant customer revenue to total net revenue.....	57.3%	89.5%	88.7%	88.3%

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE T -- INDUSTRY SEGMENTS

As a result of the Mergers, discussed in Note C, the Company operates principally in two industry segments; retailing and broadcasting. The retailing segment consists of Home Shopping, which primarily includes the sales of merchandise through electronic retailing. The broadcasting segment includes the operations of 12 broadcast television stations (including one television satellite station), which currently transmit Home Shopping programming and six broadcast television stations (including two television satellite stations) which are Fox affiliates. Other results of operations and financial position include the results of film operations in the year ended December 31, 1996 and production and post-production services to corporations, advertising agencies, television networks and cable operations throughout the country for the periods prior to the Mergers and are not considered a significant segment of the Company.

	YEAR ENDED DECEMBER 31, 1996	FOUR MONTHS ENDED DECEMBER 31, 1995	YEARS ENDED AUGUST 31,	
			1995	1994
(In thousands)				
Revenue				
Retailing.....	\$ 30,588	\$ --	\$ --	\$ --
Broadcasting.....	43,359	15,061	44,563	42,682
Other.....	1,225	919	3,355	3,881
	-----	-----	-----	-----
	\$ 75,172	\$ 15,980	\$ 47,918	\$ 46,563
	=====	=====	=====	=====
Operating profit (loss)				
Retailing.....	\$ (522)	\$ --	\$ --	\$ --
Broadcasting.....	4,175	30	9,368	10,384
Other(1).....	(41)	(710)	(1,132)	(2,273)
	-----	-----	-----	-----
	\$ 3,612	\$ (680)	\$ 8,236	\$ 8,111
	=====	=====	=====	=====
Assets				
Retailing.....	\$1,628,818	\$ --	\$ --	\$ --
Broadcasting.....	355,926	135,082	140,563	142,808
Other.....	131,488	1,588	2,354	2,680
	-----	-----	-----	-----
	\$2,116,232	\$136,670	\$142,917	\$145,488
	=====	=====	=====	=====
Depreciation and amortization				
Retailing.....	\$ 1,871	\$ --	\$ --	\$ --
Broadcasting.....	13,187	4,531	13,833	14,523
Other.....	428	170	841	477
	-----	-----	-----	-----
	\$ 15,486	\$ 4,701	\$ 14,674	\$ 15,000
	=====	=====	=====	=====
Capital Expenditures				
Retailing.....	\$ 447	\$ --	\$ --	\$ --
Broadcasting.....	696	163	998	1,304
Other.....	--	--	705	618
	-----	-----	-----	-----
	\$ 1,143	\$ 163	\$ 1,703	\$ 1,922
	=====	=====	=====	=====

(1) Includes a \$1.2 million charge to operations to close the Chicago unit of Telemation, Inc. in fiscal 1994.

The Company operates almost exclusively within the United States. Broadcasting revenue is principally derived from the broadcasting of Home Shopping programming. Other assets primarily relate to the Savoy motion picture business.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE U -- FINANCIAL INSTRUMENTS

The additional disclosure below of the estimated fair value of financial instruments was made in accordance with the requirements of Statements of Financial Accounting Standards No. 107. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies when available. The carrying value of all current assets and current liabilities approximates fair value due to their short-term nature.

	DECEMBER 31, 1996		DECEMBER 31, 1995	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(In thousands)			
Cash and cash equivalents.....	\$ 42,606	\$ 42,606	\$ 19,140	\$ 19,140
Long-term investments.....	30,121	30,121	5,135	5,135
Other non-current assets.....	36,330	36,330	3,719	3,719
Long-term obligations.....	(314,336)	(314,336)	(108,436)	(108,436)

NOTE V -- SAVOY SUMMARIZED FINANCIAL INFORMATION (UNAUDITED)

The Company has not presented separate financial statements and other disclosures concerning Savoy because management has determined that such information is not material to holders of the Savoy Debentures, all of which have been assumed by the Company as a joint and several obligor. The information presented is reflected at Savoy's historical cost basis.

SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
	(In thousands)		
Net sales.....	\$ 117,951	\$ 92,599	\$ 85,763
Cost of sales.....	254,009	164,464	125,056
Operating loss.....	(136,058)	(71,865)	(39,293)
Net loss.....	(156,074)	(73,744)	(59,453)

SUMMARY CONSOLIDATED BALANCE SHEETS	DECEMBER 31,	
	1996	1995
	(In thousands)	
Current assets.....	\$ 61,901	\$238,730
Non-current assets.....	302,195	391,524
Current liabilities.....	60,716	151,879
Non-current liabilities.....	124,198	194,443
Minority interest.....	112,717	68,963

NOTE W -- SUBSEQUENT EVENT (UNAUDITED)

Savoy and Fox each made a capital contribution to SF Broadcasting of \$9.0 million on March 27, 1997 which was used to repay borrowings under the Broadcast Facility. On that date, SF Broadcasting entered into an Amendment and Waiver to the Broadcast Facility which provided a waiver of certain covenants for the quarters ended September 30, 1996 and December 31, 1996 and amended the cash flow to interest expense ratio for the first two quarters of 1997.

NOTE X -- PRO FORMA QUARTERLY RESULTS (UNAUDITED)

The following unaudited pro forma quarterly results of the Company have been prepared using the purchase method of accounting to give effect to the Mergers as if they had occurred January 1, 1996. During 1996, Savoy ceased its activities in the motion picture business and accordingly, the results below were prepared excluding the operating results of the Savoy motion picture business.

	QUARTER ENDED DECEMBER 31, 1996	QUARTER ENDED SEPTEMBER 30, 1996	QUARTER ENDED JUNE 30, 1996	QUARTER ENDED MARCH 31, 1996
(In thousands)				
Net Revenues:				
Home Shopping.....	\$280,783	\$234,321	\$243,988	\$255,613
Broadcasting and production....	15,810	13,157	12,818	11,430
Total net revenues.....	296,593	247,478	256,806	267,043
Operating Expenses:				
Cost of sales.....	172,336	137,070	151,744	164,940
Other costs.....	85,289	75,964	74,441	75,946
Depreciation and amortization.....	22,895	22,776	22,625	22,566
Total operating expenses.....	280,520	235,810	248,810	263,452
Operating profit (loss).....	16,073	11,668	7,996	3,591
Other income (expense), net.....	(13,900)	(6,552)	(5,456)	(8,437)
Income (loss) before income taxes, and minority interest...	2,173	5,116	2,540	(4,846)
Income tax (expense) benefit.....	(7,244)	(6,830)	(5,235)	(3,273)
Minority interest.....	1,338	362	336	1,252
Net loss.....	\$ (3,733)	\$ (1,352)	\$ (2,359)	\$ (6,867)
Earnings (loss) per common share.....	\$ (.08)	\$ (.03)	\$ (.05)	\$ (.14)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not Applicable

PART III**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT****INFORMATION REGARDING DIRECTORS**

Barry Diller, age 55, has been a director and the Chairman of the Board and the Chief Executive Officer of the Company since August 24, 1995. He became a director of Home Shopping on August 24, 1995 and has served as Chairman of the Board since November 24, 1995. He was Chairman of the Board and Chief Executive Officer of QVC from January 1993 until February 28, 1995. From 1984 to 1992, Mr. Diller served as the Chairman of the Board and Chief Executive Officer of Fox, Inc. Prior to joining Fox, Inc., Mr. Diller served for ten years as Chairman of the Board and Chief Executive Officer of Paramount Pictures Corporation. Mr. Diller is a director of Golden Books Family Entertainment, Inc. He also serves on the Board of the Museum of Television and Radio and is a member of the Board of Chairman of Councilors for the University of Southern California's School of Cinema-Television. Mr. Diller also serves on the Board of Directors for the AIDS Project Los Angeles and the New York Public Library and the Executive Board for the Medical Sciences of University of California, Los Angeles.

James G. Held, age 47, has been a director of the Company since December 1996. He was appointed as a director pursuant to the terms of the Home Shopping Merger Agreement. He previously had served as a director of Home Shopping since February 1996. Since November 1995, Mr. Held has been President and Chief Executive Officer of Home Shopping. From January 1995 to November 1995, Mr. Held served as President and Chief Executive Officer of Adrienne Vittadini, Inc. an apparel manufacturer and retailer. Between September 1993 and January 1995, Mr. Held was a senior executive of QVC, first as Senior Vice President in charge of new business development and later as Executive Vice President of merchandising, sales, product planning and new business development. For eleven years prior to that, until September 1993, Mr. Held was employed in different executive positions at Bloomingdale's, Inc.

Victor A. Kaufman, age 53, has been a director since December 1996. Mr. Kaufman has served in the Office of the Chairman for the Company since January 27, 1997. Prior to that time, he served as Chairman and Chief Executive Officer of Savoy since March 1992 and a director of Savoy since February 1992. Mr. Kaufman was the founding Chairman and Chief Executive Officer of Tri-Star Pictures, Inc. ("Tri-Star") from 1983 until December 1987, at which time he became President and Chief Executive Officer of its successor company, Columbia Pictures Entertainment, Inc. ("Columbia"). He resigned from these positions at the end of 1989 following the acquisition of Columbia by Sony USA, Inc. Mr. Kaufman joined Columbia in 1974 and served in a variety of senior positions at Columbia and its affiliates prior to the founding of Tri-Star.

John E. Oxendine, age 53, has been a director of the Company since December 1996. He is the founder and since 1987, has been Chairman of Blackstar Communications, Inc. ("BCI"), a company that currently owns and operates three television stations affiliated with the Company. Since the fall of 1994, he has also served as Chairman and Chief Executive Officer of Blackstar LLC, the owner of BCI and, through a subsidiary of station KEVN-TV, Rapid City, South Dakota and its satellite station, KIVV-TV, licensed to Lead-Deadwood, South Dakota. From 1981 to 1995, Mr. Oxendine served as President and Chief Executive Officer of Broadcast Capital Fund, Inc. Mr. Oxendine is also a member of the Board of the nonprofit Monterey Institute.

Bruce M. Ramer, age 63, has been a director of the Company since February 1996 and has been a principal of the law firm Gang, Tyre, Ramer & Brown, Inc. for more than five years. He is Chairman of the Board of Directors of Geffen Playhouse, Los Angeles and was formerly a member of the Board of Directors of Rebuild L.A. Mr. Ramer is also Executive Director of the Entertainment Law Institute of the University of Southern California Law School, a member of the Board of Councilors and a member of the Board of Trustees of Loyola Marymount University.

Gen. H. Norman Schwarzkopf, age 62, has been a director of the Company since December 1996. He was appointed as a director pursuant to the terms of the Home Shopping Merger Agreement. He previously had served as a director of Home Shopping since May 1996. Since his retirement from the military in August 1991, General Schwarzkopf has been an author, a participant in several television specials and is currently working with NBC on additional television programs. From August 1990 to August 1991, he served as Commander-in-Chief, United States Central Command and Commander of Operations, Desert Shield and Desert Storm. General Schwarzkopf has 35 years of service with the military. He is also on the Board of Governors of the Nature Conservancy, Chairman of the Starbright Capital Campaign, co-founder of the Boggy Creek Gang, a member of the University of Richmond Board of Trustees, and serves on the Boards of Directors of Borg-Warner Security Corporation, Remington Arms Company, Washington Water Power, Pentzer Corporation, Kuhlman Corporation and Cap CURE, Association for the Cure of Cancer of the Prostate.

Eli J. Segal, age 54, has been a director of the Company since December 1996. He was appointed as director pursuant to the terms of the Home Shopping Merger Agreement. He previously had served as a director of Home Shopping since February 1996. Mr. Segal has served as a consultant to Bits & Pieces, Inc., a direct mail consumer product company, since February 1996; as a consultant to Sirius Thinking Ltd., an independent television producer, since January 1997; and as Chairman of the Board of School Sports, Inc., a magazine celebrating the world of high school sports, since December 1996. Mr. Segal previously served as Assistant to the President of the United States from January 1993 to February 1996. In that connection, Mr. Segal was also confirmed by the United States Senate as the first Chief Executive Officer of the

Corporation for National Service. Prior to that, Mr. Segal served as President of Bits & Pieces, Inc. from 1984 to January 1993, and publisher of GAMES magazine, a monthly publication from 1990 to January 1993.

Sidney J. Sheinberg, age 62, has been a director of the Company since February 1996. He served as President and Chief Operating Officer and as a director of MCA INC. from June 1973 until October 1995. Since October 1995, Mr. Sheinberg has been a partner of The Bubble Factory, an entertainment company. Mr. Sheinberg served as a director of Cineplex Odeon Corporation from May 1986 until October 1995.

Richard E. Snyder, age 63, has been a director of the Company since December 1996. He has been Chairman and Chief Executive Officer since May 1996 and President since February 1996 of Golden Books Family Entertainment, Inc. (formerly Western Publishing Group). Prior to that time, Mr. Snyder had, since 1994, been an independent business consultant and investor. He was the Chairman and Chief Executive Officer of Simon & Schuster from 1975 to 1994. Mr. Snyder is also a director of Reliance Group Holdings, Inc. and Children's Blood Foundation. Mr. Snyder is a member of the Society of Fellows of the American Museum of Natural History, the Council on Foreign Relations and the Board of Overseers for the University Libraries of Tufts University.

EXECUTIVE OFFICERS

The following sets forth certain information concerning the persons who currently serve as executive officers of the Company and who do not serve on the Company's Board of Directors.

Brian J. Feldman, age 37, has served as Controller of the Company since January 27, 1997 and Vice President and Controller of Home Shopping since March 1996. He served as Controller, Deputy Controller and Assistant Controller for Home Shopping from May 1989 to March 1996.

James G. Gallagher, age 38, has served as Vice President, General Counsel and Secretary of the Company since January 27, 1997 and as Executive Vice President and General Counsel of Home Shopping since October 14, 1996. Prior to joining Home Shopping, Mr. Gallagher served in a variety of capacities, including most recently as Group Counsel at American Express Travel Related Services Company, Inc. from July 1988 to September 1996.

Mary Ellen Pollin, age 51, has served as Vice President -- Human Resources for the Company since January 27, 1997. She joined Home Shopping in December 1995 as Executive Vice President of Administration. From July 1995 to December 1995, she served as Executive Director of Russell Reynolds Associates, an executive recruiting firm. From July 1993 to June 1995, she served as Vice President of J.D. Ross International. From May 1990 to June 1993, she was Director of Recruitment and Executive Placement at Barneys New York. From 1988 to 1990, she served as Vice President, Human Resources of Conran's Habitat. During the nine years prior to this, Ms. Pollin worked for Bloomingdale's, Inc. in various human resource capacities.

Jed B. Trosper, age 42, joined Home Shopping in January 1997 as Executive Vice President, Chief Financial Officer and Treasurer and assumed the roles of Vice President, Chief Financial Officer and Treasurer of HSNi on January 27, 1997. He previously served as President of Blessing White from September 1995 to December 1996 and Chief Financial Officer for several of the portfolio companies of General Atlantic Partners including Blessing/White, Inc., Record World, Inc., and Comprehensive Learning Concepts, Inc. from 1990 to 1995. Mr. Trosper was Chief Financial Officer of Modell's Sporting Goods, Inc. and held various financial positions at JC Penney Company, Inc., Bloomingdale's, Inc., and S.E. Nichols Company, Inc. from 1977 to 1990.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

For the 1996 fiscal year, James J. Miller and John E. Oxendine each failed to file on a timely basis a Form 3 stock ownership report reflecting their initial beneficial ownership of Company securities acquired in connection with the Home Shopping Merger. Douglas Binzak and Adam Ware each failed to file on a timely basis a Form 5 stock ownership report reflecting a change in the term of certain stock options held by each of them.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION OF OUTSIDE DIRECTORS

Effective January 1, 1996, upon the recommendation of the Compensation/Benefits Committee, the Board approved an increase of the annual retainer for each director who is not an employee of the Company from \$10,000 to \$30,000 per year. The Company also pays each such director \$1,000 for each of the Board of Directors meetings and each of the Board committee meetings attended, plus reimbursement for all reasonable expenses incurred by such director in connection with such attendance at any meeting of the Board of Directors or one of its committees.

At a meeting of the Compensation/Benefits Committee on February 13, 1996, the Compensation/Benefits Committee recommended, and the Board approved, the termination of the previous director option plan and the adoption of the Company's Directors' Stock Option Plan (the "Directors' Stock Option Plan.") The stockholders approved the Directors' Stock Option Plan on December 19, 1996.

Under the Directors' Stock Option Plan, directors who are not employees of the Company and who became directors of the Company on or after February 13, 1996 receive an annual grant of options to purchase 5,000 shares of HSNi Common Stock. The exercise price per share of HSNi Common Stock subject to such options is the fair market value of HSNi Common Stock on the date of grant, which is provided to be the mean of the high and low sale price on such date on any stock exchange on which HSNi Common Stock is listed or as reported by the Nasdaq National Market, or, in the event that HSNi Common Stock is not so listed or reported, as determined by an investment banking firm selected by the Compensation/Benefits Committee. Such options vest in increments of 1,667 shares on each of the first two anniversaries of the date of grant, and 1,666 shares on the third. The options expire ten years from the date of grant. For directors who became directors on February 13, 1996, December 19, 1996 and December 20, 1996, the exercise price per share of the annual grant was \$32.88, \$21.38 and \$23.25, respectively.

Home Shopping entered into a three year consulting arrangement with General Schwarzkopf during April 1996 which remains in effect following the Home Shopping Merger. Under the terms of the arrangement, General Schwarzkopf received options to purchase 22,500 shares of HSNi Common Stock at an exercise price of \$22.22 per share. The options vest over a three year period commencing April 3, 1997 and are exercisable for a ten year period. In addition, option grants in the amount of 2,250 shares each were made in January 1997 to Messrs. Schwarzkopf and Segal at an exercise price of \$25.56 and \$21.39 per share, respectively. These options vest over a two year period and are exercisable for a period of five years from the date that they vest. The option grants replace options that were terminated as a result of the Home Shopping Merger.

SUMMARY OF EXECUTIVE OFFICER COMPENSATION

The following sets forth the annual and long-term compensation for services to the Company for the year ended December 31, 1996 and four months ended December 31, 1995 and the fiscal years ended August 31, 1995 and 1994 of those persons who were, at December 31, 1996, (i) the Chief Executive Officer of the Company, (ii) the other four most highly compensated officers of the Company whose compensation exceeded \$100,000 for fiscal year 1996.

SUMMARY COMPENSATION TABLE(1)

NAME & PRINCIPAL POSITION	ANNUAL COMPENSATION				LONG TERM COMPENSATION		
	FISCAL YEAR (1)	SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)(2)	RESTRICTED STOCK AWARDS (\$)	STOCK OPTIONS (#)	ALL OTHER COMPENSATION (\$)
Barry Diller.....	1996	0	1,618,722(4)	0	0	0	1,280,508(3)(8)
Chairman and	1995*	0	833,333(4)	0	0	6,610,000(5)	424,892(8)
Chief Executive Officer	1995(6)	0	47,945(4)	1,892,401(7)	0	1,895,847(8)	25,200(8)
Douglas Binzak.....	1996(9)	207,500	0	0	0	110,000	115,328(9)
Executive Vice President -- Broadcasting							
Michael Drayer.....	1996	120,750	0	0	0	0	1,000(3)
Executive Vice	1995*	41,135	0	0	0	0	183,911(10)
President,	1995	116,484	4,000	0	0	2,500	1,000(3)
General Counsel and Secretary	1994	102,653	0	0	0	0	1,000(3)
Lia Afriat-Hernandez.....	1996	107,701	0	0	0	0	174,385(3)(10)
Executive Vice	1995*	34,923	0	0	0	0	0
President --	1995	97,858	3,500	0	0	2,500	1,000(3)
Compliance/	1994	76,731	0	0	0	0	1,000(3)
Programming							
Adam Ware.....	1996(9)	142,789	0	0	0	100,000	106,563(9)
Executive Vice President -- Broadcasting							

(1) Effective January 1, 1996, the Company's year end was changed from August 31 to the calendar year end. For purposes of the Summary Compensation Table, "1996" refers to the calendar year 1996, "1995*" refers to the four months ended December 31, 1995, and "1995" and "1994" refer to the fiscal years ended August 31, 1995 and 1994, respectively.

(2) Disclosure of perquisites and other personal benefits, securities or property received by a Named Executive Officer is only required where the aggregate amount of such compensation exceeded the lesser of \$50,000 or 10% of the total of the Named Executive Officer's salary and bonus for the year.

(3) Includes the Company's contributions under its 401(k) Retirement Savings Plan (the "401(k) Plan"). Pursuant to the 401(k) Plan, the Board of Directors may elect to match a portion of employee contributions up to a maximum amount of \$1,000 per year, which contributions vest in equal installments over a five-year period. Mr. Drayer and Ms. Hernandez are each fully vested in the 401(k) Plan.

(4) Pursuant to the Equity Compensation Agreement between Mr. Diller and the Company, Mr. Diller received a bonus payment of approximately \$2.5 million on August 24, 1996. The Company accrued seven days of this bonus in fiscal 1995 and four months for 1995*.

(5) Reflects 625,000 options granted to Mr. Diller as a result of completion of the Home Shopping and Savoy Mergers and also includes 5,985,000 options to purchase HSNi Common Stock resulting from the conversion of options to purchase Home Shopping Common Stock granted to Mr. Diller in November 1995 as Chairman of Home Shopping.

(6) Mr. Diller was appointed Chairman of the Board and Chief Executive Officer of the Company on August 24, 1995.

(7) This figure includes \$966,263 in compensation paid to Mr. Diller to fund his tax liability in connection with his acquisition of HSNi Common Stock pursuant to the Equity Compensation Agreement, and \$926,138 in non-cash income to Mr. Diller based upon the difference between the fair market value of HSNi Common Stock on the date of purchase and the price per share paid for the stock by Mr. Diller.

(8) Pursuant to the Equity and Bonus Compensation Agreement, Mr. Diller was granted options in 1995 to purchase 1,895,847 shares of HSNi Common Stock, vesting over a four-year period, at an exercise price below the fair market value of the Company's Common Stock on the date of grant. The Company has amortized unearned compensation of \$19,046 in 1995, \$331,038 in 1995*, and \$993,135 in 1996. In addition, Mr. Diller has an interest-free, secured, non-recourse promissory note in the amount of \$4,997,779 payable to the Company which was used to purchase 220,994 shares of HSNi Common Stock. As a result, Mr. Diller has compensation for imputed interest of \$6,154 in 1995, \$93,854 in 1995* and \$286,373 in 1996.

(9) Messrs. Binzak and Ware were employed by the Company during June 1996. On November 12, 1996, Messrs. Binzak's and Ware's options were amended to reduce the option price from \$32.88 and \$33.00, respectively, to \$25.25, the closing price of HSNi Common Stock on the date of amendment. As a result, included in all other compensation is \$115,328 and \$106,563 for Messrs. Binzak and Ware, respectively, relating to the repricing of these options.

(10) Includes amounts accrued for termination benefits of \$183,911 and \$173,385 for Mr. Drayer and Ms. Hernandez, respectively.

OPTION GRANTS

Set forth in the table below is information with respect to options to purchase the Company's Common Stock granted to the Company's named executive officers ("Named Executive Officers") during the year ended December 31, 1996. The grants were made under the new 1995 Stock Incentive Plan ("Stock Incentive Plan").

The Stock Incentive Plan is administered by the Compensation/Benefits Committee, which has the sole discretion to determine the selected officers, employees and consultants to whom incentive or non-qualified options, SARs, restricted stock and performance units may be granted. As to such awards, the Compensation/Benefits Committee also has the sole discretion to determine the number of shares subject thereto and the type, terms, conditions and restrictions thereof. The exercise price of an incentive stock option granted under the Stock Incentive Plan must be at least 100% of the fair market value of the Company's Common Stock on the date of grant. In addition, an option granted under the Stock Incentive Plan terminates within ten years of the date of grant. To date, only non-qualified stock options have been granted under the Stock Incentive Plan.

OPTION GRANTS IN LAST FISCAL YEAR(1)

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS TO EMPLOYEES GRANTED IN THE FISCAL YEAR	EXERCISE PRICE PER SHARE (\$/SH)	EXPIRATION DATE (2)	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERMS (3)	
					5% (\$)	10% (\$)
Barry Diller..... Chairman and Chief Executive Officer	0	--	--	--	--	--
Douglas Binzak..... Executive Vice President -- Broadcasting	110,000	34.4%	25.25 (4)	6/10/2006	1,746,755	4,426,200
Adam Ware..... Executive Vice President -- Broadcasting	100,000	31.3%	25.25 (4)	6/17/2006	1,587,959	4,024,200
Michael Drayer..... Executive Vice President, General Counsel and Secretary	0	--	--	--	--	--
Lia Afriat-Hernandez.... Executive Vice President -- Compliance/ Programming	0	--	--	--	--	--

-
- (1) Under the terms of the Stock Incentive Plan, the Compensation/Benefits Committee retains discretion, subject to plan limits, to modify the terms of outstanding options and to reprice such options.
- (2) Under the Stock Incentive Plan, the Compensation/Benefits Committee determines the exercise price, vesting schedule and exercise periods for option grants made pursuant to that Plan. Options granted during the year ended December 31, 1996, generally become exercisable in four equal, annual installments commencing on the first anniversary of the grant date. Each such option expires ten years from the date of grant.
- (3) Gains are reported net of the option exercise price, but before taxes associated with exercise. These amounts represent certain assumed rates of appreciation only. Actual gains, if any, on stock option exercises are dependent on the future performance of HSNi Common Stock, overall stock market conditions, as well as on the option holders' continued employment through the vesting period. The amounts reflected in this table may not necessarily be achieved.
- (4) On November 12, 1996, Messrs. Binzak's and Ware's options were amended to reduce the option price from \$32.88 and \$33.00, respectively, to \$25.25, the closing price of HSNi Common Stock on that date.

OPTION EXERCISES

The following table provides information concerning the exercise of stock options by the Company's Named Executive Officers during the year ended December 31, 1996 and the year-end value of all unexercised options held by such persons.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND YEAR-END OPTION VALUES

NAME	ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF UNEXERCISED OPTIONS HELD AT YEAR END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT YEAR-END (\$) (1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Barry Diller(2)..... Chairman and Chief Executive Officer	0	0	2,126,461	6,379,386	7,806,645	23,419,933
Douglas Binzak(3)..... Executive Vice President -- Broadcasting	0	0	0	110,000	0	0
Adam Ware(3)..... Executive Vice President -- Broadcasting	0	0	0	100,000	0	0
Michael Drayer(4)..... Executive Vice President, General Counsel and Secretary	0	0	14,500	0	250,500	0
Lia Afriat-Hernandez(4)..... Executive Vice President -- Compliance/Programming	0	0	12,040	0	202,037	0

(1) Represents the difference between the \$23.75 closing price of HSNi Common Stock on December 31, 1996 and the exercise price of the options, and does not include the federal and state taxes due upon exercise.

(2) Mr. Diller's options consist of options to purchase (i) 625,000 shares of HSNi Common Stock granted in 1995 pursuant to the Stock Incentive Plan, (ii) 1,895,847 shares of HSNi Common Stock granted during 1995 pursuant to the Equity Compensation Agreement and (iii) 5,985,000 shares of HSNi Common Stock resulting from the conversion of options to purchase Home Shopping Common Stock. One quarter of each of these options were exercisable as of December 31, 1996. The value of in-the-money options at year end reflect only those options where the closing price of HSNi Common Stock at December 31, 1996 was greater than the exercise price of the option.

(3) The exercise price of the option was greater than the market closing price of HSNi Common Stock on December 31, 1996.

(4) Mr. Drayer and Ms. Afriat-Hernandez are no longer employed by the Company.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation/Benefits Committee currently are Eli J. Segal and Sidney J. Sheinberg. Kenneth T. MacDonald, Vincent F. Barresi, Michael

A. Green and Russell I. Pillar served on the Committee during 1996. Except as set forth below, none of these directors was ever an officer or employee of the Company or its subsidiaries.

In fiscal year 1994, the Audit Committee approved a consulting agreement whereby Mr. Barresi, a member of the Board of Directors and the Audit and Compensation/Benefits Committees, would seek to enhance the Company's revenue through the increased sale of station airtime and satellite earth station uplink time, and the leasing of station tower and building space. Mr. Barresi was compensated at the rate of \$6,000 per month plus a 10% commission on net receipts directly attributable to his efforts and reasonable and prudent expenses. The consulting agreement was effective March 4, 1994 and terminated December 31, 1994. Mr. Barresi remains entitled to a 10% commission on net receipts directly attributable to his efforts. For the year ended, December 31, 1996, Mr. Barresi was compensated in the total amount of \$46,000. Mr. Barresi abstained from voting on all Audit Committee matters pertaining to the consulting agreement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of December 31, 1996, information relating to the beneficial ownership of HSNi Common Stock by (i) each person known by the Company to own beneficially more than 5% of the outstanding shares of HSNi Common Stock, (ii) each director, (iii) the Chief Executive Officer of the Company and the other four most highly compensated officers of the Company whose compensation exceeded \$100,000 for the year 1996, and (iv) all executive officers and directors of the Company as a group:

NAME AND ADDRESS OF BENEFICIAL OWNER -----	NUMBER OF SHARES -----	PERCENT OF CLASS -----	PERCENT OF VOTES (ALL CLASSES) (1) -----
Capital Research & Management Co & The Capital Group Companies, Inc(2)..... 333 South Hope Street Los Angeles, CA 90071	3,846,250	10.8%	2.8%
Denver Investment Advisers, LLC..... 1225 17th St., 26th Floor Denver, CO 80202	3,126,243	8.7%	2.3%
Fidelity Investments(3)..... 82 Devonshire Street Boston, MA 02109-3614	2,920,040	8.1%	2.1%
Snyder Capital Management, Inc..... 350 California Street Suite 1460 San Francisco, CA 94104	1,962,325	5.5%	1.4%
Tele-Communications, Inc.(4)..... 5619 DTC Parkway Englewood, CO	9,870,741	21.4%	21.4%
Barry Diller(5).....	12,484,190	27.0%	27.0%
Douglas Binzak(6).....	0	*	*
James G. Held(7).....	281,272	*	*
Victor A. Kaufman(8).....	142,000	*	*
John E. Oxendine(9).....	0	*	*
Bruce M. Ramer(9).....	0	*	*
Gen. H. Norman Schwarzkopf(10).....	750	*	*
Eli J. Segal(11).....	750	*	*
Sidney J. Sheinberg(9).....	0	*	*
Richard E. Snyder(9).....	0	*	*
Adam Ware(12).....	0	*	*
Michael Drayer(13).....	14,500	*	*
Lia Afriat-Hernandez(14).....	12,343	*	*
All executive officers and directors as a group (16 persons).....	12,996,071	28.4%	28.1%

* The percentage of shares beneficially owned does not exceed 1% of the class.

Unless otherwise indicated, beneficial owners listed herein may be contacted at the Company's corporate headquarters address, 2501 118th Avenue North, St. Petersburg, FL 33716. The percentage of votes listed assumes the conversion of any shares of HSNi Class B Common Stock owned by such listed person, but does not assume the conversion of HSNi Class B Common Stock owned by any other person. Under the rules of the Commission, a person is deemed to be a "beneficial owner" of a security

if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be the beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which that person has no beneficial interest.

- (1) The percent of votes for all classes is based on one vote for each share of HSNi Common Stock and ten votes for each share of HSNi Class B Common Stock. However, the percent of votes for TCI and Mr. Diller assume that all of their HSNi Class B Common Stock has been converted into HSNi Common Stock, and therefore, there is no HSNi Class B Common Stock outstanding.
- (2) Includes 3,141,250 shares of HSNi Common Stock and 705,000 shares as a result of the assumed conversion of \$18,800,000 principal amount of the Home Shopping Debentures into HSNi Common Stock.
- (3) Includes 2,238,479 shares of HSNi Common Stock and 681,651 shares as a result of the assumed conversion of \$15,763,000 principal amount of the Home Shopping Debentures into HSNi Common Stock.
- (4) Includes beneficial ownership of 9,809,111 shares of HSNi Class B Common Stock, which may be converted at any time into an equal number of shares of HSNi Common Stock, and 61,630 shares of HSNi Common Stock. The number of shares does not include any shares or options to purchase shares held and voted by Mr. Diller outside the BDTV entities as to which shares TCI disclaims beneficial ownership.
- (5) The number of shares includes 486,988 shares owned by Mr. Diller and vested options to purchase 2,126,461 shares but does not include unvested options to purchase 6,379,386 shares granted to Mr. Diller. Such number also includes 9,809,111 shares of HSNi Class B Common Stock beneficially owned by Mr. Diller as the sole voting shareholder of the BDTV Entities which hold such shares, which shares are convertible into HSNi Common Stock, and 61,630 shares of HSNi Common Stock held by Liberty HSN with respect to which Mr. Diller may be deemed to be a beneficial owner because he has voting control of such shares. Such number does not include the Exchange Shares or the Contingent Rights Shares. See "Item 1 -- The Mergers -- Home Shopping Merger" for further discussion.
- (6) Does not include unvested options to purchase 110,000 shares of HSNi Common Stock pursuant to the Stock Incentive Plan.
- (7) Includes vested options, granted pursuant to the 1996 Home Shopping Employee Stock Option Plan (the "Home Shopping Employee Plan"). Does not include unvested options to purchase 843,750 shares pursuant to that plan. Includes 22 shares under the Home Shopping Retirement Savings Plan.
- (8) Includes the conversion of 500,000 shares of Savoy Common Stock and 250,000 shares of Savoy Restricted Stock pursuant to the Savoy Merger. Includes 28,000 vested options to purchase HSNi Common Stock assumed by the Company pursuant to the Savoy Merger. Includes 9,000 shares of vested options to purchase HSNi Common Stock resulting from the conversion of options granted pursuant to the Home Shopping Employee Plan. Does not reflect unvested options to purchase 100,000 shares of HSNi Common Stock granted pursuant to the Stock Incentive Plan and unvested options to purchase 36,000 shares of HSNi Common Stock resulting from conversion of options granted pursuant to the Home Shopping Employee Plan.
- (9) Does not reflect unvested options to purchase 5,000 shares of HSNi Common Stock pursuant to the Directors' Stock Option Plan.
- (10) Does not include unvested options to purchase 5,000 shares of HSNi Common Stock pursuant to the Directors' Stock Option Plan. Does not include unvested options to purchase 1,500 shares of HSNi Common Stock under the Home Shopping Directors' Stock Option Plan which were converted pursuant to the terms of the Home Shopping Merger. Does not include unvested options to purchase 22,500 shares of HSNi Common Stock granted under the Home Shopping Employee Plan pursuant to a consulting agreement with Home Shopping.
- (11) Does not include unvested options to purchase 5,000 shares of HSNi Common Stock pursuant to the Directors' Stock Option Plan. Does not include unvested options to purchase 1,500 shares of HSNi

Common Stock under the Home Shopping Directors' Stock Option Plan which were converted pursuant to the terms of the Home Shopping Merger.

(12) Does not include unvested options to purchase 100,000 shares of HSNi Common Stock pursuant to the Stock Incentive Plan.

(13) Includes 14,500 vested options granted under the Company's Stock Option and Restricted Stock Plan.

(14) Includes vested options to purchase 12,040 vested options granted under the Company's Stock Option and Restricted Stock Plan.

The following table sets forth, as of December 31, 1996, information relating to the beneficial ownership of HSNi Class B Common Stock:

NAME AND ADDRESS OF BENEFICIAL OWNER -----	NUMBER OF SHARES (1) -----	PERCENT OF CLASS -----	PERCENT OF VOTES (ALL CLASSES)* -----
Barry Diller (2)	9,809,111	95.9	71.0%
Tele-Communications, Inc. (2)	9,809,111	95.9	71.0%
5619 DTC Parkway Englewood, CO			
BDTV INC. (2)	9,809,111	95.9	71.0%
and BDTV II INC. 2425 Olympic Boulevard Santa Monica, CA 90404			

* Excludes shares of HSNi Common Stock owned by any of the listed persons.

(1) All or any portion of shares of HSNi Class B Common Stock may be converted at any time into an equal number of shares of HSNi Common Stock.

(2) Liberty, a wholly owned subsidiary of TCI, and Mr. Diller have entered into the Stockholders Agreement pursuant to which Liberty and Mr. Diller have formed BDTV, to which Liberty assigned the Liberty Option, and BDTV II INC. (together with BDTV, the "BDTV Entities") On August 13, 1996, BDTV exercised the Liberty Option, thereby acquiring 2,000,000 shares of HSNi Class B Common Stock. On December 20, 1996, Liberty contributed 7,809,111 shares of HSNi Class B Common Stock to BDTV II. Mr. Diller also owns 441,988 shares of HSNi Common Stock and options to purchase 8,505,847 shares of HSNi Common Stock, 2,126,461 of which are currently vested representing 5.9% of the issued and outstanding shares of HSNi Common Stock as of December 31, 1996. Moreover, if the BDTV Entities converted their beneficially owned HSNi Class B Common Stock into HSNi Common Stock, such shares would represent approximately 21.2% of the issued and outstanding shares of HSNi Common Stock. The BDTV Entities may be issued additional Class B Common Stock upon issuance of the Contingent Shares and conversion of the Exchange Shares in accordance with the terms of the Home Shopping Merger. TCI disclaims beneficial ownership of all HSNi Securities held by Mr. Diller or his affiliates but not any of HSNi Securities held by the BDTV Entities. Mr. Diller owns all of the voting stock of BDTV Entities and Liberty owns all of the non-voting stock, which non-voting stock represents in excess of 99% of the equity of the BDTV Entities. HSNi Securities held by the BDTV Entities are subject to the terms of the Stockholders Agreement.

THE DILLER-LIBERTY STOCKHOLDERS AGREEMENT

Mr. Diller and Liberty are parties to a stockholders agreement, dated as of August 24, 1995 (the "August Stockholders Agreement"), as amended by the first amendment (the "First Amendment") thereto, dated as of August 25, 1996 (the First Amendment, together with the August Stockholders Agreement, the "Stockholders Agreement"), pursuant to which the parties thereto and certain of their affiliates have formed the BDTV Entities, which are the holders of record of 9,809,111 shares of HSNi Class B Common Stock (representing approximately 95.9% of the outstanding HSNi Class B Common Stock as of December 31, 1996). Mr. Diller is the President of each of the BDTV Entities and beneficially owns all of the voting stock of each of them. Liberty currently holds all of the non-voting common stock of each of the BDTV Entities,

representing in excess of 99% of the equity of each of them, which shares are convertible under certain circumstances into shares of voting common stock.

In addition to the 9,809,111 shares of HSNi Class B Common Stock held by the BDTV Entities, Mr. Diller, Liberty and Arrow Holdings, LLC ("Arrow"), an entity controlled by Mr. Diller, collectively hold 548,618 shares of HSNi Common Stock. These securities are subject to the terms of the Stockholders Agreement and represent, in the aggregate, approximately 1.5% of the outstanding HSNi Common Stock, 22% of the outstanding combined common equity of the Company and 71% of the outstanding total voting power of the Company. Assuming that all securities to be issued to Liberty pursuant to the Contingent Rights and the Exchange Agreement were issued (and that no other HSNi Securities were otherwise issued), the HSNi Securities subject to the Stockholders Agreement would represent in the aggregate approximately 19% of the then-outstanding HSNi Common Stock, 37% of the then-outstanding equity of the Company and 78% of the then-outstanding total voting power of the Company.

Pursuant to the Stockholders Agreement, Mr. Diller exercises voting control over HSNi Securities held by the BDTV Entities, Mr. Diller, Liberty, Arrow and certain of their affiliates, subject to certain restrictions on Mr. Diller's authority to vote such shares with respect to certain matters relating to the Company and otherwise as provided in the Stockholders Agreement. Pursuant to the Stockholders Agreement, Mr. Diller and Liberty have agreed that HSNi Securities owned by any of Mr. Diller, Liberty and certain of their affiliates will not be voted in favor of the taking of any action in connection with certain extraordinary matters except with the consent of each of Mr. Diller and Liberty.

In the Stockholders Agreement, Mr. Diller has agreed that, at any time following the consummation of the Home Shopping Merger that Liberty or Liberty HSN is no longer a subsidiary of TCI (and provided that a change in law, rule or regulation or circumstance that would permit Liberty to exercise full ownership and control over HSNi Securities (including its pro rata portion of HSNi Securities held by the BDTV Entities represented by Liberty's equity interest in the BDTV Entities), notwithstanding the Company's ownership of broadcast licenses granted by the FCC (a "Change in Law") has not theretofore otherwise occurred), Liberty may request that Mr. Diller and the Company use all reasonable efforts to take such actions as may be reasonably necessary in order that Liberty would be permitted to exercise full ownership rights with respect to HSNi Securities owned by it (including its pro rata interest in any HSNi Securities held by any BDTV Entity) (a "Restructuring Transaction"). In the event that a Restructuring Transaction has not occurred within 365 days following Liberty's notice of its request (or earlier, in certain circumstances) and a Change in Law has not otherwise occurred, Liberty would be permitted, subject to certain limitations and rights of first refusal in favor of Mr. Diller, to sell its HSNi Securities without regard to the restrictions on transfer contained in the Stockholders Agreement, and such transferee would purchase HSNi Securities free and clear of any rights (other than certain registration rights) or obligations under the Stockholders Agreement.

In view of the number of shares of HSNi Securities as to which the BDTV Entities or Mr. Diller will have voting power in connection with the matters described herein, it is anticipated that such persons will be able to control the outcome of any vote of stockholders as to any proposal or matter on which the holders of HSNi Common Stock and HSNi Class B Common Stock vote together as a single class and the outcome of any matter as to which only the holders of HSNi Class B Common Stock vote as a separate class. In addition, Mr. Diller, subject to the terms of the Stockholders Agreement, will effectively be able to control the outcome of all matters submitted to a vote or for the consent of stockholders (other than with respect to the election by the holders of HSNi Common Stock of 25% of the members of the Board of Directors (rounded up to the nearest whole number) and certain matters as to which a separate class vote of the holders of HSNi Common Stock is required under Delaware law).

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

Employment Contracts

The Company has entered into an employment agreement with Douglas Binzak, dated as of February 13, 1996, and an employment agreement with Adam Ware, dated May 28, 1996, pursuant to which each such individual serves as an officer of the Company (Messrs. Binzak and Ware are referred to herein individually as

an "Executive" and collectively as the "Executives"). The employment agreement with Mr. Binzak provides for an annual base salary of \$415,000, with possible increases at the sole discretion of the Board, and a term of five years. The employment agreement with Mr. Ware provides for an annual base salary of \$275,000 for the first year, \$300,000 for the second year and \$325,000 for the third year of his employment with the Company, and a term of three years. Each such employment agreement provides that, if the Company terminates the Executive's employment other than for Cause (as defined in such employment agreement), or if the Executive terminates his employment for Good Reason (as defined in such employment agreement), the Company will pay to the Executive a lump sum payment equal to his accrued and unpaid annual salary, bonuses and vacation pay, as well as any previously deferred compensation, and will continue to make periodic payments of his annual base salary for the remainder of his contract term (less any amounts such Executive receives from another employer during that time). If the Company terminates the Executive's employment for Cause, if the Executive terminates his employment with the Company other than for Good Reason, or if the Executive's employment is terminated by reason of death or disability, the Company will pay to the Executive or his estate his accrued and unpaid annual salary, bonuses and vacation pay, as well as any previously deferred compensation. Neither of these employment agreements provide for any obligations of any of the parties upon a change in control of the Company.

Equity and Bonus Compensation Agreement

As of August 24, 1995, the Company and Mr. Diller entered into the Equity and Bonus Compensation Agreement pursuant to which the Company agreed to sell Mr. Diller 220,994 shares of HSNi Common Stock at \$22.625 per share in cash (the "Initial Diller Shares") and an additional 220,994 shares of HSNi Common Stock for the same per share price (the "Additional Diller Shares") payable by means of a cash payment of \$2,210 and an interest-free, secured, non-recourse promissory note in the amount of \$4,997,779. The promissory note is secured by the Additional Diller Shares and by that portion of the Initial Diller Shares having a fair market value on the purchase date of 20% of the principal amount of the promissory note. In addition, the Company granted options to Mr. Diller options to purchase 1,895,847 shares of HSNi Common Stock at \$22.625 per share (the "Diller Options"). The Diller Options were granted in tandem with conditional SARs which become exercisable only in the event of a change in control of the Company and in lieu of exercise of the Diller Options. The Initial and Additional Diller Shares and the Diller Options were issued to Mr. Diller below the market price of \$24.75 on August 24, 1995.

Mr. Diller also was granted a bonus arrangement, contractually independent from the promissory note, pursuant to which he received a bonus payment of approximately \$2.5 million on August 24, 1996 and will receive a further such payment on August 24, 1997, except that the bonuses will be paid immediately upon a Change in Control of the Company or upon termination of Mr. Diller's employment either by the Company other than for Cause or by Mr. Diller prior to a Change of Control with good reason (as such terms are defined in the Equity and Bonus Compensation Agreement). Mr. Diller also received \$966,263 for payment of taxes by Mr. Diller due to the compensation expense which resulted from the difference in the per share fair market value of HSNi Common Stock and the per share purchase price of the Initial Diller Shares and Additional Diller Shares.

Termination Agreement

The Company has entered into a termination agreement with Michael Drayer, the previous Executive Vice President, General Counsel and Secretary. This agreement provides that, upon termination other than for cause, Mr. Drayer will receive a lump sum cash payment equal to his effective annual salary as of the date of his termination, plus any earned and unused vacation and sick time, plus the amount of any contribution otherwise payable for his benefit under the 401(k) Plan for the year in which termination occurs, plus any additional severance as provided for under the Company's standard executive severance policy in effect as of the date of the agreement. The termination agreement also provides that Mr. Drayer will receive paid medical benefits for a one-year period following termination or until alternative medical coverage is obtained.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Diller, the Chairman of the Board and Chief Executive Officer of the Company and Chairman of the Board of Home Shopping, is the sole holder of the voting stock of the BDTV Entities. Liberty was the controlling shareholder of Home Shopping prior to the Home Shopping Merger and, by virtue of its interest in the BDTV Entities, may, subject to certain regulatory and other requirements, acquire a controlling interest in the Company.

During April 1996, Home Shopping sold a majority of its interest in HSN Direct Joint Venture, its infomercial operation, for \$5.9 million to certain entities controlled by Flextech P.L.C., a company controlled by TCI. Home Shopping received \$4.9 million in cash at closing and is due an additional \$1.0 million payable in four equal annual installments commencing on February 1, 1997. Home Shopping will retain a 15% interest in the venture and a related corporation.

During 1996, Home Shopping, along with JPC formed Shop Channel, a television shopping venture based in Tokyo. TCI International, a subsidiary of TCI owns a 50% interest in JPC, the 70% shareholder in the venture. Home Shopping owns a 30% interest in the venture. During 1996, Home Shopping contributed \$1,770,000 to the venture. In addition, Home Shopping sold inventory and provided services in the amount of \$730,000 to Shop Channel during 1996.

During 1994, a subsidiary of Home Shopping and Black Entertainment Television, Inc. ("BET") entered into an agreement to promote a direct response marketing program and a shop-at-home show concept known as "BET Shop." That agreement terminated in December 1996. TCI beneficially owns an 18.3% interest in BET.

In the normal course of business, Home Shopping enters into agreements with the operators of cable television systems and operators of broadcast television stations for the carriage of Home Shopping programming. Home Shopping has entered into agreements with a number of cable operators that are affiliates of TCI. These long-term contracts provide for a minimum subscriber guarantee and incentive payments based on the number of subscribers. Payments by Home Shopping to TCI and certain of its affiliates under these contracts for cable commissions and advertising were approximately \$11.4 million for the calendar year ended December 31, 1996. In addition, Home Shopping received \$212,000 in payments during calendar year 1996 for rental of a satellite transponder from a wholly owned subsidiary of TCI.

On January 27, 1997, the Board of Directors approved a three year consulting arrangement with Leo J. Hindery, Jr., a former member of the Board of Directors of Home Shopping and the former managing General Partner and Chief Executive Officer of InterMedia Partners. Mr. Hindery subsequently was appointed President of TCI. TCI has an approximate 49% limited partnership interest in InterMedia Partners. Home Shopping had entered into cable carriage agreements with InterMedia on terms and conditions that are consistent with Home Shopping's other cable agreements. Home Shopping paid Intermedia \$.5 million in calendar year 1996 for cable commissions and advertising. Under the consulting arrangement, Mr. Hindery received fully vested options to purchase 40,500 shares of HSNi Common stock at an exercise price of \$32.78. These options expire in one third increments in 1998, 1999 and 2000. Mr. Hindery also received an additional 2,250 options at an exercise price of \$25.86. Of those options, 750 were vested at the date of grant and 750 vest during May 1997 and 1998 and will expire five years from the date of vesting.

As of December 31, 1996, SKTV owned a 33.447% membership interest in Blackstar. Mr. Oxendine serves as Chairman and CEO of Blackstar. Home Shopping currently maintains broadcast affiliation agreements with Stations WBSF-TV, Melbourne, Florida; KBSP-TV, Salem, Oregon; and WBSX-TV, Ann Arbor, Michigan for which Blackstar is the parent company. Home Shopping recorded affiliation payments of \$4.7 million relating to the Blackstar stations in calendar year 1996. See "HSNi Broadcasting -- SKTV, Inc. -- The Stations."

As part of the employment agreement entered into by Home Shopping and Mr. Held, Home Shopping agreed to lend Mr. Held \$1.0 million for the purpose of purchasing a residence in the Tampa/St. Petersburg area. During September 1996, Mr. Held received that loan from Home Shopping. The loan bears interest at 5% per annum, and the principal and any accrued and unpaid interest becomes due and payable in the event

that Mr. Held is terminated for any reason, on the first anniversary of such termination, or immediately in the event that the residence is sold or transferred. In the event that, after completion of improvements to be undertaken within a reasonable period of time following the purchase of the residence, the fair market value of the residence is less than \$800,000, Mr. Held is required to repay a portion of the principal amount of the loan equal to the difference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) List of Documents filed as part of this Report

- (1) -- Consolidated Financial Statements
Report of Independent Auditors -- Ernst & Young LLP.
Independent Auditors' Report -- Deloitte & Touche LLP.
Consolidated Statements of Operations for the Year Ended December 31, 1996, the Four Months Ended December 31, 1995, and the Years Ended August 31, 1995 and 1994.
Consolidated Balance Sheets as of December 31, 1996, and 1995.
Consolidated Statements of Stockholders' Equity for the Year Ended December 31, 1996, the Four Months Ended December 31, 1995, and the Years Ended August 31, 1995 and 1994.
Consolidated Statements of Cash Flows for the Year Ended December 31, 1996, the Four Months Ended December 31, 1995, and the Years Ended August 31, 1995 and 1994.
Notes to Consolidated Financial Statements.
- (2) -- Consolidated Financial Statement Schedules

SCHEDULE NUMBER -----		PAGE NUMBER -----
II	-- Valuation and Qualifying Accounts.....	83

The reports of the Company's independent auditors with respect to the above-listed financial statement schedule appear on pages 31 and 32.

All other financial statements and schedules not listed have been omitted since the required information is included in the Consolidated Financial Statements or the notes thereto, or is not applicable or required.

- (3) -- Exhibits (numbered in accordance with Item 601 of Regulation S-K)

EXHIBIT NUMBER -----		DESCRIPTION -----
2.1	--	Agreement and Plan of Merger by and among Silver King Communications, Inc., Thames Acquisition Corporation and Savoy Pictures Entertainment, Inc., as amended and restated August 13, 1996 filed as Appendix A to the Company's Definitive Proxy Statement, November 20, 1996, is incorporated herein by reference.
2.2	--	Agreement and Plan of Exchange and Merger by and among Silver King Communications, Inc., House Acquisition Corp., Home Shopping Network, Inc. and Liberty HSN, Inc. as of August 25, 1996 filed as Appendix B to the Company's Definitive Proxy Statement, November 20, 1996, is hereby incorporated by reference.
3.1	--	Amended and Restated Certificate of Incorporation of the Company filed as Exhibit 3.1 to the Company's Form 10-K, August 31, 1994, is incorporated herein by reference.
3.2	--	Amendment to Certificate of Incorporation of the Company.
3.3	--	Amended and Restated By-Laws of the Company filed as Exhibit 3.2 to the Company's Form 10-K, August 31, 1994, is incorporated herein by reference.

EXHIBIT NUMBER	DESCRIPTION
4.1	-- Indenture dated as of March 1, 1996, for Home Shopping and United States Trust Company of New York, as Trustee relating to Home Shopping's 5.87% Convertible Subordinated Debentures due March 1, 2006, filed as Exhibit 4.0 to Home Shopping's Form S-3 Registration No. 333-10511, August 20, 1996, is incorporated herein by reference.
4.2	-- First Supplemental Indenture dated as of December 20, 1996, among Home Shopping Network, Inc., Silver King Communications, Inc. and United States Trust Company of New York, as Trustee filed as Exhibit 4.1 to Home Shopping Form 8-K/A, December 19, 1996, is incorporated herein by reference.
4.3	-- Indenture, dated as of June 25, 1993, for the Savoy 7% Convertible Subordinated Debentures due July 1, 2003, filed as Exhibit 4(d) to Savoy's S-1 Registration Statement No. 33-63192, is incorporated herein by reference.
4.4	-- First Supplemental Indenture, dated as of October 24, 1993, for the Savoy 7% Convertible Debentures due July 1, 2003, filed as Exhibit 4(e) to Savoy's S-1 Registration Statement No. 33-70160, is incorporated herein by reference.
4.5	-- Second Supplemental Indenture, dated as of December 17, 1993, for the Savoy 7% Convertible Debentures due July 1, 2003, filed as Exhibit bearing the same title in Savoy's Form 10-K December 31, 1993, is incorporated herein by reference.
4.6	-- Third Supplemental Indenture dated as of December 19, 1996 for the Savoy 7% Convertible Debentures due July 1, 2003, filed as Exhibit 4.1 to Savoy's Form 8-K, December 19, 1996, is incorporated herein by reference.
4.7	-- Form of Common Stock Certificate.
10.1	-- Form of Affiliation Agreements between the Company and Home Shopping filed as Exhibit 10.2 to the Company's Registration Statement on Form 10, as amended, is incorporated herein by reference.
*10.2	-- Form of 1992 Stock Option and Restricted Stock Plan between the Company and Home Shopping filed as Exhibit 10.6 to the Company's Registration Statement on Form 8, as amended, is incorporated herein by reference.
10.3	-- 1986 Stock Option Plan for Employees dated August 1, 1986, filed as Exhibit 10.33 to the Company's Form S-1 Registration Statement No. 33-8560, dated October 15, 1986, is incorporated herein by reference.
*10.4	-- Form of Retirement Savings and Employment Stock Ownership Plan filed as Exhibit 10.8 to the Company's Registration Statement on Form 8, as amended, is incorporated herein by reference.
10.5	-- Form of Indemnification Agreement filed as Exhibit 10.10 to the Company's Registration Statement on Form 10, as amended, is incorporated herein by reference.
10.6	-- Credit Agreement by and between the Company and Chemical Bank and other participating lenders filed as Exhibit 10.15 to the Company's Form 10-K, August 31, 1994, is incorporated herein by reference.
10.7	-- Consulting Agreement, as amended, by and between the Company and Vincent F. Barresi filed as Exhibit 10.16 to the Company's Form 10-K, August 31, 1994, is incorporated herein by reference.
10.8	-- Form of Loan Agreement, as amended, by and between Silver King Capital Corporation, Inc. and Roberts Broadcasting Company of Denver filed as Exhibit 10.17 to the Company's Form 10-K, August 31, 1994, is incorporated herein by reference.
10.9	-- Form of Shareholder Agreement by and among Silver King Capital Corporation, Inc., Roberts Broadcasting Company of Denver, Michael V. Roberts and Steven C. Roberts filed as Exhibit 10.18 to the Company's Form 10-K, August 31, 1994, is incorporated herein by reference.
10.10	-- Amendment to Credit Agreement by and between the Company and Chemical Bank and other participating lenders dated August 31, 1994 filed as Exhibit 10.20 to the Company's Form 10-K, August 31, 1995, is incorporated herein by reference.

EXHIBIT NUMBER	DESCRIPTION
10.11	-- Termination Agreements by and between the Company and James M. Lawless, Steven H. Grant, Michael Drayer and Joan E. Halfaker dated October 30, 1995, filed as Exhibit 10.22 to the Company's Form 10-K, August 31, 1995, are incorporated herein by reference.
10.12	-- Limited Liability Company Agreement (the "LLC"), Funding Agreement and Form of First Amendment to LLC, Registration Rights Agreement and associated documents between the Company, the Class A Shareholders of Blackstar Communications, Inc. and Fox Television Stations, Inc. dated June 27, 1995 and August 18, 1995, filed as Exhibit 10.23 to the Company's Form 10-K, August 31, 1995, are incorporated herein by reference.
*10.13	-- 1986 Stock Option Plan for Employees dated August 1, 1986, filed as Exhibit 10.33 to Home Shopping's Form S-1 Registration Statement No. 33-8560, dated October 15, 1986, is incorporated herein by reference.
*10.14	-- First, Second, Third and Fourth Amendments to the 1986 Stock Option Plan for Employees filed as Exhibit 10.31 to Home Shopping's Form 10-K, December 31, 1993, are incorporated herein by reference.
*10.15	-- Form of 1990 Executive Stock Award Program dated October 17, 1990, as amended, filed as Exhibit 10.23 to Home Shopping's Form 10-K, August 31, 1991, is incorporated herein by reference.
10.16	-- Stock Purchase Agreement by and between Home Shopping and The National Registry Inc. dated April 28, 1992, filed as Exhibit 10.29 to Home Shopping's Form 10-K, August 31, 1992, is incorporated herein by reference.
10.17	-- Form of Amendment dated as of July 28, 1994, to Affiliation Agreements between Home Shopping Club, Inc. and SKC filed as Exhibit 10.19 to Home Shopping's Form 10-K, December 31, 1994, is incorporated herein by reference.
10.18	-- Credit Card Program Agreement, dated as of February 16, 1994, by and among Home Shopping, participating subsidiaries and General Electric Capital Corporation filed as Exhibit 10.30 to Home Shopping's Form 10-K, December 31, 1993, is incorporated herein by reference.
*10.19	-- Amended and Restated Home Shopping Network, Inc. Retirement Savings Plan and Trust Agreements, which incorporates by reference the Home Shopping Network, Inc. Retirement Savings and Employee Stock Ownership Plan and Trust filed as Exhibit 10.33 to Home Shopping's Form 10-K, December 31, 1993, is incorporated herein by reference.
*10.20	-- Home Shopping Network, Inc. Employee Stock Purchase Plan and Part-Time Employee Stock Purchase Plan filed as Exhibit 10.30 to Home Shopping's Form 10-K, December 31, 1994, is incorporated herein by reference.
*10.21	-- Home Shopping Network, Inc. Employee Equity Participation Plan and Agreement and Declaration of Trust filed as Exhibit 10.31 to Home Shopping's Form 10-K, December 31, 1994, is incorporated herein by reference.
*10.22	-- Home Shopping Network, Inc. 1996 Stock Option Plan for Employees filed as Exhibit A to the Home Shopping Definitive Proxy Statement, March 28, 1996, is incorporated herein by reference.
*10.23	-- Home Shopping Network, Inc. 1996 Stock Option Plan for Outside Directors filed as Exhibit B to the Home Shopping Definitive Proxy Statement, March 28, 1996, is incorporated herein by reference.
10.24	-- Binding Term Sheet for the Stockholders Agreement dated August 24, 1995, between Barry Diller and Liberty Media Corporation and the First Amendment thereto dated August 25, 1996, filed as Appendix I to the Company's Definitive Proxy Statement, November 20, 1996, are incorporated herein by reference.
10.25	-- Exchange Agreement dated as of December 20, 1996 by and between the Registrant and Liberty HSN, Inc.
*10.26	-- Equity and Bonus Compensation Agreement dated as of August 24, 1995 between Barry Diller and the Company.

EXHIBIT NUMBER	DESCRIPTION
*10.27	-- Silver King Communications, Inc. 1995 Stock Incentive Plan filed as Appendix G to the Company's Definitive Proxy Statement, November 20, 1996, is incorporated herein by reference.
*10.28	-- Silver King Communications, Inc. Directors' Stock Option Plan filed as Appendix H to the Company's Definitive Proxy Statement, November 20, 1996, is incorporated herein by reference.
*10.29	-- Employment Agreement between the Company and Douglas Binzak dated as of February 13, 1996.
*10.30	-- Employment Agreement between the Company and Adam Ware dated as of May 28, 1996.
*10.31	-- Employment Agreement between Home Shopping and James G. Held, dated as of November 24, 1995 filed as Exhibit 10.35 to Home Shopping's Form 10-K, December 31, 1995, is incorporated herein by reference.
*10.32	-- Employment Agreement between Home Shopping and Mary Ellen Pollin, dated as of December 15, 1995 filed as Exhibit 10.36 to Home Shopping's Form 10-K, December 31, 1995, is incorporated herein by reference.
*10.33	-- Employment Agreement between Home Shopping and James G. Gallagher, dated as of October 14, 1996.
10.34	-- Letter Agreement dated April 3, 1996 between Home Shopping Network, Inc. and Gen. H. Norman Schwartzkopf.
10.35	-- Shareholders Agreement dated December 12, 1996 Relating to Jupiter Shop Channel Co;. Ltd among Jupiter Programming Co;. Ltd, Home Shopping Network, Inc. and Jupiter Shop Channel Co;. Ltd.
10.36	-- Services and Trademark License Agreement dated as of December 12, 1996 between Home Shopping Network, Inc. and Jupiter Shop Channel Co;. Ltd.
10.37	-- Purchase and Sale Agreement among Home Shopping Network GmbH, Home Shopping Network, Inc., Quelle Schickedanz AG & Co, Mr. Thomas Kirch and Dr. Georg Kofler dated January 16, 1997.
10.38	-- Joint Venture Agreement Between Quelle Schickedanz AG & Co., Home Shopping Network, Inc., Home Shopping Network GmbH, Mr. Thomas Kirch and Dr. Georg Kofler, filed as Exhibit 5.3 to the Purchase and Sale Agreement.
10.39	-- License Agreement dated as of January 1, 1996 between Ronald A. Katz Technology Licensing, L.P. and Home Shopping Network, Inc.
10.40	-- Shareholder Agreement dated as of April 26, 1996 by and among Channel 66 of Vallejo, California, Inc., Whitehead Media of California, Inc. and Silver King Capital Corporation, Inc.
10.41	-- Loan Agreement dated as of April 26, 1996 by and between SKC Investments, Inc. and Channel 66 of Vallejo, California, Inc.
10.42	-- Credit Agreement dated as of August 2, 1996, among Home Shopping Network, Inc., as borrower, Home Shopping Club, Inc. and HSN Realty, Inc., as guarantors, the Chase Manhattan Bank, as Administrative Agent, LTCB Trust Company, as Collateral Agent, the Bank of New York Company, Inc., as Documentation Agent and the Lenders filed as Exhibit 10.38 to Home Shopping's Form 10-Q, June 30, 1996, is incorporated herein by reference.
10.43	-- Pledge Agreement dated as of August 2, 1996, made by Home Shopping Network, Inc., a Delaware corporation, in favor of LTCB Trust Company, a New York trust company, as collateral agent for the Secured Parties under the Credit Agreement dated as of August 2, 1996, among the Pledgor, as borrower, Home Shopping Club, Inc. and HSN Realty, Inc., as guarantors, The Chase Manhattan Bank, as Administrative Agent, LTCB Trust Company, as Collateral Agent, The Bank of New York Company, Inc., as Documentation Agent, and the Lenders, filed as Exhibit 10.39 to Home Shopping's Form 10-Q, June 30, 1996, is incorporated herein by reference.
10.44	-- Joint Venture and License Agreement, dated as of June 12, 1992, between Savoy Pictures Entertainment, Inc. and Home Box Office, Inc. (confidential treatment for portions thereof granted), filed as an exhibit bearing the same title in Savoy's S-1 Registration Statement No. 33-57596, is incorporated herein by reference.

EXHIBIT NUMBER	DESCRIPTION
10.45	-- License Agreement, dated as of June 12, 1992, among Savoy Pictures Entertainment, Inc. and Home Box Office, Inc. (confidential treatment of portions thereof granted), filed as an exhibit bearing the same title in Savoy's S-1 Registration Statement No. 33-57596, is incorporated herein by reference.
10.46	-- Warrant Agreement, dated as of March 2, 1992, between Savoy Pictures Entertainment, Inc. and Allen & Company Incorporated, filed as an exhibit bearing the same title in Savoy's S-1 Registration Statement No. 33-57596, is incorporated herein by reference.
10.47	-- Warrant Agreement, dated as of March 2, 1992, between Savoy Pictures Entertainment, Inc. and GKH Partners, L.P., filed as an exhibit bearing the same title in Savoy's S-1 Registration Statement No. 33-57596, is incorporated herein by reference.
10.48	-- Warrant Agreement, dated as of April 20, 1994 between Savoy and GKH Partners, L.P., filed as an exhibit bearing the same title in Savoy's Form 10-Q, March 31, 1994, is incorporated herein by reference.
10.49	-- Subscription and Shareholders Agreement, dated as of October 28, 1994 by and among SF Multistations, Inc., FTS Investments, Inc. and Savoy Stations, Inc., filed as an exhibit bearing the same title in Savoy's Form 8-K, August 22, 1995, is incorporated herein by reference.
10.50	-- Subscription and Shareholders Agreement, dated as of October 28, 1994 by and among SF Broadcasting of Wisconsin, Inc., FTS Investments, Inc. and Savoy Stations, Inc., as amended, filed as an exhibit bearing the same title in Savoy's Form 8-K, August 22, 1995, is incorporated herein by reference.
10.51	-- Credit Agreement, dated as of June 1, 1995, among Savoy, the financial institutions from time to time part thereto and Chemical Bank as Administrative Agent and Collateral Agent, filed as Exhibit 10 to Savoy's Form 10-Q, June 30, 1995, is incorporated herein by reference.
10.52	-- First Amendment and Waiver, dated as of March 11, 1996, to the Credit Agreement, dated as of June 1, 1995, among Savoy, the financial institutions party thereto and Chemical Bank, as Administrative Agent and Collateral Agent, filed as Exhibit 10(r) to Savoy's Form 10-K, December 31, 1995, is incorporated herein by reference.
10.53	-- Credit Agreement, dated as of June 30, 1995, among SF Broadcasting of Green Bay, Inc., SF Broadcasting of Mobile, Inc., SF Broadcasting of New Orleans, Inc., and SF Broadcasting of Honolulu, Inc., the financial institutions from time to time party thereto, Chemical Bank, as administrative agent and as collateral agent, First Union National Bank of North Carolina, as managing agent, and The Bank of New York, Natwest Bank, N.A. and Banque Paribas as co-agents, filed as an exhibit bearing the same title in Savoy's Form 8-K, August 22, 1995, is incorporated herein by reference.
10.54	-- Station Affiliation Agreement, dated as of April 28, 1995, between Fox Broadcasting Company and SF Broadcasting of Green Bay, Inc., filed as Exhibit 10(u) to Savoy's Form 10-K, December 31, 1995, is incorporated herein by reference.
10.55	-- Station Affiliation Agreement, dated as of August 22, 1995, between Fox Broadcasting Company and SF Broadcasting of Honolulu, Inc., filed as Exhibit 10(v) to Savoy's Form 10-K, December 31, 1995, is incorporated herein by reference.
10.56	-- Station Affiliation Agreement, dated as of August 22, 1995, between Fox Broadcasting Company and SF Broadcasting of Mobile, Inc., filed as Exhibit 10(w) to Savoy's Form 10-K, December 31, 1995, is incorporated herein by reference.
10.57	-- Form of Amendment and Waiver to the Credit Agreement, dated as of June 30, 1995, among SF Broadcasting of New Orleans, Inc., SF Broadcasting of Mobile, Inc., SF Broadcasting of Honolulu, Inc. and SF Broadcasting of Green Bay, Inc., as borrowers, the financial institutions from time to time party thereto, and The Chase Manhattan Bank (formerly known as Chemical Bank)(as administrative agent and collateral agent), filed as Exhibit 10.1 to Savoy's Form 10-Q, September 30, 1996, is incorporated herein by reference.

EXHIBIT NUMBER	DESCRIPTION
-----	-----
*10.58 --	Amended and Restated Stock Option Plan (including form of Stock Options Agreement) filed as Exhibit 4.1 to Savoy's Registration Statement No. 33-70740, is incorporated herein by reference.
*10.59 --	Savoy 1995 Stock Option Plan filed as Exhibit 10(t) to Savoy's Form 10-K, December 31, 1995, is incorporated herein by reference.
21 --	Subsidiaries of the Company.
23.1 --	Consent of Ernst & Young LLP
23.2 --	Consent of Deloitte & Touche LLP
27 --	Financial Data Schedule (for SEC use only).

* Reflects management contracts and compensatory plans.

(b) Reports on Form 8-K.

On December 23, 1996, the Company filed a report on Form 8-K setting forth the approval by the shareholders of the Company, Savoy and the Home Shopping of the Savoy Merger and the Home Shopping Merger which were consummated on December 19, 1996 and December 20, 1996, respectively. The Company also reported the name change for the Company approved by the shareholders on December 19, 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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. April 10, 1997

HSN, INC.

By: /s/ BARRY DILLER

Barry Diller
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on April 10, 1997.

SIGNATURE -----	TITLE -----
/s/ BARRY DILLER ----- Barry Diller	Chairman of the Board and Chief Executive Officer
/s/ JAMES G. HELD ----- James G. Held	Director and Vice Chairman
/s/ JED B. TROSPER ----- Jed B. Trospers	Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ BRIAN J. FELDMAN ----- Brian J. Feldman	Controller (Chief Accounting Officer)
/s/ VICTOR KAUFMAN ----- Victor Kaufman	Director and Office of the Chairman
/s/ JOHN E. OXENDINE ----- John E. Oxendine	Director
----- Bruce M. Ramer	Director
----- H. Norman Schwarzkopf	Director
/s/ ELI J. SEGAL ----- Eli J. Segal	Director
/s/ SIDNEY J. SHEINBERG ----- Sidney J. Sheinberg	Director
/s/ RICHARD E. SNYDER ----- Richard E. Snyder	Director

SCHEDULE II

HSN, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION -----	BALANCE AT BEGINNING OF PERIOD -----	CHARGED TO COSTS AND EXPENSES -----	CHARGED TO OTHER ACCOUNTS (2) -----	DEDUCTIONS -- DESCRIBE (1) -----	BALANCE AT END OF PERIOD -----
			(IN THOUSANDS)		
Allowance for doubtful accounts:					
Year ended December 31, 1996.....	\$ 68 =====	\$ 23 =====	\$2,751 =====	\$ (163) =====	\$2,679 =====
Four months ended December 31, 1995.....	\$ 82 =====	\$ 51 =====	\$ -- =====	\$ (65) =====	\$ 68 =====
Year ended August 31, 1995.....	\$ 73 =====	\$ 179 =====	\$ -- =====	\$ (170) =====	\$ 82 =====
Year ended August 31, 1994.....	\$236 =====	\$ (163) =====	\$ -- =====	\$ -- =====	\$ 73 =====

(1) Write-off fully reserved accounts receivable.

(2) Amount relates to mergers with Savoy Pictures Entertainment, Inc. and subsidiaries and Home Shopping Network, Inc. and subsidiaries.

EXHIBIT 3.2

CERTIFICATE OF AMENDMENT

OF

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

SILVER KING COMMUNICATIONS, INC.

Pursuant to Section 242 of the General Corporation Law of the State of Delaware, Silver King Communications, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of the Corporation unanimously adopted resolutions proposing and declaring advisable the following amendments to the Amended and Restated Certificate of Incorporation:

RESOLVED, that the Amended and Restated Certificate of Incorporation of the Corporation be amended by restating Article I to read in its entirety as follows:

The name of the corporation is HSN, Inc.

FURTHER RESOLVED, that the Amended and Restated Certificate of Incorporation of the Corporation be amended by restating the first paragraph of Article IV to read in its entirety as follows:

The corporation shall have the authority to issue one hundred fifty million (150,000,000) shares of \$.01 par value Common Stock, thirty million (30,000,000) shares of \$.01 par value Class B Common Stock, and fifteen million (15,000,000) shares of \$.01 par value Preferred Stock.

FURTHER RESOLVED, that the Amended and Restated Certificate of Incorporation of the Company be amended by deleting Article IV, section A, subsection (3) in its entirety.

FURTHER RESOLVED, that the Amended and Restated Certificate of Incorporation of the Corporation be amended by restating Article IV, section A, subsection (4) to read in its entirety as follows:

(3) Each holder of Common Stock shall be entitled to vote one vote for each share of Common Stock held as of the applicable date on any matter that is submitted to a vote or to the consent of the Stockholders of the corporation. Except as otherwise provided herein or by the General Corporation Law of the State of Delaware, the holders of Common Stock and the holders of Class B Common Stock shall at all times vote on all matters (including the election of directors) together as one class.

FURTHER RESOLVED, that the Amended and Restated Certificate of Incorporation of the Corporation be amended by deleting Article IV, section B, subsection (3) in its entirety.

FURTHER RESOLVED, that the Amended and Restated Certificate of Incorporation of the Corporation be amended by restating Article IV, section B, subsection (4) to read in its entirety as follows:

(3) Each holder of Class B Common Stock shall be entitled to vote ten votes for each share of Class B Common Stock held as of the applicable

date on any matter that is submitted to a vote or to the consent of the Stockholders of the corporation. Except as otherwise provided herein or by the General Corporation Law of the State of Delaware, the holders of Common Stock and the holders of Class B Common Stock shall at all times vote on all matters (including the election of directors) together as one class.

SECOND: That at the annual meeting of stockholders held on December 19, 1996, the holders of a majority of shares of Common Stock and Class B Common Stock of the Corporation voted to approve said amendments in accordance with the provisions of the Amended and Restated Certificate of Incorporation of the Corporation and the General Corporation Law of the State of Delaware.

THIRD: That the said amendments were duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: That the capital of the Company shall not be reduced under or by reason of the said amendments.

IN WITNESS WHEREOF, said Silver King Communications, Inc. has caused this certificate to be signed by Michael Drayer, its Executive Vice President, General Counsel and Corporate Secretary, this 20th day of December, 1996.

SILVER KING COMMUNICATIONS, INC.

By

Michael Drayer Executive Vice President, General Counsel and Corporate Secretary

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EXHIBIT 4.7

NUMBER
HSN

HSN, INC.

SHARES

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

COMMON STOCK

SEE REVERSE FOR CERTAIN DEFINITIONS
CUSIP 40429R 10 9

THIS CERTIFIES THAT

SPECIMEN

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK, \$.01 PAR VALUE PER SHARE, OF

HSN, INC. transferable on the books of the Company by the holder hereof in person or by his duly authorized attorney upon surrender of this certificate properly endorsed. This certificate and the shares represented hereby are issued and shall be held subject to all the provisions of the Certificate of Incorporation, as now and hereafter amended, and of the By-laws of the Company (copies thereof being on file with the Secretary of the Company) and the holder hereof, by accepting this certificate, expressly assents thereto. This certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

Witness the seal of the Company and the facsimile signatures of its duly authorized officers.

Dated:

CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER

HSN, INC.
CORPORATE
SEAL
1986
DELAWARE

SECRETARY

**COUNTERSIGNED AND REGISTERED:
THE BANK OF NEW YORK
TRANSFER AGENT AND REGISTRAR**

By

AUTHORIZED SIGNATURE

HSN, INC.

THE CORPORATION WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS, A STATEMENT OF THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OR SERIES THEREOF AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND/OR RIGHTS.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common
TEN ENT - as tenants by the entireties
JT TEN - as joint tenants with right of survivorship and not as tenants in common
UNIF GIFT MIN ACT - Custodian
(Cust) (Minor) under Uniform Gifts to Minors Act

(State)
Additional abbreviations may also be used though not in the above list.

For value received, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE OF ASSIGNEE)

: shares

of the common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

Attorney

to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated _____

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

SIGNATURE(S) GUARANTEED: THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

EXHIBIT 10.25

EXCHANGE AGREEMENT

DATED AS OF DECEMBER 20, 1996

BY AND BETWEEN

SILVER KING COMMUNICATIONS, INC.

AND

LIBERTY HSN, INC.

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EXCHANGE AGREEMENT

EXCHANGE AGREEMENT, dated as of December 20, 1996, by and between SILVER KING COMMUNICATIONS, INC., a Delaware corporation ("Silver King"), and LIBERTY HSN, INC., a Colorado corporation ("Liberty HSN").

RECITALS:

WHEREAS, Silver King, House Acquisition Corp., a direct subsidiary of Silver King ("Silver Sub"), Home Shopping Network, Inc., a Delaware corporation ("HSN") and Liberty HSN have entered into an Agreement and Plan of Exchange and Merger (the "Merger Agreement"), dated as of August 25, 1996, pursuant to which, subject to the terms and conditions contained therein, HSN will be merged with and into Silver Sub (the "Merger"), with the result that (i) HSN would be the surviving corporation in the Merger (the "Surviving Corporation"), (ii) HSN would become a subsidiary of Silver King and (iii) the stockholders of HSN would be entitled to receive shares of Silver King stock in exchange for their shares of HSN stock, subject to certain exceptions with respect to certain shares of HSN stock held by Liberty HSN (which are being exchanged for shares of Silver Sub prior to the Merger as described below);

WHEREAS, immediately prior to the Pre-Merger Exchange (as defined below), Liberty HSN owned 17,566,702 shares of Class A Common Stock, par value \$.01 per share, of HSN ("HSN Common Stock"), and 20,000,000 shares of Class B Common Stock, par value \$.01 per share, of HSN ("HSN Class B Stock"), but because of limitations based on certain regulations, orders and policies of the Federal Communications Commission (the "FCC"), Liberty HSN is not permitted to receive all of the shares of Silver King stock it would otherwise be entitled to receive in exchange for its shares of HSN stock in the Merger;

WHEREAS, pursuant to the Merger Agreement, simultaneous with the execution of this Agreement and immediately prior to the Effective Time of the Merger, Liberty HSN is exchanging (the "Pre-Merger Exchange") its 17,566,702 shares of HSN Common Stock and 739,141 shares of its 20,000,000 shares of HSN Class B Stock for an equal number of shares of common stock and class B common stock of Silver Sub, which shares of Silver Sub will be converted in the Merger into an equal number of shares of the Surviving Corporation's Common Stock and the Surviving Corporation's Class B Common Stock.

WHEREAS, upon consummation of the Merger, Liberty HSN will own (subject to certain adjustments as provided in the Merger Agreement) 17,566,702 shares of Surviving Common Stock and 739,141 shares of Surviving Class B Stock;

WHEREAS, subject to the terms and conditions of this Agreement, each share of Surviving Common Stock and Surviving Class B Stock will be exchanged for a number of shares of Silver King Common Stock and Silver King Class B Stock, respectively, determined in accordance with

this Agreement at such time and from time to time as Liberty HSN or its permitted transferee hereunder is entitled or otherwise permitted under FCC Regulations to own the additional Silver King Securities issuable upon the exchange of Surviving Corporation stock.

WHEREAS, it is a condition to the parties obligation to consummate the Merger that Silver King and Liberty HSN have entered into this Exchange Agreement;

NOW, THEREFORE, in consideration of the premises and the respective representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

SECTION 1.1 Defined Terms. The definitions set forth in this Article shall apply to the following terms when used with initial capital letters in this Agreement.

"Agreement to Transfer" shall mean an agreement by a holder of Exchange Securities to transfer, directly or indirectly, the Silver King Securities issuable upon an Exchange of Exchange Securities owned by such holder to one or more third parties who are entitled or otherwise permitted to Own (in accordance with FCC Regulations) such Silver King Securities (including in connection with a public offering of Silver King Securities effected pursuant to the Liberty Group s demand and piggyback registration rights under the Stockholders Agreement).

"Available Silver King Amount" shall mean, as of the date of determination, the number equal to the difference between (x) the maximum number of Silver King Securities which the holder of the Exchange Securities or, in the case of an Exchange in connection with an Agreement to Transfer, the Transferee, would, under the FCC Regulations then in effect, then be permitted to Own (in accordance with FCC Regulations), and (y) the number of Silver King Securities then Owned (for purposes of the FCC Regulations) by such holder of Exchange Securities or such Transferee, as applicable, in each case, giving effect to the voting power of the stock Owned or to be Owned by such holder.

"Available Surviving Share Amount" shall mean as of the date of determination, the aggregate number of shares of Surviving Common Stock and or Surviving Class B Stock which may be exchanged at the then applicable Exchange Rate for shares of Silver King Common Stock and/or Silver King Class B Stock, as applicable, in each case, rounded down to the nearest whole number, which number of shares of Surviving Common Stock and/or Surviving Class B Stock (or such combination thereof as is chosen by the holder seeking to exchange such Exchange Securities) will result in the issuance to such holder upon such exchange of the Available Silver King Amount of Silver King Securities.

"BDTV" shall have the meaning assigned to such term in the Stockholders Agreement.

"BDTV II" shall have the meaning assigned to such term in the Stockholders Agreement.

"BDTV Entity" shall have the meaning assigned to such term in the Stockholders Agreement.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in The City of New York, New York are authorized or obligated by law or executive order to remain closed.

"Class B Exchange Rate" shall mean the kind and amount of securities, assets or other property that as of any date are issuable or deliverable upon exchange of a share of Surviving Class B Stock. The Class B Exchange Rate shall initially be .54 of a share of Silver King Class B Stock and shall be subject to adjustment, from time to time, as set forth in Article 3 of this Agreement. In the event that pursuant to Article 3, the Surviving Class B Stock becomes exchangeable for more than one class or series of capital stock of Silver King or another Person, the term "Class B Exchange Rate," when used with respect to any such class or series, shall mean the number or fraction of shares or other units of such capital stock that as of any date would be issuable upon exchange of a share of Surviving Class B Stock.

"Closing Price" shall mean, on any Trading Day, (i) the last sale price (or, if no sale price is reported on that Trading Day, the average of the closing bid and asked prices) of a share of Silver King Common Stock on the Nasdaq National Market on such Trading Day, or (ii) if the primary trading market for the Silver King Common Stock is not the Nasdaq National Market, then the closing sale price regular way on such Trading Day, or, in case no such sale takes place on such Trading Day, the reported closing bid price regular way on such Trading Day, in each case on the principal exchange on which such stock is traded, or (iii) if the Closing Price on such Trading Day is not available pursuant to one of the methods specified above, then the average of the bid and asked prices for the Silver King Common Stock on such Trading Day as furnished by any New York Stock Exchange member firm selected from time to time by the Silver King Board of Directors for that purpose.

"Common Exchange Rate" shall mean the kind and amount of securities, assets or other property that as of any date are issuable or deliverable upon exchange of a share of Surviving Common Stock. The Common Exchange Rate shall initially be .45 of a share of Silver King Common Stock and shall be subject to adjustment, from time to time, as set forth in Article 3 of this Agreement. In the event that pursuant to Article 3 the Surviving Common Stock becomes exchangeable for more than one class or series of capital stock of Silver King or another Person, the term "Common Exchange Rate," when used with respect to any such class or series, shall mean the number or fraction of shares or other units of such capital stock that as of any date would be issuable upon exchange of a share of Surviving Common Stock.

"Contingent Right" shall mean the right of Liberty HSN to receive the Contingent Shares pursuant to the Merger Agreement.

"Contingent Shares" shall mean the shares of Silver King Class B Stock (or other securities) which Silver King is obligated to issue to Liberty HSN following the Effective Time pursuant to Section 2(d) and Exhibit A of the Merger Agreement.

"Convertible Securities" shall mean rights, options, warrants and other securities which are exercisable or exchangeable for or convertible into shares of capital stock of any Person at the option of the holder thereof; provided, however, that the term Convertible Securities shall not include the Silver King Class B Stock or Surviving Class B Stock.

"Current Market Price" on the Determination Date for any issuance of rights, warrants or options or any distribution in respect of which the Current Market Price is being calculated, shall mean the average of the daily Closing Prices of the Silver King Common Stock for the shortest of:

(a) the period of 20 consecutive Trading Days commencing 30 Trading Days before such Determination Date,

(b) the period commencing on the date next succeeding the first public announcement of the issuance of rights, warrants or options or the distribution in respect of which the Current Market Price is being calculated and ending on the last full Trading Day before such Determination Date, and

(c) the period, if any, commencing on the date next succeeding the Ex-Dividend Date with respect to the next preceding issuance of rights, warrants or options or distribution for which an adjustment is required by the provisions of Section 3.1(a)(i)(4), 3.1(b) or 3.1(c), and ending on the last full Trading Day before such Determination Date.

If the record date for an issuance of rights, warrants or options or a distribution for which an adjustment is required by the provisions of Section 3.1(a)(i)(4), or Section 3.1(b) or (c) (the "preceding adjustment event") precedes the record date for the issuance or distribution in respect of which the Current Market Price is being calculated and the Ex-Dividend Date for such preceding adjustment event is on or after the Determination Date for the issuance or distribution in respect of which the Current Market Price is being calculated, then the Current Market Price shall be adjusted by deducting therefrom the fair market value (on the record date for the issuance or distribution in respect of which the Current Market Price is being calculated), as determined in good faith by the Silver King Board of Directors, of the capital stock, rights, warrants or options, assets or debt securities issued or distributed in respect of each share of Silver King Common Stock in such preceding adjustment event. Further, in the event that the Ex-Dividend Date (or in the case of a subdivision, combination or reclassification, the effective date with respect thereto) with respect to a dividend, subdivision, combination or reclassification to which Section 3.1(a)(i)(1), Section 3.1(a)(i)(2), Section 3.1(a)(i)(3) or Section 3.1(a)(i)(5) applies occurs during the period applicable for calculating the Current Market Price, then the Current Market Price shall be calculated for such period in a manner determined in good faith by the Silver King Board of Directors to reflect the

impact of such dividend, subdivision, combination or reclassification on the Closing Prices of the Silver King Common Stock during such period.

"Determination Date" for any issuance of rights, warrants or options or any dividend or distribution to which Section 3.1(b) or (c) applies shall mean the earlier of (i) the record date for the determination of stockholders entitled to receive the rights, warrants or options or the dividend or distribution to which such paragraph applies and (ii) the Ex-Dividend Date for such rights, warrants or options or dividend or distribution.

"Effective Time" shall mean the effective time of the Merger.

"Eligible Holder" shall mean, in the case of any Exchange, the applicable holder of Exchange Securities who is entitled to effect an Exchange pursuant to the terms of this Agreement, including an Exchange in connection with an Agreement to Transfer.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Exchange Notice" shall mean the written notice required to be delivered to notify Silver King or an Eligible Holder, as the case may be, of the exercise of an Exchange Right.

"Exchange Securities" shall mean the Surviving Common Stock and the Surviving Class B Stock received by Liberty HSN in the Merger in respect of the shares of Silver Sub common stock and Silver Sub class B common stock received in the Pre-Merger Exchange.

"Ex-Dividend Date" shall mean the date on which "ex-dividend" trading commences for a dividend, an issuance of rights, warrants or options or a distribution to which any of Section 3.1(a), (b), or (c) applies, in the Nasdaq National Market or on the principal exchange on which the Silver King Common Stock is then quoted or traded.

"FCC Regulations" shall mean as of the applicable date, collectively, all federal communications statutes and all rules, regulations, orders, decrees and policies (including the FCC's Memorandum Opinion and Order released March 11, 1996 and its Memorandum Opinion and Order released June 14, 1996) of the FCC as then in effect, and any interpretations or waivers thereof or modifications thereto.

"HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

"Issuance Event" shall mean the occurrence of any event or the existence of any fact or circumstance which would permit, under applicable FCC Regulations, a holder of Exchange Securities to Own a greater number of Silver King Securities than such holder currently Owns. For purposes of this Agreement, an Issuance Event which occurs (i) as a result of an order of the FCC, shall be deemed to occur on the date that any such order becomes final and non-appealable, or (ii)

as a result of a change in law or regulation of the FCC, shall be deemed to occur on the date such law or regulation was promulgated, enacted or adopted or, if later, the date such law or regulation becomes effective.

"Liberty" shall mean Liberty Media Corporation, a Delaware corporation.

"Liberty Group" shall mean Liberty, Tele-Communications, Inc., a Delaware corporation, and their respective controlled affiliates, including Liberty HSN.

"Other Property" shall mean any security (other than Silver King Common Stock or Silver King Class B Stock), assets or other property deliverable upon the surrender of shares of Surviving Common Stock or Surviving Class B Stock for Exchange in accordance with this Agreement.

"Own" shall mean record, beneficial or other ownership, direct or indirect, of securities which are attributable to a Person or otherwise owned by a Person in accordance with applicable FCC Regulations. The terms "Ownership" and "Owner" shall have correlative meanings.

"Person" shall mean any individual, corporation, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated organization, government or agency or political subdivision thereof, or other entity, whether acting in an individual, fiduciary or other capacity.

"Proxy Statement" shall mean the Joint Proxy Statement/Prospectus filed with the SEC on November 20, 1996, by Silver King, HSN and Savoy with respect to the Merger and the Savoy Merger.

"Redemption Securities" shall mean securities of an issuer other than Silver King that are distributed by Silver King in payment, in whole or in part, of the call, redemption, exchange or other acquisition price for Redeemable Capital Stock.

"Restrictive Condition" means any limitation or restriction imposed on a Person as a result of such Person's acquisition of Silver King Securities upon an Exchange of any Exchange Securities, or the imposition of any restriction or limitation of the type referred to in clause (i) of Section 7.9(a) or any requirement that such Person dispose or divest of any Silver King Securities or interest therein (including any interest in BDTV, BDTV II or any BDTV Entity) in connection with or as a result of such Exchange.

"Savoy" shall mean Savoy Pictures Entertainment, Inc., a Delaware corporation.

"Savoy Merger" shall mean the merger between a wholly owned subsidiary of Silver King and Savoy pursuant to the Savoy Merger Agreement.

"Savoy Merger Agreement" shall mean the Agreement and Plan of Merger, as amended and restated as of August 13, 1996, by and among Silver King, Thames Acquisition Corp. and Savoy.

"SEC" shall mean the Securities and Exchange Commission.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"Silver King Class B Stock" shall mean the Class B Common Stock, par value \$.01 per share, of Silver King, or any shares into which such shares shall be converted or exchanged and shall include, where appropriate, in the case of any reclassification, recapitalization or other change in the Silver King Class B Stock following the Merger, or in the case of a consolidation or merger of Silver King with or into another Person following the Merger affecting the Silver King Class B Stock, such capital stock to which a holder of Silver King Class B Stock shall be entitled upon the occurrence of such event.

"Silver King Common Stock" shall mean the Common Stock, par value \$.01 per share of Silver King, or any shares into which such shares shall be converted or exchanged and shall include, where appropriate, in the case of any reclassification, recapitalization or other change in the Silver King Common Stock following the Merger, or in the case of a consolidation or merger of Silver King with or into another Person following the Merger affecting the Silver King Common Stock, such capital stock to which a holder of Silver King Common Stock shall be entitled upon the occurrence of such event.

"Silver King Securities" shall mean the Silver King Common Stock and the Silver King Class B Stock.

"Stockholders Agreement" shall mean the letter agreement between Barry Diller and Liberty, dated August 24, 1995, and the attached term sheet, as amended by the letter agreement, dated as of August 25, 1996, between Liberty and Mr. Diller, pursuant to which Liberty and Mr. Diller have entered into certain agreements with respect to the equity securities of Silver King, BDTV, BDTV II, any BDTV Entities and the Surviving Corporation and with respect to the Merger, all as described therein, except that in the event such letter agreements and term sheet are superseded by a definitive Stockholders Agreement, "Stockholders Agreement" shall refer to such definitive Stockholders Agreement.

"Surviving Class B Stock" shall mean the Class B Common Stock, par value \$.01 per share, of the Surviving Corporation, or any shares into which such shares shall be converted or exchanged (other than shares of Silver King Class B Stock) and shall include, where appropriate, in the case of any reclassification, recapitalization or other change in the Surviving Class B Stock following the Merger, or in the case of a consolidation or merger of the Surviving Class B Stock with or into another Person following the Merger affecting the Surviving Class B Stock, such

capital stock to which a holder of Surviving Class B Stock shall be entitled upon the occurrence of such event.

"Surviving Common Stock" shall mean the Common Stock, par value \$.01 per share, of the Surviving Corporation, or any shares into which such shares shall be converted or exchanged (other than shares of Silver King Common Stock) and shall include, where appropriate, in the case of any reclassification, recapitalization or other change in the Surviving Common Stock following the Merger, or in the case of a consolidation or merger of the Surviving Common Stock with or into another Person following the Merger affecting the Surviving Common Stock, such capital stock to which a holder of Surviving Common Stock shall be entitled upon the occurrence of such event.

"Trading Day" shall mean a day on which the primary trading market for the Silver King Common Stock is open for the transaction of business.

"Transferee" shall mean a Person who, pursuant to an Agreement to Transfer entered into with a holder of Exchange Securities, is or will become the Owner of Silver King Securities issuable upon the Exchange of Exchange Securities. Such holder of the Exchange Securities, prior to the consummation of any such Agreement to Transfer, is sometimes referred to herein as the "Transferor."

SECTION 1.2 Additional Defined Terms. The following additional terms listed below shall have the meanings ascribed thereto in the Section (or other provisions hereof) indicated opposite such term:

Term	Section
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Additional Contingent Right	7.5(a)
Adjustment Event	3.3
Contract	5.4(d)
Contract Consent	5.4(c)
Contract Notice	5.4(c)
Exchange	2.1(c)
Exchange Date	2.3(d)
Exchange Right	2.1(c)
FCC	Introduction
Governmental Consent	5.4(b)
Governmental Entity	5.4(b)
Governmental Filing	5.4(b)
HSN	Introduction
HSN Class B Stock	Introduction
HSN Common Stock	Introduction
Liberty HSN	Introduction
Merger	Introduction
Merger Agreement	Introduction
NASD	5.3

Pre-Merger Exchange	Introduction
Redeemable Capital Stock	3.1(a)(ii)
Redemption Event	3.1(d)
Response Notice	2.3(a)
Restructuring Transaction	7.5(b)
Silver King	Introduction
Silver King Bylaws	5.1
Silver King Charter	5.1
Silver King Exchange Shares	2.1(c)
Silver King Preferred Stock	4.1(a)
Silver Sub	Introduction
Surviving Corporation	Introduction
Surviving Exchange Shares	2.1(c)
Surviving Sub	7.2
Transaction	3.2(a)
Violation	5.4(d)

ARTICLE 2

EXCHANGE OF SHARES

SECTION 2.1 Right to Exchange the Exchange Securities. (a) Any holder of Exchange Securities who is entitled or otherwise permitted to Own additional Silver King Securities in accordance with paragraph (c) of this Section 2.1 shall have the right, subject to the terms and conditions of this Agreement, to exchange (i) a number of shares of Surviving Common Stock at the then applicable Common Exchange Rate (as of the Exchange Date (as defined below)) and/or (ii) a number of shares of Surviving Class B Stock at the then applicable Class B Exchange Rate (as of the Exchange Date), in each case, rounded down to the nearest whole number, which would result in the issuance to such holder of a number of shares of Silver King Securities equal to the then Available Silver King Amount. An Eligible Holder shall also be entitled to receive upon such Exchange, the kind and amount of securities, assets or other property (other than shares of Silver King Securities) for which such shares of Surviving Common Stock and Surviving Class B Stock are then exchangeable pursuant to Article 3 hereof. In the event more than one class of Surviving Corporation stock is available for Exchange, the Eligible Holder shall be entitled to elect the number of shares of each class of Surviving Corporation stock to be so exchanged.

(b) At such time as a holder of Exchange Securities is entitled or otherwise permitted to Own additional Silver King Securities in accordance with paragraph (c) of this Section 2.1, Silver King shall have the right, subject to the terms and conditions of this Agreement, to require an Eligible Holder to exchange (i) a number of shares of Surviving Common Stock at the then applicable Common Exchange Rate (as of the Exchange Date) for shares of Silver King Common Stock and/or (ii) a number of shares of Surviving Class B Stock at the then applicable Class B Exchange Rate (as of the Exchange Date) for shares of Silver King Class B Stock, in each case,

rounded down to the nearest whole number, which would result in the issuance to such holder of a number of shares of Silver King Common Stock and/or Silver King Class B Stock, as applicable, equal to the then Available Silver King Amount. An Eligible Holder shall also be entitled to receive upon such Exchange, the kind and amount of securities, assets or other property (other than shares of Silver King Securities) for which such shares of Surviving Common Stock and Surviving Class B Stock are then exchangeable pursuant to Article 3 hereof. In the event more than one class of Surviving Corporation stock is available for Exchange, the Eligible Holder shall be entitled to elect the number of shares of each class of Surviving Corporation stock to be so exchanged.

(c) A holder of Exchange Securities shall be deemed to be entitled or otherwise permitted to own additional Silver King Securities (i) upon the occurrence of an Issuance Event or (ii) in connection with an Agreement to Transfer; provided that in the case of clause (ii), all conditions to such transfer (other than the issuance of the applicable number of Silver King Securities and other than any conditions which are capable of being satisfied only at the closing of such transfer) have been satisfied. In the case of an Exchange in connection with an Agreement to Transfer, such holder shall be deemed to be entitled or otherwise permitted to Own the number of additional Silver King Securities which are the subject of such agreement and which the applicable Transferee is entitled or otherwise permitted to Own. The right of an Eligible Holder or of Silver King to cause the exchange of shares of Surviving Common Stock and Surviving Class B Stock for shares of Silver King Securities pursuant to this Section 2.1 is herein referred to as the "Exchange Right" and each such exchange is herein referred to as an "Exchange." The shares of Surviving Common Stock and Surviving Class B Stock to be exchanged pursuant to an Exchange are herein referred to as the "Surviving Exchange Shares" and the shares of Silver King Common Stock and Silver King Class B Stock to be received in exchange for such Surviving Exchange Shares in an Exchange are herein referred to as the "Silver King Exchange Shares."

(d) Except pursuant to an Agreement to Transfer, no Exchange Securities shall be exchangeable by a member of the Liberty Group under this Agreement until all Contingent Shares issuable to Liberty HSN pursuant to the Contingent Right have been so issued or until the Contingent Right has expired; provided that the foregoing restriction shall not affect the Liberty Group's right to assign its rights under this Agreement to any permitted transferee of Exchange Securities (or interests therein) or the rights of any such permitted transferee to exchange such Exchange Securities.

(e) It shall be a condition to the obligation of a holder of Exchange Securities to consummate an Exchange pursuant to this Agreement that:

(i) such Exchange not be taxable to such holder; provided, however, that to the extent that (x) the taxability of such Exchange was caused by or resulted from (1) any action or inaction by Liberty HSN or another member of the Liberty Group (other than any action or inaction specifically contemplated or required by the Merger Agreement, this Agreement, or the Stockholders Agreement), (2) the laws and regulations in effect at the Effective Time or (3) any difference in the tax position of an Eligible Holder relative to the tax position of Liberty HSN, such that, had such Exchange been effected by Liberty HSN, this condition

would have been satisfied, or (y) the taxes applicable to such Exchange would have accrued or been payable by Liberty HSN had all of the Exchange Securities been issued to Liberty HSN in the Merger at the Effective Time pursuant to the laws and regulations in effect at the Effective Time, such Eligible Holder shall not be entitled to assert the failure of this condition; and

(ii) such Exchange not result in the creation or imposition of any Restrictive Condition with respect to such Eligible Holder or with respect to any shares received in the Exchange.

(f) Silver King's right and obligation to effect an Exchange shall be deferred to the extent that the number of Silver King Securities which would then otherwise be required to be issued to all Eligible Holders upon the Exchange of their Exchange Securities is less than 25,000 (which number shall be adjusted to give effect to any stock splits, reverse splits, recapitalizations or the like); provided, however, that any such Exchange Securities not then required to be exchanged as a result of the provisions of this paragraph shall be exchanged at such time as such number of Silver King Securities issuable upon the Exchange of all Exchange Securities then required to be exchanged equals or exceeds such number, at which time, subject to the other conditions herein, the parties shall execute each such Exchange. The deferral set forth in this paragraph (f) shall not be applicable in the event that upon the Exchange of all of outstanding Exchange Securities by an Eligible Holder, such holder would be entitled to receive in the aggregate less than 25,000 Silver King Securities.

SECTION 2.2 Disputes Concerning Occurrence of an Issuance Event and Available Silver King Amount. The determination of whether or not a holder is entitled or otherwise permitted to Own additional Silver King Securities and the determination of the Available Silver King Amount issuable to the applicable Eligible Holder, shall be made in the good faith reasonable determination of the Person exercising the Exchange Right based upon FCC Regulations. In the event of any dispute between Silver King and a holder of Exchange Securities with respect to whether a holder is entitled or otherwise permitted to Own additional Silver King Securities or the determination of the Available Silver King Amount issuable to such Eligible Holder, such dispute shall be resolved by delivery to Silver King and such holder of a written opinion addressed to each of Silver King and such holder (which opinion shall be in form and substance reasonably satisfactory to Silver King and such holder and shall not be subject to material qualifications or limitations) of counsel to Silver King specializing in FCC matters as to the matters that are the subject of any such dispute. Such opinion shall be delivered within 10 Business Days after notice by either Silver King or such holder to the other party that the matter is outstanding and has not been resolved between them. In the event that no such opinion is delivered within ten (10) Business Days after such notice, the matter shall be resolved in favor of such holder.

SECTION 2.3 Mechanics of the Exchange. (a) An Eligible Holder may exercise the Exchange Right set forth in Section 2.1(a) above by delivering an Exchange Notice to Silver King. Silver King may exercise the Exchange Right set forth in Section 2.1(b) above by delivering an Exchange Notice to the applicable Eligible Holder. If Silver King delivers the Exchange Notice,

such notice shall set forth in reasonable detail the facts and circumstances which have entitled or otherwise permitted such holder to Own additional Silver King Securities, the Available Silver King Amount, a brief description of the method used to calculate such amount and the Common Exchange Rate and the Class B Exchange Rate in effect at such time. If an Eligible Holder delivers the Exchange Notice, such notice shall include the same information, to the extent known by such holder, and shall also set forth the number and type of Surviving Corporation stock such holder desires to exchange; if Silver King delivers the Exchange Notice, the applicable Eligible Holder shall notify Silver King in writing (the "Response Notice") of the number and type of Surviving Corporation stock such holder desires to exchange within ten (10) Business Days following receipt of the Exchange Notice, and in the event such holder fails to notify Silver King within such ten-day period, Silver King may, subject to the other terms and conditions herein, determine the number and type of shares to be exchanged. Notwithstanding any other provision of this Agreement to the contrary, in the event that an Eligible Holder desires to exchange a number of shares of Surviving Class B Stock which would require the issuance of a number of shares of Silver King Class B Stock which would cause such Eligible Holder, because of the voting power thereof, to violate FCC Regulations, such Eligible Holder shall only be required to exchange the number of Exchange Securities set forth in such notice which such Eligible Holder can exchange (if any) without violating any FCC Regulations, notwithstanding that such Eligible Holder could have exchanged a greater number of Exchange Securities had such Eligible Holder elected to exchange fewer shares of Surviving Class B Stock and more shares of Surviving Common Stock. Each Exchange Notice shall be irrevocable, and upon receipt of an Exchange Notice and satisfaction of the conditions to such Exchange, Silver King and such Eligible Holder, shall be obligated to effect such Exchange.

(b) Subject to the resolution of any disputes pursuant to Section 2.2 and subject to Section 2.1(d), (e) and (f), as promptly as practicable following receipt or delivery by Silver King of an Exchange Notice, each of Silver King and the applicable Eligible Holder shall, and shall cause each of its respective subsidiaries and the officers, directors and employees of such Person and such Person's subsidiaries to, (i) make any and all required applications or filings with, and seek any required consents, approvals or waivers from, any governmental or regulatory agencies (including, but not limited to, with the FCC and under the HSR Act), (ii) use all reasonable efforts to obtain any and all such consents, approvals or waivers and the termination of any applicable waiting period under the HSR Act, in each case, which are reasonably necessary in connection with the applicable Exchange, and (iii) use reasonable efforts to cooperate with, and express its support for, such other party's efforts to obtain any such consents, approvals and waivers. Upon receipt of such consents, approvals or waivers or the expiration or termination of such waiting period, as the case may be, Silver King or the Eligible Holder, as the case may be, shall notify the other of such receipt, expiration or termination. Upon the receipt of all such required consents, approvals or waivers and the termination of any applicable waiting period under the HSR Act, such Eligible Holder of the shares of Surviving Common Stock and Surviving Class B Stock specified in the applicable Exchange Notice or Response Notice shall surrender for exchange the appropriate stock certificate(s) pursuant to Section 2.3(c) hereof.

(c) At such time as all required consents, approvals, waivers and terminations described in Section 2.3(b) have been obtained or waived and provided that the conditions set forth

in Section 2.2(e) have been satisfied, the Eligible Holder shall surrender such holder's certificate or certificates for the Exchange Securities to be exchanged, with appropriate stock powers attached, duly endorsed, at the office of Silver King or any transfer agent for Silver King's stock, together with a written notice to Silver King that such holder is exchanging all or a specified number of shares of Surviving Common Stock and/or Surviving Class B Stock, as applicable, represented by such certificate or certificates and stating the name or names in which such holder desires the certificate or certificates for Silver King Common Stock and/or Silver King Class B Stock, as applicable, to be issued. Promptly thereafter, Silver King shall issue and deliver to such holder or such holder's nominee or nominees, a certificate or certificates representing the Silver King Common Stock and/or Silver King Class B Stock to be issued, conveyed and delivered to such Eligible Holder pursuant to Section 2.1, with any necessary documentary or transfer tax stamps duly affixed and canceled, dated the applicable Exchange Date (as defined below), and such certificates shall be issued to and registered in the name of the applicable Eligible Holder or in such other name as such Eligible Holder shall request. Certificates representing Silver King stock to be issued hereunder may include appropriate legends based on federal and state securities laws.

(d) Each Exchange shall be deemed to have been effected at the close of business on the date (the "Exchange Date") of receipt by Silver King or any such transfer agent of the certificate or certificates and notice referred to in paragraph (c) above and, in any case, no later than five (5) Business Days after all applicable conditions to such Exchange have been satisfied. Each Exchange shall be at the Common Exchange Rate or the Class B Exchange Rate, as applicable, in effect immediately prior to the close of business on the Exchange Date. If any transfer is involved in the issuance or delivery of any certificate or certificates for shares of Silver King Common Stock or Silver King Class B Stock in a name other than that of the registered holder of the shares of Surviving Common Stock or Surviving Class B Stock, as applicable, surrendered for exchange, such holder shall also deliver to Silver King a sum sufficient to pay all stock transfer taxes, if any, payable in respect of such transfer or evidence satisfactory to Silver King that such stock transfer taxes have been paid. Except as provided above, Silver King shall pay any issue, stamp or other similar tax in respect of such issuance or delivery.

(e) The Person or Persons entitled to receive the shares of Silver King Common Stock and/or Silver King Class B Stock, as applicable, issuable on such Exchange shall be treated for all purposes as the record holder or holders of such shares of Silver King Common Stock and/or Silver King Class B Stock, as applicable, as of the close of business on the Exchange Date; provided, however, that no surrender of Exchange Securities on any date when the stock transfer books of Silver King are closed for any purpose shall be effective to constitute the Person or Persons entitled to receive the shares of Silver King Common Stock and/or Silver King Class B Stock, as applicable, deliverable upon such Exchange as the record holder(s) of such shares of Silver King Common Stock and/or Silver King Class B Stock, as applicable, on such date, but such surrender shall be effective (assuming all other requirements for the valid Exchange of such shares have been satisfied) to constitute such Person or Persons as the record holder(s) of such shares of Silver King Common Stock and/or Silver King Class B Stock, as applicable, for all purposes as of the opening of business on the next succeeding day on which such stock transfer books are open, and such Exchange shall be at the Common Exchange Rate or the Class B Exchange Rate, as applicable, in effect on the

Exchange Date as if the stock transfer books of Silver King had not been closed on such date. Without limiting the first sentence of this paragraph (e), as of the close of business on an Exchange Date, the rights and obligations of the holder of the applicable Surviving Exchange Shares, as a holder thereof, shall cease (other than with respect to such holder's right to receive the applicable number of shares of Silver King Common Stock and/or Silver King Class B Stock and its obligation to deliver the applicable certificate(s) for shares of Silver King stock as provided herein).

(f) Holders of shares of Surviving Common Stock and/or Surviving Class B Stock at the close of business on a record date for any payment of declared dividends on such shares shall be entitled to receive the dividend payable on such shares on the corresponding dividend payment date notwithstanding the effective Exchange of such shares following such record date and prior to the corresponding dividend payment date.

(g) If the shares of Surviving Common Stock or Surviving Class B Stock represented by a certificate surrendered for exchange are exchanged in part only, then simultaneously with any such Exchange, Silver King shall cause the Surviving Corporation to issue and deliver to the registered holder, without charge therefor, a new certificate or certificates representing in the aggregate the number of unexchanged shares.

ARTICLE 3

EXCHANGE RATE ADJUSTMENTS

SECTION 3.1 Exchange Rate Adjustments. The Common Exchange Rate and the Class B Exchange Rate each shall be subject to adjustment from time to time as provided below in this Section 3.1.

(a)(i) If Silver King shall, after the Effective Time:

1. pay a stock dividend or make a distribution on the outstanding shares of Silver King Common Stock and/or Silver King Class B Stock in shares of Silver King Common Stock or Silver King Class B Stock,
2. subdivide or split the outstanding shares of Silver King Common Stock and/or Silver King Class B Stock into a greater number of shares,
3. combine the outstanding shares of Silver King Common Stock and/or Silver King Class B Stock into a smaller number of shares,
4. pay a dividend or make a distribution on the outstanding shares of Silver King Common Stock and/or Silver King Class B Stock in shares of its capital stock (other than Silver King Common Stock, Silver King Class B Stock or rights, warrants or options for its capital stock), or

5. issue by reclassification of its outstanding shares of Silver King Common Stock and/or Silver King Class B Stock (other than a reclassification by way of merger or binding share exchange that is subject to Section 3.2) any shares of its capital stock (other than rights, warrants or options for its capital stock),

then, in any such event, the Common Exchange Rate (in the case of such an event affecting the Silver King Common Stock) and/or the Class B Exchange Rate (in the case of an event affecting the Silver King Class B Stock), in effect immediately prior to the opening of business on the record date for determination of stockholders entitled to receive such dividend or distribution or the effective date of such subdivision, split, combination or reclassification, as the case may be, shall be adjusted so that the holder of any shares of Surviving Common Stock (in the case of such an event affecting the Silver King Common Stock) and/or Surviving Class B Stock (in the case of such an event affecting the Silver King Class B Stock) shall thereafter be entitled to receive, upon exchange of shares of Surviving Common Stock and/or Surviving Class B Stock, the number of shares of Silver King Common Stock and/or Silver King Class B Stock, or other capital stock (or a combination of the foregoing) of Silver King which such holder would have owned or been entitled or otherwise permitted to receive immediately following such event if such holder had exchanged his shares of Surviving Common Stock and/or Surviving Class B Stock, as the case may be, immediately prior to the record date for, or effective date of, as applicable, such event.

(ii) Notwithstanding the foregoing, if an event listed in clause (4) or (5) above would result in the shares of Surviving Common Stock and/or Surviving Class B Stock being exchangeable for shares or units (or a fraction thereof) of more than one class or series of capital stock of Silver King and any such class or series of capital stock provides by its terms a right in favor of Silver King to call, redeem, exchange or otherwise acquire all of the outstanding shares or units of such class or series (such class or series of capital stock being herein referred to as "Redeemable Capital Stock") for consideration that may include Redemption Securities, then the Common Exchange Rate and/or the Class B Exchange Rate, as the case may be, shall not be adjusted pursuant to this subparagraph (a) and in lieu thereof, the holders of such shares of Surviving Common Stock and/or Surviving Class B Stock shall be entitled to the rights contemplated by paragraph (c) with the same effect as if the dividend or distribution of such Redeemable Capital Stock or the issuance of the additional class or series of such Redeemable Capital Stock by reclassification had been a distribution of assets of Silver King to which such paragraph (c) is applicable.

(iii) The adjustment contemplated by this paragraph (a) shall be made successively whenever any event listed above shall occur. For a dividend or distribution, the adjustment shall become effective at the opening of business on the Business Day next following the record date for such dividend or distribution. For a subdivision, split, combination or reclassification, the adjustment shall become effective immediately after the effectiveness of such subdivision, split, combination or reclassification.

(iv) If after an adjustment pursuant to this paragraph (a) a holder of Surviving Common Stock (in the case of an adjustment to the Common Exchange Rate) and/or Surviving Class B Stock (in the case of an adjustment to the Class B Exchange Rate) would be entitled to receive upon exchange thereof shares of two or more classes or series of capital stock of Silver King, the Common Exchange Rate or the Class B Exchange Rate, as applicable, shall thereafter be subject to adjustment upon the occurrence of an action contemplated by this Section 3.1 taken with respect to any such class or series of capital stock other than Silver King Common Stock or Silver King Class B Stock, on terms comparable to those applicable to the Silver King Common Stock and the Silver King Class B Stock pursuant to this Section 3.1.

(b)(i) If Silver King shall, after the Effective Time, distribute rights, warrants or options to all or substantially all holders of its outstanding shares of Silver King Common Stock and/or Silver King Class B Stock entitling them (for a period not exceeding forty-five days from the record date referred to below) to subscribe for or purchase shares of Silver King Common Stock (or Convertible Securities for shares of Silver King Common Stock) at a price per share (or having an exercise, exchange or conversion price per share, after adding thereto an allocable portion of the exercise price of the right, warrant or option to purchase such Convertible Securities, computed on the basis of the maximum number of shares of Silver King Common Stock issuable upon exercise, exchange or conversion of such Convertible Securities) less than the Current Market Price on the applicable Determination Date, then, in any such event, the Common Exchange Rate and the Class B Exchange Rate shall each be adjusted by multiplying each such exchange rate in effect immediately prior to the opening of business on the record date for the determination of stockholders entitled to receive such distribution by a fraction, of which the numerator shall be the number of shares of Silver King Common Stock outstanding on such record date plus the number of additional shares of Silver King Common Stock so offered pursuant to such rights, warrants or options to the holders of Silver King Common Stock (and to holders of Convertible Securities for shares of Silver King Common Stock) for subscription or purchase (or into which the Convertible Securities for shares of Silver King Common Stock so offered are exercisable, exchangeable or convertible), and of which the denominator shall be the number of shares of Silver King Common Stock outstanding on such record date plus the number of additional shares of Silver King Common Stock which the aggregate offering price of the total number of shares of Silver King Common Stock so offered (or the aggregate exercise, exchange or conversion price of the Convertible Securities for shares of Silver King Common Stock so offered, after adding thereto the aggregate exercise price of the rights, warrants or options to purchase such Convertible Securities) to the holders of Silver King Common Stock (and to such holders of Convertible Securities for shares of Silver King Common Stock) would purchase at such Current Market Price.

(ii) The adjustment contemplated by this paragraph (b) shall be made successively whenever any such rights, warrants or options are distributed, and shall become effective immediately after the record date for the determination of stockholders entitled to receive such distribution. If all of the shares of Silver King Common Stock (or all of the Convertible

Securities for shares of Silver King Common Stock) subject to such rights, warrants or options have not been issued when such rights, warrants or options expire (or, in the case of rights, warrants or options to purchase Convertible Securities for shares of Silver King Common Stock which have been exercised, if all of the shares of Silver King Common Stock issuable upon exercise, exchange or conversion of such Convertible Securities have not been issued prior to the expiration of the exercise, exchange or conversion right thereof), then the Common Exchange Rate and the Class B Exchange Rate shall promptly be readjusted to the Common Exchange Rate and the Class B Exchange Rate which would then be in effect had the adjustment upon the issuance of such rights, warrants or options been made on the basis of the actual number of shares of Silver King Common Stock (or such Convertible Securities) issued upon the exercise of such rights, warrants or options (or the exercise, exchange or conversion of such Convertible Securities).

(iii) No adjustment shall be made under this paragraph (b) if the adjusted Common Exchange Rate or the Class B Exchange Rate would be lower than the Common Exchange Rate or the Class B Exchange Rate, as applicable, in effect immediately prior to such adjustment, other than in the case of an adjustment pursuant to the last sentence of paragraph (b)(ii).

(c)(i) If Silver King shall, after the Effective Time, (x) pay a dividend or make a distribution to all or substantially all holders of its outstanding shares of Silver King Common Stock and/or Silver King Class B Stock of any assets (including cash) or debt securities or any rights, warrants or options to purchase securities

(excluding dividends or distributions referred to in paragraph (a) (except as otherwise provided in clause (y) of this sentence) and distributions of rights, warrants or options referred to in paragraph

(b)), or (y) pay a dividend or make a distribution to all or substantially all holders of its outstanding shares of Silver King Common Stock and/or Silver King Class B Stock of Redeemable Capital Stock, or issue Redeemable Capital Stock by reclassification of the Silver King Common Stock and/or Silver King Class B Stock, and pursuant to paragraph (a) such Redeemable Capital Stock is to be treated the same as a distribution of assets of Silver King subject to this paragraph (c), then, in any such event, from and after the record date for determining the holders of Silver King Common Stock and Silver King Class B Stock entitled to receive such dividend or distribution, a holder of Surviving Common Stock and/or Surviving Class B Stock that exchanges such shares in accordance with the provisions of this Agreement will upon such Exchange be entitled to receive, in addition to the shares of Silver King Common Stock or Silver King Class B Stock for which such shares of Surviving Common Stock or Surviving Class B Stock, as applicable, are then exchangeable, the kind and amount of assets or debt securities or rights, warrants or options to purchase securities comprising such dividend or distribution that such holder would have received if such holder had exchanged such shares of Surviving Common Stock or Surviving Class B Stock immediately prior to the record date for determining the holders of Silver King Common Stock or Silver King Class B Stock entitled to receive such distribution.

(ii) The adjustment pursuant to the foregoing provisions of this paragraph (c) shall be made successively whenever any dividend or distribution or reclassification to which this paragraph (c) applies is made, and shall become effective immediately after (x) in the case of a dividend or distribution, the record date for the determination of stockholders entitled to receive such dividend or distribution or (y) in the case of a reclassification, the effective date of such reclassification.

(d) In the event that a holder of Surviving Common Stock and Surviving Class B Stock would be entitled to receive upon exercise of the Exchange Right pursuant to this Agreement any Redeemable Capital Stock and Silver King redeems, exchanges or otherwise acquires all of the outstanding shares or other units of such Redeemable Capital Stock (such event being a "Redemption Event"), then, from and after the effective date of such Redemption Event, the holders of shares of Surviving Common Stock and Surviving Class B Stock then outstanding shall be entitled to receive upon the Exchange of such shares (in addition to the consideration such holders are otherwise entitled to receive pursuant to their Exchange Rights), in lieu of shares or any units of such Redeemable Capital Stock, the kind and amount of securities, cash or other assets receivable upon the Redemption Event (less any consideration paid to Silver King by a holder of Silver King stock in connection with such holders receipt of Redemption Securities upon such Redemption Event (other than the surrender of shares of Redeemable Capital Stock)) by a holder of the number of shares or units of such Redeemable Capital Stock for which such shares of Surviving Common Stock or Surviving Class B Stock could have been exchanged immediately prior to the effective date of such Redemption Event (assuming, to the extent applicable, that such holder failed to exercise any rights of election with respect thereto and received per share or unit of such Redeemable Capital Stock the kind and amount of securities, cash or other assets received per share or unit by a plurality of the non-electing shares or units of such Redeemable Capital Stock)(as such type and amount of securities may be adjusted in accordance with this Agreement to reflect events or actions subsequent to the Redemption Event), and from and after the effective date of such Redemption Event the holders of the Surviving Common Stock and Surviving Class B Stock shall have no other exchange rights under these provisions with respect to such Redeemable Capital Stock.

(e) If this Section 3.1 shall require that an adjustment be made to the Common Exchange Rate and/or the Class B Exchange Rate, such adjustment shall apply to any Exchange effected after the record date for the event which requires such adjustment notwithstanding that such Exchange is effected prior to the occurrence of the event which requires such adjustment.

(f) All adjustments to the Common Exchange Rate or the Class B Exchange Rate shall be calculated to the nearest 1/1000th of a share. No adjustment in either such exchange rate shall be required unless such adjustment would require an increase or decrease of at least one percent therein; provided, however, that any adjustment which by reason of this paragraph is not required to be made shall be carried forward and taken into account in any subsequent adjustment. No adjustment need be made for a change in the par value of the Silver King Common Stock and/or Silver King Class B Stock. To the extent the shares of Surviving Common Stock or Surviving Class B Stock become exchangeable for cash, no adjustment need be made thereafter as to the cash and no interest shall accrue on such cash.

(g) Silver King shall be entitled, to the extent permitted by law, to make such increases in the Common Exchange Rate or the Class B Exchange Rate, in addition to those referred to above in this Section 3.1, as Silver King determines to be advisable in order that any stock dividends, subdivisions of shares, reclassification or combination of shares, distribution of rights, options or warrants to purchase stock or securities, or a distribution of other assets hereafter made by Silver King to its stockholders shall not be taxable.

(h) There shall be no adjustment to the Common Exchange Rate or the Class B Exchange Rate in the event of the issuance of any stock or other securities or assets of Silver King in a reorganization, acquisition or other similar transaction except as specifically provided in this Section 3.1 or, if applicable, Section 3.2. In the event this Section 3.1 requires adjustments to the Common Exchange Rate or the Class B Exchange Rate under more than one of paragraph (a)(iv), (b) or (c), and the record dates for the dividends or distributions giving rise to such adjustments shall occur on the same date, then such adjustments shall be made by applying first, the provisions of paragraph (a), second, the provisions of paragraph (c) and third, the provisions of paragraph (b). The holders of shares of Surviving Class B Stock shall not be entitled to any additional or further adjustment to the Class B Exchange Rate in connection with the convertibility of Silver King Class B Stock to Silver King Common Stock.

SECTION 3.2 Adjustment for Consolidation or Merger of Silver King. (a) In case of any consolidation or merger to which Silver King is a party, or in the case of any sale or transfer to another corporation of the property and assets of Silver King as an entirety or substantially as an entirety, or in case of any statutory exchange of securities with another corporation (each of the foregoing being referred to herein as a "Transaction"), in each case as a result of which shares of Silver King Common Stock and/or Silver King Class B Stock shall be reclassified or converted into the right to receive stock, securities or other property (including cash) or any combination thereof, proper provision shall be made so that each share of Surviving Common Stock and/or Surviving Class B Stock which is not converted into the right to receive stock, securities or other property in connection with such Transaction pursuant to paragraph (b) below shall, after consummation of such Transaction, be subject to exchange at the option of the holder into the kind and amount of stock, securities or other property receivable upon consummation of such Transaction by a holder of the number of shares of Silver King Common Stock or Silver King Class B Stock, as applicable (and/or any Other Property into which the Surviving Common Stock or Surviving Class B Stock may be exchangeable in accordance with this Agreement) into which such share of Surviving Common Stock or Surviving Class B Stock, as the case may be, might have been exchanged immediately prior to consummation of such Transaction (assuming in each case that such holder of Silver King Common Stock or Silver King Class B Stock (or such Other Property) failed to exercise rights of election, if any, as to the kind or amount of stock, securities or other property receivable upon consummation of such Transaction (provided that if the kind or amount of stock, securities or other property receivable upon consummation of such Transaction is not the same for each non-electing share, then the kind and amount of stock, securities or other property receivable upon consummation of such Transaction for each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the non-electing shares)). In connection with the foregoing, (i) effective provision shall be made, in the Articles or Certificate of Incorporation of the resulting

or surviving corporation or otherwise or in any contracts of sale or transfer with respect to the Transaction, so that the provisions set forth herein for the protection of the Exchange Rights of Surviving Common Stock and Surviving Class B Stock shall thereafter be made applicable, as nearly as reasonably may be, to any such other securities and assets deliverable upon Exchange of Surviving Common Stock and Surviving Class B Stock; and (ii) any such resulting or surviving corporation or transferee shall expressly assume the obligation to deliver, upon the exercise of Exchange Rights, such securities, cash or other assets as the holders of the Surviving Common Stock and Surviving Class B Stock shall be entitled to receive pursuant to the provisions hereof, and to make provision for the protection of the Exchange Rights of the Surviving Common Stock and Surviving Class B Stock, as provided in clause (i) of this sentence. The kind and amount of stock or securities into which the shares of Surviving Common Stock and Surviving Class B Stock shall be exchangeable after consummation of such Transaction shall be subject to adjustment, as nearly as may be practicable, as described in Section 3.1 following the date of consummation of such Transaction.

(b) Silver King shall not become a party and shall not permit any of its subsidiaries to become a party to any Transaction with respect to the foregoing unless the terms of the agreements relating to such transaction include obligations of the applicable parties consistent with this Section 3.2.

SECTION 3.3 Notice of Adjustment. Whenever the Common Exchange Rate and/or the Class B Exchange Rate is adjusted as provided in Section 3.1, 3.2 or 3.5 (an "Adjustment Event"), Silver King shall:

- (a) compute the adjusted Common Exchange Rate or Class B Exchange Rate, as applicable, in accordance herewith and prepare a certificate signed by an officer of Silver King setting forth the adjusted Common Exchange Rate and/or Class B Exchange Rate, as the case may be, the method of calculation thereof and the facts requiring such adjustment and upon which such adjustment is based, all in reasonable detail; and
- (b) promptly mail a copy of such certificate and a notice to the holders of the outstanding shares of Surviving Common Stock (in the case of an adjustment to the Common Exchange Rate) or Surviving Class B Stock (in the case of an adjustment to the Class B Exchange Rate).

The notice of adjustment and such certificate shall be mailed at or prior to the time Silver King mails an interim statement, if any, to its stockholders covering the fiscal quarter during which the facts requiring such adjustment occurred, but in any event within 45 days following the end of such fiscal quarter; provided, that if an Adjustment Event occurs following delivery of an Exchange Notice but prior to the Exchange Date, Silver King shall mail the notice of adjustment as soon as practicable following the Adjustment Event but in no event later than five days prior to the applicable Exchange Date.

SECTION 3.4 Notice of Certain Transactions. In case, at any time while any of the Exchange Securities are outstanding,

- (a) Silver King takes any action which would require an adjustment to the Common Exchange Rate and/or the Class B Exchange Rate;
- (b) Silver King shall authorize (x) any consolidation, merger or binding share exchange to which Silver King is a party, for which approval of the stockholders of Silver King is required or (y) the sale or transfer of all or substantially all of the assets of Silver King; or
- (c) Silver King shall authorize the voluntary dissolution, liquidation or winding up of Silver King or Silver King is the subject of an involuntary dissolution, liquidation or winding up; then Silver King shall cause to be filed at each office or agency maintained for the purpose of exchange of the shares of Surviving Common Stock and Surviving Class B Stock, and shall cause to be mailed to each holder of Exchange Securities at its last address as it shall appear on the stock register, at least 10 days before the record date (or other date set for definitive action if there shall be no record date), a notice stating the action or event for which such notice is being given and the record date for (or such other date) and the anticipated effective date of such action or event; provided, however, that any notice required hereunder shall in any event be given no later than the time that notice is given to the holders of the Silver King Common Stock or Silver King Class B Stock.

SECTION 3.5 Exchange Rate Adjustments for Actions of the Surviving Corporation. In the event of the occurrence of any of the transactions or other events described in paragraphs (a)-(d) of Section 3.1 or in Section 3.2 with respect to the Surviving Common Stock or the Surviving Class B Stock, or otherwise affecting the Surviving Corporation, the Common Exchange Rate and/or the Class B Exchange Rate shall be appropriately adjusted in the manner contemplated by Sections 3.1 and 3.2, mutatis mutandis, so that each Eligible Holder's Exchange Securities thereafter shall become exchangeable for the kind and amount of Silver King Securities, upon the Exchange of such holder's Exchange Securities, that such holder would have received had such holder exchanged all of its Exchange Securities pursuant to this Agreement immediately prior to the applicable Determination Date (or other comparable date) for such transaction or other event. In addition to its obligation to adjust the Exchange Rates, Silver King's other rights and obligations set forth in Sections 3.1, 3.2, 3.3, 3.4 shall also apply to the extent applicable in the event of an adjustment pursuant to this Section 3.5. Silver King agrees that it will not cause or permit to occur any such transaction or other event which would result in any adjustment to the Common Exchange Rate or the Class B Exchange Rate unless the terms of the agreement relating to such transaction or other event include obligations of the applicable parties consistent with the foregoing. The provisions of this paragraph shall apply similarly to successive transactions or other events to which this paragraph would otherwise be applicable.

ARTICLE 4

GENERAL REPRESENTATIONS AND WARRANTIES OF SILVER KING AND LIBERTY HSN

SECTION 4.1 Representations and Warranties of Silver King. Silver King hereby represents and warrants:

(a) As of the date hereof, the authorized capital stock of Silver King consists of (a) 30,000,000 shares of Silver King Common Stock and 2,415,945 shares of Silver King Class B Common Stock, and (b) 50,000 shares of preferred stock, par value \$.01 per share, of Silver King (the "Silver King Preferred Stock"), none of which have been designated as to class or series. At the close of business on December 12, 1996, (i) 7,093,132 shares of Silver King Common Stock were issued and outstanding and 2,415,945 shares of Silver King Class B Common Stock were issued and outstanding, all of which Silver King Common Stock and Silver King Class B Common Stock are validly issued, fully paid and nonassessable and not subject to any preemptive rights and (ii) no shares of Silver King Common Stock were held in treasury by Silver King or by subsidiaries of Silver King. The statement in the Proxy Statement with respect to the number of outstanding options to purchase Silver King Common Stock is true and complete in all material respects as of the date such Proxy Statement was cleared for mailing by the SEC. No change in such capitalization has occurred between December 12, 1996 and the date hereof except issuances of Silver King Common Stock upon exercise of outstanding options. As of the date hereof, no shares of Silver King Preferred Stock were issued or outstanding.

(b) Silver King has all necessary corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Silver King and the consummation by Silver King of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of Silver King, and no other corporate proceedings on the part of Silver King are necessary to authorize this Agreement or consummate the transactions contemplated hereby.

(c) This Agreement has been duly and validly executed and delivered by Silver King and, assuming the due authorization, execution and delivery by Liberty HSN, constitutes the legal and binding obligation of Silver King, enforceable against Silver King in accordance with its terms, subject to

(a) bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting or relating to creditors rights generally and (b) the availability of injunctive relief and other equitable remedies.

SECTION 4.2 Representations and Warranties of Liberty HSN. Liberty HSN hereby represents and warrants:

(a) Liberty HSN has all necessary corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Liberty HSN, and the consummation by Liberty HSN of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of Liberty HSN, and no other corporate proceedings on the part of Liberty HSN are necessary to authorize this Agreement or to consummate the transactions contemplated hereby.

(b) This Agreement has been duly and validly executed and delivered by Liberty HSN and, assuming the due authorization, execution and delivery by Silver King, constitutes the legal and binding obligation of Liberty HSN, enforceable against Liberty HSN in accordance with its terms, subject to (a) bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting or relating to creditors rights generally and (b) the availability of injunctive relief and other equitable remedies.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES OF SILVER KING WITH RESPECT TO EACH EXCHANGE

With respect to each Exchange, Silver King shall be deemed to have made, as of the applicable Exchange Date, the following representations and warranties to each Eligible Holder effecting such Exchange and, if applicable, to any Transferee who shall receive the shares issuable upon such Exchange pursuant to an Agreement to Transfer:

SECTION 5.1 Organization and Qualification. Silver King (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation; (ii) has all requisite corporate power and authority to carry on its business as it is now conducted and to own, lease and operate the properties it now owns, leases or operates at the places currently located and in the manner currently used and operated and (iii) is duly qualified or licensed and in good standing to do business in each jurisdiction in which the properties owned, leased or operated by it or the nature of the business conducted by it makes such qualification or license necessary, except, in the case of clause (iii) where the failure to be so qualified or licensed, or in good standing would not have a material adverse effect on the business, assets or condition (financial or otherwise) of Silver King and its subsidiaries, taken as a whole. Silver King has delivered or made available to such Eligible Holder true and complete copies of its certificate of incorporation and by-laws, each as amended to date and currently in effect (respectively, the "Silver King Charter" and the "Silver King Bylaws"). The Silver King Charter and the Silver King Bylaws are in full force and effect and neither Silver King nor the Surviving Corporation is in violation of its respective certificate of incorporation or bylaws.

SECTION 5.2 Authorization of the Exchange. The consummation of such Exchange by Silver King has been duly and validly authorized by the board of directors of Silver King and by any necessary action of the Silver King stockholders. Silver King has full corporate power and authority

to perform its obligations under this Agreement with respect to such Exchange and to consummate such Exchange. No other corporate proceedings on the part of Silver King or any of its subsidiaries are necessary to authorize the consummation of such Exchange.

SECTION 5.3 Validity of Silver King Shares, etc. The shares of Silver King Common Stock and/or Silver King Class B Stock to be issued by Silver King to such Eligible Holder (and, if applicable, a Transferee) pursuant to such Exchange, upon issuance and delivery in accordance with the terms and conditions of this Agreement, will be duly authorized, validly issued, fully paid and non-assessable, and will be free of any liens, claims, charges, security interests, preemptive rights, pledges, voting or stockholder agreements, options or encumbrances of any kind whatsoever (other than any of the foregoing arising under the Stockholders Agreement or any Federal or state securities laws), will not be issued in violation of any preemptive rights and will vest in such Eligible Holder (and, if applicable, such Transferee) full rights with respect thereto, including the right to vote such Silver King Exchange Shares on all matters properly presented to the stockholders of Silver King to the extent set forth in the Silver King Charter. The issuance of the Silver King Exchange Shares will not violate the rules, regulations and requirements of the National Association of Securities Dealers, Inc. ("NASD") or of the principal exchange or trading market on which the Silver King Common Stock is then quoted or traded (including, without limitation the NASD policies set forth in Section 6(i) and (j) of Part III of Schedule D of the NASD By-Laws and the Policy of the Board of Governors with respect to Voting Rights set forth in Part III of Schedule D of the NASD By-Laws or any similar policies of such other exchange or trading market). The issuance of the Silver King Common Stock pursuant to such Exchange has been registered under the Securities Act.

SECTION 5.4 No Approvals or Notices Required; No Conflict with Instruments. The performance by Silver King of its obligations under this Agreement in connection with such Exchange and the consummation of the transactions contemplated by such Exchange, including the issuance of the Silver King Exchange Shares in such Exchange, will not:

(a) conflict with or violate the Silver King Charter or the Silver King Bylaws or the charter or bylaws of the Surviving Corporation or any other subsidiary of Silver King, in each case as amended to date;

(b) require any consent, approval, order or authorization of or other action by any court, administrative agency or commission or other governmental authority or instrumentality, foreign, United States federal, state or local (each such entity a "Governmental Entity" and each such action a "Governmental Consent") or any registration, qualification, declaration or filing with or notice to any Governmental Entity (a "Governmental Filing"), in each case on the part of or with respect to Silver King or the Surviving Corporation or any other subsidiary of Silver King, the absence or omission of which would, either individually or in the aggregate, have a material adverse effect on the transactions contemplated hereby or on the business, assets, results of operations or financial condition of Silver King and its subsidiaries, taken as a whole;

(c) require, on the part of Silver King or the Surviving Corporation or any other subsidiary of Silver King, any consent by or approval of (a "Contract Consent") or notice to

(a "Contract Notice") any other person or entity (other than a Governmental Entity), the absence or omission of which would, either individually or in the aggregate, have a material adverse effect on the transactions contemplated hereby or on the business, assets, results of operations or financial condition of Silver King and its subsidiaries, taken as a whole;

(d) conflict with, result in any violation or breach of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or the loss of any material benefit under or the creation of any lien, security interest, pledge, charge, claim, option, right to acquire, restriction on transfer, voting restriction or agreement, or any other restriction or encumbrance of any nature whatsoever on any assets pursuant to (any such conflict, violation, breach, default, right of termination, cancellation or acceleration, loss or creation, a "Violation") any "Contract" (which term shall mean and include any note, bond, indenture, mortgage, deed of trust, lease, franchise, permit, authorization, license, contract, instrument, employee benefit plan or practice, or other agreement, obligation, commitment or concession of any nature) to which Silver King or the Surviving Corporation or any other subsidiary of Silver King is a party, by which Silver King, the Surviving Corporation or any other subsidiary of Silver King or any of their respective assets or properties is bound or pursuant to which Silver King or the Surviving Corporation or any other subsidiary of Silver King is entitled to any rights or benefits, except for such Violations which would not, either individually or in the aggregate, have a material adverse effect on the transactions contemplated hereby or on the business, assets, results of operations or financial condition of Silver King and its subsidiaries, taken as a whole; or

(e) result in a Violation of, under or pursuant to any law, rule, regulation, order, judgment or decree applicable to Silver King or the Surviving Corporation or any other subsidiary of Silver King or by which any of their respective properties or assets are bound, except for such Violations which would not, either individually or in the aggregate, have a material adverse effect on the transactions contemplated hereby.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES OF THE ELIGIBLE HOLDER WITH RESPECT TO EACH EXCHANGE

As of each Exchange Date, the Eligible Holder who is seeking or required to exchange its Surviving Exchange Shares shall be deemed to have made the following representations and warranties to Silver King; provided, that it shall be a condition to Silver King's obligation to effect any such Exchange in connection with an Agreement to Transfer that the applicable Transferee and Transferor pursuant to such Agreement to Transfer shall be deemed to have made to Silver King the representations set forth in paragraphs (a)-(e) of Section 6.2 (as such matters relate to, and taking into account, such Transferee's ownership of the Silver King Securities it will receive upon the consummation of such Exchange and the transfers contemplated by such Agreement to Transfer):

SECTION 6.1 Ownership and Validity of Surviving Exchange Shares. Such Eligible Holder owns beneficially and of record the Surviving Exchange Shares, free of any liens, claims, charges, security interests, pledges, voting or stockholder agreements, encumbrances or equities (other than any of the foregoing arising under this Agreement, the Merger Agreement, or the Stockholders Agreement or any Federal or state securities laws).

SECTION 6.2 No Approvals or Notices Required; No Conflict with Instruments. The consummation of such Exchange will not:

- (a) if applicable, conflict with or violate such Eligible Holder's organizational documents;
- (b) require any Governmental Consent or Governmental Filing, in each case on the part of or with respect to each of such Eligible Holder, the absence or omission of which would, either individually or in the aggregate, have a material adverse effect on such Exchange;
- (c) require, on the part of such Eligible Holder any Contract Consent or Contract Notice, the absence or omission of which would, either individually or in the aggregate, have a material adverse effect on such Exchange;
- (d) conflict with or result in any Violation of any Contract to which such Eligible Holder is a party, or by which such Eligible Holder, or any of its assets or properties is bound, except for such Violations which would not, either individually or in the aggregate, have a material adverse effect on such Exchange; or
- (e) result in a Violation of, under or pursuant to any law, rule, regulation, order, judgment or decree applicable to such Eligible Holder or by which any of its properties or assets are bound, except for such Violations which would not, either individually or in the aggregate, have a material adverse effect on such Exchange.

provided, that any such representation pursuant to this Section 6.2 by an Eligible Holder in connection with an Agreement to Transfer shall take into account the transactions contemplated to occur immediately following the Exchange pursuant to the Agreement to Transfer.

ARTICLE 7

COVENANTS AND OTHER AGREEMENTS

For so long as there remain outstanding any Exchange Securities, the parties covenant and agree as follows:

SECTION 7.1 Notification of Issuance Event. At any time Silver King or any of its subsidiaries or an Eligible Holder (i) plans or proposes to take any action which has resulted, or is

reasonably likely to result, in an Issuance Event or (ii) becomes aware of any event, fact or circumstance which results in an Issuance Event, Silver King or the Eligible Holder, respectively, shall (x) in the case of clause (i), prior to taking such action and (y) in the case of clause (ii), promptly upon becoming so aware, give notice of such Issuance Event to each holder of Exchange Securities or Silver King, as the case may be, which notice shall set forth in reasonable detail the facts, circumstances or events which will result or have resulted, as the case may be, in the occurrence of such Issuance Event. No notice shall be required pursuant to this Section 7.1 unless the number of shares issuable pursuant to such Issuance Event, together with any other shares which are then issuable in accordance with this Agreement, meet the threshold set forth in Section 2.1(f).

SECTION 7.2 Transfer of Surviving Corporation's Assets and Liabilities to Subsidiary. Silver King agrees that as soon as reasonably practicable following the Merger, it will use its reasonable best efforts to take and cause any of its subsidiaries to take any actions necessary (including making all required Government Filings and seeking and obtaining all necessary Government Consents and Contract Consents) in order to assign to a wholly owned subsidiary of the Surviving Corporation ("Surviving Sub") all of the material assets (other than the capital stock of Surviving Sub) and material liabilities of the Surviving Corporation and to cause Surviving Sub to assume or guarantee all such material liabilities and to obtain the release from the applicable parties of the Surviving Corporation from all such material liabilities. Following such transfer, Silver King shall not permit the Surviving Corporation to own any assets other than the capital stock of the Surviving Sub, and shall not permit the Surviving Corporation to be or become subject to any material liabilities. Silver King and Liberty HSN agree that Silver King's reasonable best efforts for purposes of this Section 7.2 shall not require Silver King to seek or obtain the consent or waiver of the holders of the convertible debentures issued under the Indenture (as defined in the Merger Agreement and as in effect immediately prior to the Effective Time) to such assignment and transfer.

SECTION 7.3 Treatment of Silver King Class B Stock and Silver King Common Stock upon a Distribution. So long as there are any shares of Surviving Class B Stock outstanding that are Exchange Securities, Silver King agrees that it will not (i) reclassify, subdivide or combine the Silver King Common Stock without reclassifying, subdividing or combining the Silver King Class B Stock, on an equal per share basis, or (ii) reclassify, subdivide or combine the Silver King Class B Stock without reclassifying, subdividing or combining the Silver King Common Stock, on an equal per share basis.

SECTION 7.4 Reservation of Silver King Securities. Silver King agrees to at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued Silver King Common Stock and Silver King Class B Stock, for the purpose of effecting any Exchange of shares of Surviving Common Stock or Surviving Class B Stock pursuant to this Agreement, the full number of shares of Silver King Common Stock and Silver King Class B Stock, then deliverable upon the Exchange of all then outstanding Exchange Securities (assuming for this purpose that all of the outstanding Exchange Securities are held by a single holder), and shall reserve an additional number of shares of Silver King Common Stock equal to the number of shares issuable upon the conversion of shares of Silver King Class B Stock issuable pursuant to this Agreement

SECTION 7.5 Certain Obligations Upon Insolvency or Bankruptcy of Surviving Corporation. (a) In the event that the Surviving Corporation should become insolvent or, within the meaning of any federal or state bankruptcy law, commence a voluntary case or consent to the entry of any order of relief or for the appointment of any custodian for its property or a court of competent jurisdiction enters an order or decree for relief against the Surviving Corporation appointing a custodian or ordering its liquidation, and Liberty HSN determines in good faith that the equity of the Surviving Corporation is reasonably likely to be impaired or extinguished in connection therewith, then upon the request of Liberty HSN, its rights under this Agreement shall be converted into the deferred right to receive from Silver King the number of shares of Silver King Common Stock and Silver King Class B Stock which Liberty HSN would then have had the right to acquire upon the Exchange of all Exchange Securities then outstanding (such deferred right, the "Additional Contingent Right"). The terms and conditions of the Additional Contingent Right shall be identical to those of the Contingent Right mutatis mutandis; provided, that the Remaining Shares Issuable (as defined in Exhibit A to the Merger Agreement) pursuant to the Additional Contingent Right shall automatically become issuable, subject to regulatory approval, on the fifth anniversary of the date the Additional Contingent Right is deemed to have been granted.

(b) In connection with the grant of the Additional Contingent Right, Silver King shall thereafter be obligated to use all reasonable efforts to consummate a Restructuring Transaction (as defined below) on or before the third anniversary of the date of the grant of the Additional Contingent Right. In the event that such Restructuring Transaction has not been consummated by such fifth anniversary and the Additional Contingent Right has not been satisfied in full by such date, Silver King shall thereafter be required to use its best efforts to cause all Silver King Securities issuable in respect of the Additional Contingent Right to be issued prior to the seventh anniversary thereof. Such efforts shall include, without limitation (but subject to applicable fiduciary obligations) engaging in a Restructuring Transaction, completing an equity offering, or other corporate restructuring or causing all of the equity interests in Silver King to be acquired by a third party in a transaction which is tax free to the stockholders of Silver King, in any case which would result in all Contingent Shares issuable to Liberty HSN pursuant to the Additional Contingent Right being issued to it and Liberty HSN being entitled or otherwise permitted to hold such Silver King Securities or other properties receivable by it in such transaction free of any governmental or regulatory restrictions and to exercise full rights of ownership with respect thereto. "Restructuring Transaction" shall mean a transaction, the effect of which would be to permit Liberty or Liberty HSN, as the case may be (subject to Liberty's obligations under the Stockholders Agreement), to exercise full ownership rights (including voting rights) with respect to the Silver King Securities owned by it (including its pro rata interest in any Silver King Securities held by BDTV, BDTV II or a BDTV Entity) or issuable to it in connection with the Contingent Right and the Additional Contingent Right (which transaction could include, without limitation, filing any required applications with the FCC and any other governmental or regulatory agency to obtain any required FCC or other governmental or regulatory consents and approvals, and/or any restructuring of Silver King's assets, liabilities and businesses).

SECTION 7.6 Reasonable Efforts. (a) Subject to the terms and conditions of this Agreement and applicable law, in connection with an Exchange, each of the Eligible Holder exercising its

Exchange Right and Silver King shall use its reasonable efforts to take, or cause to be taken, all actions, and do, or cause to be done, all things reasonably necessary, proper or advisable to consummate and make effective such Exchange as soon as reasonably practicable following the receipt or delivery by Silver King of an Exchange Notice, including such actions or things as Silver King or such Eligible Holder may reasonably request in order to cause the consummation of an Exchange following the receipt or delivery by Silver King of an Exchange Notice. Without limiting the generality of the foregoing, such Eligible Holder and Silver King shall (and shall cause their respective subsidiaries, and use their reasonable efforts to cause their respective affiliates, directors, officers, employees, agents, attorneys, accountants and representatives, to) consult and fully cooperate with and provide reasonable assistance to each other in (i) obtaining all necessary Governmental Consents and Contract Consents, and giving all necessary Contract Notices to and making all necessary Governmental Filings and other necessary filings with and applications and submissions to, any Governmental Entity or other person or entity; (ii) lifting any permanent or preliminary injunction or restraining order or other similar order issued or entered by any court or Governmental Entity in connection with an Exchange; (iii) providing all such information about such party, its subsidiaries and its officers, directors, partners and affiliates and making all applications and filings as may be necessary or reasonably requested in connection with any of the foregoing; and (iv) in general, consummating and making effective the transactions contemplated hereby; provided, however, that, other than in connection with the performance of its obligations with respect to the consummation of a Restructuring Transaction as provided in Section 7.5(b), in order to obtain any such Consent, or the lifting of any injunction or order referred to in clauses (i) and (ii) of this sentence, neither such Eligible Holder nor Silver King shall be required to (x) pay any consideration, to divest itself of any of, or otherwise rearrange the composition of, its assets or to agree to any conditions or requirements which could reasonably be expected to be materially adverse or burdensome to its respective businesses, assets, financial condition or results of operations, or (y) amend, or agree to amend, in any material respect any Contract. Prior to making any application to or filing with any Governmental Entity or other person or entity in connection with an Exchange, each of Silver King and the applicable Eligible Holder shall provide the other party with drafts thereof and afford the other party a reasonable opportunity to comment on such drafts.

(b) In addition to the foregoing paragraph (a), Silver King shall take such reasonable action which may be necessary in order that (i) it may validly and legally deliver fully paid and nonassessable shares of Silver King Common Stock or Silver King Class B Stock upon any surrender of shares of Surviving Common Stock or Surviving Class B Stock, as applicable, for exchange pursuant to this Agreement, (ii) the delivery of shares of Silver King Common Stock and Silver King Class B Stock in accordance with this Agreement is exempt from the registration or qualification requirements of the Securities Act and applicable state securities laws or, if no such exemption is available, that the offer and Exchange of such shares of Silver King Common Stock and Silver King Class B Stock have been duly registered or qualified under the Securities Act and applicable state securities laws, (iii) the shares of Silver King Common Stock (including the shares of Silver King Common Stock issuable upon conversion of any shares of Silver King Class B Stock), delivered upon such Exchange are listed for trading on the Nasdaq National Market or on a national securities exchange (upon official notice of issuance) and (iv) the shares of Silver King Common Stock or Silver King Class B Stock, as applicable, delivered upon such Exchange are free of

preemptive rights and any liens or adverse claims (other than any of the foregoing created or caused by the Person receiving such shares in such Exchange).

SECTION 7.7 Notification of Certain Matters. Silver King shall give prompt notice to each holder of Exchange Securities, and each holder of Exchange Securities shall give prompt notice to Silver King, of the occurrence, or failure to occur, of any event, which occurrence or failure to occur would be likely to cause (a) any representation or warranty to be made as of an applicable Exchange Date to be untrue or inaccurate in any material respect,

(b) any material failure of Silver King or such holder of Exchange Securities, as the case may be, or of any officer, director, employee or agent thereof, to comply with or satisfy any covenant or agreement to be complied with or satisfied by it under this Agreement or (c) the failure to be satisfied of any condition to Silver King's or such holder's respective obligations to consummate an Exchange. Notwithstanding the foregoing, the delivery of any notice pursuant to this Section shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

SECTION 7.8 Certain Information. So long as any Exchange Securities remain outstanding, Silver King shall provide promptly upon availability to each holder of Exchange Securities (a) quarterly and annual consolidated financial statements and reports (including a balance sheet and related income statement and the notes related thereto) prepared with respect to the Surviving Corporation and (b) such additional financial and other information with respect to the Surviving Corporation and its subsidiaries as the holders of a majority of the Exchange Securities may from time to time reasonably request.

SECTION 7.9 Additional Covenants. (a) Notwithstanding any other provision of this Agreement or the Merger Agreement to the contrary (but excluding actions specifically contemplated by this Agreement and the Merger Agreement), and in addition to the rights granted to the holders of Exchange Securities pursuant to this Agreement and any other voting rights granted by law to the holders of the Exchange Securities, without the consent of the holders of a majority of the Exchange Securities (which consent, in the case of clauses (ii) through (v) below, will not be unreasonably withheld), Silver King will not (and will not cause or permit any of its subsidiaries to) cause or permit the Surviving Corporation or any of its subsidiaries to take any action that would, or could reasonably be expected to, or fail to take any action which failure would or could reasonably be expected to:

(i) make the ownership by any holder of the Exchange Securities or any other material assets of such holder unlawful or result in a violation of any law, rule, regulation, order or decree (including the FCC Regulations) or impose material additional restrictions or limitations on such holder's full rights of ownership of the Exchange Securities or the ownership of its other material assets or the operation of its businesses (provided, that for purposes of the foregoing, to the extent that a condition, restriction or limitation upon Silver King or the Surviving Corporation or their respective subsidiaries relates to or is based upon or would arise as a result of, any action or the consummation of a transaction by the Liberty Group, such condition, restriction or limitation shall be deemed to be such a condition, restriction or limitation on the Liberty Group regardless of whether it is a party to or

otherwise would be legally obligated thereby) to the extent that the taking of an action or the consummation of a transaction by the Liberty Group would result in BDTV, Silver King, or any of their respective subsidiaries being in breach or violation of any law, rule, regulation, order or decree or otherwise causing such rule, regulation, order or decree to terminate or expire or would otherwise result in Liberty HSNs ownership of the Exchange Securities or any other material assets being illegal or in violation of any law, rule, regulation, order or decree);

(ii) cause the acquisition or ownership by any holder of any Exchange Securities (upon the exchange of Liberty HSN's shares of HSN Common Stock and HSN Class B Stock for Silver Sub shares pursuant to Section 1.1 of the Merger Agreement immediately prior to the Effective Time or upon any subsequent exchange or conversion of Surviving Common Stock or Surviving Class B Stock (other than in connection with an Exchange)) to be taxable to such holder;

(iii) cause the Exchange of Exchange Securities for Silver King Securities and/or Redeemable Capital Stock or Redemption Securities to be a taxable transaction to the holder thereof;

(iv) result in the Surviving Corporation being unable to pay its debts as they become due or becoming insolvent; or

(v) otherwise restrict, impair, limit or otherwise adversely affect the right or ability of a holder of Exchange Securities at any time to exercise the Exchange Right under this Agreement (including, but not limited to, any repurchase of shares of Silver King Securities by Silver King);

provided, however, that with respect to clauses (ii) and (iii) hereof, if (x) such acquisition, ownership or Exchange is taxable to a holder of the Exchange Securities as a result of (1) any action or failure to act by such holder (other than due to an action or inaction by the Liberty Group or such holder specifically contemplated or required by this Agreement, the Merger Agreement, or the Stockholders Agreement), (2) the laws and regulations in effect at the Effective Time or (3) any difference in the tax position of an Eligible Holder relative to the tax position of Liberty HSN or (y) the taxes applicable to such acquisition, ownership or exchange would have accrued or been payable by Liberty HSN had all of the Exchange Securities been issued to Liberty HSN in the Merger at the Effective Time, then compliance with the covenants set forth in such clauses (ii) and (iii) shall be deemed waived by such holder of Exchange Securities and provided, further, that with respect to the covenants set forth in clauses (i) and (v) hereof, such covenants shall not apply to any such consequence that would be suffered or otherwise incurred by a holder of Exchange Securities, solely as a result of such holder being subject to additional or different regulatory restrictions and limitations than those applicable to Liberty HSN.

(b) If the Exchange of Exchange Securities is taxable to an Eligible Holder as a result of a change in law or regulation or as a result of any action taken by Silver King (but not due to an action or unreasonable inaction by such holder (other than due to an action or inaction specifically contemplated or required by this Agreement, the Merger Agreement, or the Stockholders Agreement)) after the Effective Time Silver King acknowledges and agrees that it shall be obligated to provide to such holder upon such Exchange of Exchange Securities, a number of additional shares of Silver King Securities sufficient on an after-tax basis to pay any such resulting tax; provided, however, that Silver King shall have no obligation under this paragraph (b) to the extent such Exchange is taxable to an Eligible Holder solely as a result of any difference in the tax position of such Eligible Holder relative to the tax position of Liberty HSN.

(c) So long as any Exchange Securities are outstanding, Silver King shall not declare or pay any cash dividends, or make any distribution of its properties or assets to the holders of Silver King Securities (other than a distribution of Silver King Securities which is tax free to the holders of Silver King Securities) or cause, or permit to occur, a Redemption Event, unless prior thereto Silver King shall have made arrangements reasonably acceptable to the holders of the Exchange Securities to protect such holders with respect to any adverse tax consequence incurred by such holder

(other than the obligation of such holder to pay tax solely in respect of (i) the amount of such dividend or distribution or (ii) the amounts received pursuant to such Redemption Event, in each case as if such holder had been a holder of Silver King Securities on and after the Effective Date), resulting from the declaration and payment of such dividend or the making of such distribution or such Redemption Event; provided, however, that Silver King shall have no obligation under this paragraph (c) to the extent such adverse tax consequence is incurred by an Eligible Holder solely as a result of any difference in the tax position of such Eligible Holder relative to the tax position of Liberty HSN.

(d) So long as any Exchange Securities are outstanding, Silver King will not (i) merge with or into any person, or consolidate with any person, (ii) sell or transfer to another corporation or other person the property of Silver King as an entirety or substantially as an entirety, or (iii) otherwise engage in any statutory exchange of Silver King Securities with another corporation or other person, in each case as a result of which shares of Silver King Securities would be reclassified or converted into the right to receive stock, securities or other property (including cash) or any combination thereof, unless in connection with any such transaction (and immediately prior to the consummation thereof) each holder of the Exchange Securities would be entitled to exchange all Exchange Securities for Silver King Securities (and own and exercise full rights of ownership of such Silver King Securities following such transaction) or each holder of such Exchange Securities would be entitled to own and exercise full rights of ownership of the stock, securities or other property receivable by a holder of the number and kind of Silver King Securities receivable by such holder upon such Exchange of Exchange Securities; provided, however, that Silver King shall have no obligation under this paragraph (d) to the extent that Liberty HSN would be entitled to own and exercise such rights had Liberty HSN held all outstanding Exchange Securities at the time of such transaction.

(e) Silver King shall not become a party and shall not permit any of its subsidiaries to become a party to any transaction with respect to the foregoing unless the terms of the agreements relating to such transaction include obligations of the applicable parties consistent with this Section 7.9.

ARTICLE 8

MISCELLANEOUS

SECTION 8.1 Further Assurances. From and after the Effective Time, each of Silver King, Liberty HSN and any Eligible Holder shall, at any time and from time to time, make, execute and deliver, or cause to be made, executed and delivered, such instruments, agreements, consents and assurances and take or cause to be taken all such actions as may reasonably be requested by any other party hereto to effect the purposes and intent of this Agreement.

SECTION 8.2 Expenses. Except as otherwise provided herein, all costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses, whether or not any Exchange shall occur.

SECTION 8.3 Notices. All notices, requests, demands, waivers and other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given on (i) the day on which delivered personally or by telecopy (with prompt confirmation by mail) during a Business Day to the appropriate location listed as the address below, (ii) three Business Days after the posting thereof by United States registered or certified first class mail, return receipt requested, with postage and fees prepaid or (iii) one Business Day after deposit thereof for overnight delivery. Such notices, requests, demands, waivers or other communications shall be addressed as follows:

(a) if to Silver King to:

Silver King Communications, Inc. 12425 28th Street North St. Petersburg, Florida 33716 Attention: General Counsel Telecopier No.: (813) 572-1349

with a copy to:

Wachtell, Lipton, Rosen & Katz 51 West 52nd Street
New York, NY 10019-5150 Attention: Pamela S. Seymon, Esq.

Telecopier No.: (212) 403-2000

(b) if to a member of the Liberty Group, to:

Liberty Media Corporation 8101 East Prentice Avenue, Suite 500 Englewood, Colorado 80111 Attention: Peter M. Barton, President
Telecopier No.: (303) 721-5415

with a copy to:

Baker & Botts, L.L.P.

599 Lexington Avenue
New York, New York 10022

Attention: Frederick H. McGrath Esq.

Telecopier No.: (212) 705-5125

(c) If to a holder of Exchange Securities other than a member of the Liberty Group, at the address stated for such holder on the stock transfer books of the Surviving Corporation;

or to such other person or address as any party shall specify by notice in writing to the other party.

SECTION 8.4 Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, oral and written, between the parties with respect to the subject matter hereof.

SECTION 8.5 Assignment; Binding Effect; Benefit. Neither this Agreement nor any of the rights, benefits or obligations hereunder may be assigned by Silver King without the prior written consent of the other party hereto. The rights of the Liberty Group under this Agreement shall be assignable to any person acquiring Exchange Securities (or any interest therein (including an interest in any BDTV Entity)); provided, that this provision shall not affect the rights and obligations of the parties to the Stockholders Agreement. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns. Nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties or their respective successors and assigns, any rights, remedies, obligations or

liabilities under or by reason of this Agreement. No assignment permitted hereunder shall be effective until the assignee shall have agreed in writing to be bound by the terms of this Agreement.

SECTION 8.6 Amendment. This Agreement may be amended, superseded or canceled, only by a written instrument specifically stating that it amends, supersedes or cancels this Agreement, executed by each of Silver King and a member of the Liberty Group.

SECTION 8.7 Extension; Waiver. In connection with an Exchange, an Eligible Holder exercising its Exchange Right, or Silver King may, to the extent legally allowed, (i) extend the time specified herein for the performance of any of the obligations of the other Person, (ii) waive any inaccuracies in the representations and warranties of the other Person contained herein or in any document delivered pursuant hereto, (iii) waive compliance by the other Person with any of the agreements or covenants of such other Person contained herein or (iv) waive any condition to such waiving Person's obligation to consummate such Exchange to any of such waiving Person's other obligations under this Agreement. Any agreement on the part of Silver King or such Eligible Holder to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such Person. Any such extension or waiver by any Person shall be binding on such Person but not on any other Person entitled to the benefits of the provision of this Agreement affected unless such other Person also has agreed to such extension or waiver. No such waiver shall constitute a waiver of, or estoppel with respect to, any subsequent or other breach or failure to comply strictly with the provisions of this Agreement. The failure of any Person to insist on strict compliance with this Agreement or to assert any of its rights or remedies hereunder or with respect hereto shall not constitute a waiver of such rights or remedies in the future. Whenever this Agreement requires or permits consent or approval by any Person, such consent or approval shall be effective if given in writing in a manner consistent with the requirements for a waiver of compliance as set forth in this Section 8.7.

SECTION 8.8 Survival. The covenants and agreements in Articles 2, 3, and 7 and elsewhere in this Agreement shall survive until all of the Exchange Securities have been exchanged for Silver King Securities.

SECTION 8.9 Tax Interpretation. Whenever it is necessary for purposes of this Agreement to determine whether an Exchange is taxable or tax-free, such determination shall be made without regard to any interest imputed pursuant to Section 483 of the Internal Revenue Code of 1986, as amended. For purposes of this Agreement, a Person's "tax position" shall not include or take into account any offsets against any tax which are peculiar to such Person (such as tax credits, loss carry-overs, and current losses).

SECTION 8.10 General Interpretation. When a reference is made in this Agreement to Sections, Articles or Schedules, such reference shall be to a Section, Article or Schedule (as the case may be) of this Agreement unless otherwise indicated. When a reference is made in this Agreement to a "party" or "parties", such reference shall be to a party or parties to this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this

Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". The use of any gender herein shall be deemed to be or include the other genders and the use of the singular herein shall be deemed to be or include the plural (and vice versa), wherever appropriate. The use of the words "hereof", "herein", "hereunder" and words of similar import shall refer to this entire Agreement, and not to any particular article, section, subsection, clause, paragraph or other subdivision of this Agreement, unless the context clearly indicates otherwise. Notwithstanding anything herein to the contrary, for purposes of this Agreement, Silver King shall not be deemed to be a subsidiary or an affiliate of Liberty HSN, and the subsidiaries, directors, officers, employees and affiliates of Silver King shall not be deemed to be subsidiaries, directors, officers, employees or affiliates of Liberty HSN.

SECTION 8.11 Severability. If any provision of this Agreement or the application thereof to any person or circumstance is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, provided that, if any provision hereof or the application thereof shall be so held to be invalid, void or unenforceable by a court of competent jurisdiction, then such court may substitute therefor a suitable and equitable provision in order to carry out, so far as may be valid and enforceable, the intent and purpose of the invalid, void or unenforceable provision. To the extent that any provision shall be judicially unenforceable in any one or more states, such provision shall not be affected with respect to any other state, each provision with respect to each state being construed as several and independent.

SECTION 8.12 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, and all of which together shall be deemed to be one and the same instrument.

SECTION 8.13 Applicable Law. This Agreement and the legal relations between the parties shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to the conflict of laws rules thereof.

IN WITNESS WHEREOF, the parties hereto have executed this Exchange Agreement as of the date first above written.

SILVER KING COMMUNICATIONS, INC.

/s/ Michael Drayer

By: Michael Drayer
Title: Executive Vice President, General
Counsel and Corporate Secretary

LIBERTY HSN, INC.

/s/ Robert R. Bennett

By: Robert R. Bennett
Title: Executive Vice President

EXHIBIT 10.26

EQUITY AND BONUS COMPENSATION AGREEMENT

AGREEMENT by and between Silver King Communications, Inc., a Delaware corporation (the "Company"), and Barry Diller (the "Executive"), dated as of the 24th day of August, 1995.

WHEREAS, the Board of Directors of the Company (the "Board") has approved the Term Sheet entered into by the Company and the Executive, dated as of the date hereof, relating to the subject matter hereof (the "Term Sheet"); and

WHEREAS, the Term Sheet provides for the grant to the Executive of options to purchase the common stock, par value \$.01 per share (the "Stock"), of the Company (the "Options") in tandem with the LSARs (as defined herein), on terms and conditions set forth in the Term Sheet; and

WHEREAS, the Term Sheet provides that the Executive will serve as Chairman of the Board and/or Chief Executive Officer and/or President of the Company on certain terms and conditions; and

WHEREAS, the Term Sheet also provides for the payment of certain bonuses to the Executive; and

WHEREAS, Executive and the Company wish to set forth the terms and conditions of the Options and such bonuses as well as certain other matters covered by the Term Sheet more fully in this Agreement;

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Options. (a) Grant. The Company hereby grants the Executive the Options, consisting of the right to purchase 1,895,847 shares of Stock for an exercise price of \$22.625 per share. The terms of the Options are subject to adjustment pursuant to subparagraph (ii) of paragraph (e) of this Section 1 and to the other terms and conditions set forth in this Section 1.

(b) Exercisability and Termination. Except as provided in paragraph (d) of this Section 1, the Options shall become exercisable as follows: with respect to 473,962 shares on August 24 of each of 1996, 1997 and 1998; and with respect

to the remaining 473,961 shares on August 24, 1999. All Options, whether then exercisable or not, shall terminate and cease to be exercisable as follows:

- (i) if the Company terminates the Executive's employment for Cause, immediately upon the effective date of such termination; and
- (ii) if the Executive terminates his employment with the Company other than for Good Reason, at the close of business on the 90th day (or, if such day is not a business day, at the close of business on the first business day after such day) following the effective date of such termination; and
- (iii) in all other cases, at the close of business on August 24, 2005.

(c) Method of Exercise. (i) Notice. Subject to the provisions of this

Section 1, the Executive may exercise one or more Options at any time when they are exercisable by giving written notice of exercise to the Company specifying:

(A) the number of shares of Stock with respect to which the Options are being exercised; (B) the method of withholding of taxes that the Executive has chosen pursuant to paragraph (d) of Section 9, if not previously specified; and (C) whether the Executive elects to pay the exercise price by (1) tendering to the Company previously owned shares of Stock with an aggregate

Fair Market Value (calculated as of the day before the date of exercise) equal to the aggregate exercise price of the Options being exercised or (2) delivering to the Company (I) a copy of an irrevocable instruction from the Executive to an underwriter or broker directing such underwriter or broker to sell shares of Stock to be acquired by the exercise of such Options in an amount (net of brokers' and underwriters' fees, commissions or discounts) sufficient to pay such exercise price in full, and promptly remit to the Company the amount of such exercise price, all of which arrangements shall be reasonably satisfactory to the Company, (II) irrevocable instructions from the Executive to the Company to withhold from the shares of Stock to be acquired by the exercise of such Options a number of shares having a Fair Market Value on the date of exercise sufficient to pay such exercise price in full or (III) a combination of the foregoing (in the case of (I), (II) or (III), a "Cashless Exercise").

(ii) Payment of Exercise Price. Upon the exercise of an Option, except to the extent the Executive pays the applicable exercise price by means of a Cashless Exercise, the

Executive shall pay the applicable exercise price in cash, by bank check or such other instrument as the Company may accept.

(iii) Issuance of Stock. As soon as practicable after receiving (A) payment of the applicable exercise price of an Option that is exercised or (B) the certificates for the shares of Stock referred to in clause (C)(1) of subparagraph (c)(i) of this Section 1, or (c) the instructions referred to in clause (C)(2)(I) or (II), as applicable, of subparagraph (i) of paragraph (c) of this Section 1 with respect to the exercise of an Option by Cashless Exercise and the Company's reasonable satisfaction with the arrangements in respect thereof, as applicable, but subject to the provisions of paragraph (d) of Section 9 (pertaining to the withholding of taxes), the Company shall issue to the Executive in accordance with his instructions one or more stock certificates in respect of the Stock acquired by that exercise (net of any shares to be retained by the Company pursuant to clause (C)(1) of subparagraph (c)(i) of this Section 1), which certificates shall be registered in the name of the Executive and shall bear an appropriate legend substantially in the following form:

The securities represented by this certificate have not been registered under the Securities Act of 1933 or under the securities laws of any state, and may not be sold or otherwise disposed of except pursuant to an effective registration statement under said Act and applicable state securities laws or an applicable exemption to the registration requirements of such Act or laws.

In addition, such securities shall also bear an appropriate legend referring to any restrictions on the sale, transfer, assignment, pledge or other disposition of such Stock contained in any stockholders agreement to which the Executive is a party. When the Executive has given proper notice of exercise of an Option and has paid the applicable exercise price in full as provided above, the Executive shall have all of the rights of a stockholder of the Company holding the Stock acquired by such exercise (including, if applicable, the right to vote the shares or express consent and the right to receive dividends).

(d) Effect of a Change in Control. (i) Options. Upon a Change in Control, all Options that have not previously become exercisable or been terminated shall become exercisable.

(ii) LSARs. With respect to each Option that has not been exercised or terminated as of the date a Change in Control occurs, from and after the date of the Change in Control until the termination of the Options in accordance with Section 1 above, the Executive shall have the right (an "LSAR"), in lieu of exercising such Option in accordance with Section 1 above, upon notice to the Company of his election to exercise an LSAR, to surrender such Option to the Company for cancellation in exchange for cash in an amount equal to the amount by which the Change in Control Price per share of the Stock on the date of such election exceeds the exercise price per share of Stock under such Option, multiplied by the number of shares of Stock subject to such Option as to which the right granted under this paragraph (d) of Section 1 is being exercised; provided, however, that if the Change in Control occurs within six months of the date of this Agreement, no such election shall be made before the expiration of six months from the date of this Agreement.

(e) Other Terms and Conditions of Options and LSARs. (i) Nontransferability. No Option or LSAR shall be transferable by the Executive except (i) by will or by the laws

of descent and distribution or (ii) with the consent of the Board of Directors of the Company. Any transfer or purported transfer in violation of this paragraph shall be void and of no effect. All Options and LSARs shall be exercisable, during the Executive's lifetime, only by the Executive or by the guardian or legal representative of the Executive, it being understood that for purposes of this Section 1, references to the Executive include the guardian and legal representative of the Executive and any person to whom an Option and the related LSAR is transferred by will or the laws of descent and distribution.

(ii) Adjustments. (A) Dividends, Etc. The number and kind of securities purchasable upon the exercise of the Options and the exercise price of the Options shall be subject to adjustment from time to time upon certain events, as follows:

(2) If the Company pays a dividend in shares of Stock, makes a distribution to all holders of shares of any class of its capital stock in shares of Stock, subdivides its outstanding shares of Stock into a greater number of shares, or combines its outstanding shares of Stock into a smaller number of shares of Stock, then the number of shares of Stock purchasable upon exercise of the Options shall be adjusted so that the Executive shall be entitled to receive the kind and number of shares or other securities of the Company that it

would have owned and/or been entitled to receive as a result of any of the events described above, had such Options been exercised immediately before such event, effective immediately after the effective date of such event.

(3) Whenever the number of shares of Stock purchasable upon the exercise of the Options is adjusted pursuant to this subparagraph (ii)(A) of paragraph (e) of Section 1, the exercise price per share shall also be adjusted (to the nearest cent) by multiplying the exercise price per share immediately before such adjustment by a fraction, the numerator of which is the number of shares of Stock purchasable upon the exercise of the Options immediately before such adjustment, and the denominator of which is the number of shares of Stock so purchasable immediately thereafter.

(4) In the event that at any time, as a result of an adjustment made pursuant to this subparagraph (ii)(A) of paragraph (e) of Section 1, the Options shall become exercisable for any securities of the Company other than shares of Stock, thereafter the number of such other securities so purchasable upon exercise of the Options and the exercise price of such securities shall be subject to adjustment from time to time in a manner and on terms as equivalent as practicable to the provisions of this subparagraph (A) with respect to the shares of Stock.

(B) Preservation of Purchase Rights Upon Reclassification, Consolidation, etc. In case of any reclassification or change of outstanding Stock or other securities purchasable upon exercise of the Options (other than a change in par value or as a result of a subdivision or combination of shares of Stock), recapitalization, separation

(including a spin-off or other distribution of stock or property of the Company), reorganization, any dividend or distribution not described in subparagraph (ii)(A)(1) of this paragraph (e) of Section 1, or any consolidation or merger of the Company with another corporation (other than a consolidation or merger in which the Company is the surviving corporation that does not result in any reclassification of or change in the outstanding shares of Stock) or partial or complete liquidation, or any sale or conveyance to another corporation of all or substantially all of the assets of the Company (other than by mortgage or pledge), then the Company or such successor or purchasing corporation, as the case may be, shall undertake to assure that:

(1) the Options shall be exercisable, upon payment of the applicable exercise price in effect immediately before such action, for the kind and amount of shares and other securities and property that the Executive would have owned and/or been entitled to receive after such action, had such Options been exercised immediately before such action; and (2) each such Option, and the applicable exercise price, shall be subject to adjustments, which shall, to the greatest extent practicable, be equivalent to, and subject to the same terms and provisions as, the adjustments provided for

in this paragraph (e) of Section 1. The provisions of this paragraph shall similarly apply to successive reclassifications, consolidations, mergers, sales and conveyances.

(C) LSARs. Upon any adjustments of an Option pursuant to the foregoing provisions of this subparagraph (ii), corresponding adjustments to the related LSAR shall also be made.

(D) Post-Adjustment References. Following an adjustment under this paragraph (e) of Section 1, all references in this Section 1 to the number of Options and LSARs, the number and kind of shares of Stock subject thereto, and the exercise price thereof, shall be deemed to refer to such number, kind and exercise price as adjusted.

2. Bonuses. (a) Initial Bonus. The Company shall pay the Executive a bonus (the "Initial Bonus") equal to the amount such that, after payment of all Taxes on the Initial Bonus, the Executive will retain an amount sufficient to pay all Taxes that he is required to pay as a result of the

purchase of the Initial Shares and the Additional Shares, determined as set forth in this Section 2. The determination of the amount of the Initial Bonus shall be made by the Accounting Firm based upon the assumption that the Executive pays all applicable Taxes at the highest marginal rate thereof, and such determination shall be final and binding upon the Company and the Executive. The Accounting Firm shall notify the Company and the Executive of the amount of the Initial Bonus as so determined on or before October 15, 1995, and the Company shall pay the Initial Bonus to the Executive in a single cash lump sum payment within five business days after receipt of such notice. Notwithstanding the foregoing, in no event shall the amount of the Initial Bonus exceed \$1,000,000.

(b) Additional Bonuses. In addition to the Initial Bonus, the Company shall pay the Executive the following bonuses (the "Additional Bonuses"): on August 24, 1996, the Company shall pay the Executive, in a single cash lump sum payment, \$2,498,889.63, and on August 24, 1997, the Company shall pay the Executive, in a single cash lump sum payment, \$2,498,889.62; provided, however, that the Additional Bonuses shall be payable immediately in full (to the extent not

theretofore paid) upon the first to occur of (i) a Change in Control of the Company, or (ii) the termination of the Executive's employment with the Company for any reason other than (A) by the Company at any time for Cause or (B) by the Executive at any time before the Control Date without Good Reason; provided, further, that in the event the Executive's employment is terminated for Cause prior to the date on which an Additional Bonus is otherwise due, the obligation of the Company to pay any such Additional Bonus shall terminate. Except as provided in paragraph (d) of Section 9 with respect to the withholding of taxes, neither the Company nor the Executive shall have the right to offset all or any portion of the Additional Bonuses against any amount owed by the Executive to the Company.

(c) Severance Bonus. If the Executive's employment with the Company is terminated on or before August 24, 1996 for any reason other than by the Company for Cause, the Company shall pay the Executive an additional bonus (the "Severance Bonus") equal to two times the amount (if any) by which \$4,999,989.25 exceeds the Fair Market Value, on the date of such termination, of the Additional Shares; provided,

however, that the Severance Bonus shall in no event exceed \$2,000,000.

(d) Penalty for Late Payment of Additional and Severance Bonuses. Subject to the provisions of this Agreement, in the event that the Company does not pay when due all or any portion of any of the bonuses provided for in paragraph (b) or (c) of this Section 2, and the Executive shall have provided the Company with written notice that such bonus is due and has not been timely paid in full, the Company shall have three business days after receipt of such notice to pay such unpaid amount (the "Late Payment Date"). If any portion of such unpaid amount remains unpaid at the close of business on the Late Payment Date, the remaining unpaid amount shall be increased by 20% (as so increased, the "Unpaid Bonus"). The amount of the Unpaid Bonus shall accrue interest from and after the Late Payment Date until the date of payment at the short-term applicable federal rate, as defined in Section 1274(d) of the Internal Revenue Code of 1986, as amended (the "Code"), and the Unpaid Bonus, together with all such accrued interest, shall be immediately due and payable.

3. Registration. Upon request by the Executive, the Company shall use all reasonable efforts promptly to effect a registration of Stock owned by the Executive without cost to the Executive, other than underwriting discounts and commissions, any broker or dealer fees or commissions and the fees and expenses of any special accounting required in connection with the registration, which shall be paid by the Executive; provided, however, that the Company shall not be obligated to effect any registration pursuant to this paragraph if counsel designated by the Company (which counsel shall be reasonably acceptable to the Executive) delivers an opinion to the Executive to the effect that the number of shares of Stock specified in such request for registration could then be sold by the Executive within a three-month period under Rule 144 (or any successor provision then in effect) under the Securities Act of 1933, as amended, and the Executive is then entitled to sell Stock pursuant to said Rule

144. Such registration shall be effected pursuant to registration rights customary under the circumstances.

4. Nonexclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or

future participation in any plan, program, policy or practice provided by the Company or any of its stockholders or affiliated companies and for which the Executive may qualify. Furthermore, nothing in this Agreement shall limit or otherwise affect such rights or obligations as the Executive may have, subject to paragraph (f) of Section 9, under any other contract or agreement with the Company or any of its stockholders or affiliated companies.

5. Certain Additional Payments by the Company. (a) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this

Section 5) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to

receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of paragraph (c) of Section 5, all determinations required to be made under this Section 5, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the Accounting Firm in its reasonable discretion and good faith, which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 5, shall be paid by the Company to the Executive within five days of the receipt of the

Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to paragraph (c) of Section 5 and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the GrossUp Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such

claim prior to the expiration of the 30-day period following the date on which the Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any thereto imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this paragraph (c) of Section 5, the

Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with

respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount paid or advanced by the Company pursuant to paragraphs (b) or (c) of Section 5, the Executive becomes entitled to receive any refund with respect to such amount, the Executive shall (subject to the Company's complying with the requirements of paragraph (c) of Section 5) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to paragraph (c) of Section 5, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

6. Certain Other Terms and Conditions of Employment. (a) Expense Reimbursement. The Company shall pay, or shall reimburse the Executive for, the Executive's out-of-pocket expenses related to his employment by the Company, on a basis consistent with such reimbursements from his prior employer.

(b) Incentive Compensation Plans. In addition to the compensation provided for in this Agreement, and subject to any required approval of the Board, the Executive shall be entitled, during his employment by the Company, to participate in any and all incentive compensation plans of any kind (including without limitation short-term and long-term plans and programs and cash-based and stock-based plans and programs) maintained by the Company from time to time for its management and/or key employees.

(c) Indemnification. If Executive or his affiliates are or become a party or are threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative, the Company shall indemnify the Executive and

his affiliates against, and hold them harmless from, to the fullest extent permitted by law, any and all claims, costs and expenses (including reasonable attorneys' fees and expenses), judgments, fines and settlements (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld), whether involving third parties or otherwise, incurred by or asserted against the Executive and his affiliates (including without limitation contests between the Company and the Executive, or between either of them and any third party, and including without limitation contests involving any payment pursuant to this Agreement) in connection with or arising from the Executive's serving as Chairman of the Board and/or Chief Executive Officer of the Company (and, if applicable, President of the Company) and the Executive and his affiliates' entering into any and all definitive agreements contemplated by or entered into pursuant to the Term Sheet, including without limitation the stockholders agreement. The right of indemnification shall include the advancement and payment of any and all expenses of the Executive and his affiliates in connection with any matter for which the Executive may be entitled to indemnification. Notwithstanding the foregoing, neither Executive nor his affiliates shall be

entitled to indemnification with respect to any action, suit or proceeding by or on behalf of the Company in which the Executive is finally determined to have breached the Stock Pledge Agreement.

(d) Legal Fees. The Company shall pay and/or reimburse the Executive for all legal fees and expenses incurred by him and his affiliates in connection with the negotiation of the Term Sheet and any and all definitive agreements contemplated by or entered into pursuant to the Term Sheet, including without limitation the stockholders agreement.

7. Definitions. The following terms shall have the meanings set forth in this Section 7.

(a) The "Accounting Firm" means Price Waterhouse or any other nationally recognized firm of certified public accountants reasonably acceptable to the Company that the Executive may designate.

(b) The "Additional Bonuses" has the meaning assigned to it in paragraph (b) of Section 2.

(c) The "Additional Shares" means the Additional Shares as defined in the Term Sheet, together with any other security into which the Additional Shares may be converted as a result of any reclassification, stock split, consolidation, merger or other change in the number or kind of security represented by the Additional Shares.

(d) The "Board" has the meaning assigned to it in the second paragraph of this Agreement.

(e) A "Cashless Exercise" has the meaning assigned to it in subparagraph (i) of paragraph (c) of Section 1.

(f) "Cause" means the willful and continued failure of the Executive substantially to perform his duties to the Company (other than as a result of physical or mental illness or injury), after the Board delivers to the Executive a written demand for substantial performance that specifically identifies the manner in which the Board believes that he has not substantially performed his duties.

(g) A "Change in Control of the Company" means any transaction in which any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than the Executive, Liberty Media Corporation ("Liberty"), Roy M. Speer ("Speer"), and their respective affiliates (within the meaning of Rule 12b-2 promulgated under the Exchange Act), including any trusts or foundations established by Speer (a "Person"), acquires (i) beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of equity securities of the Company representing a majority of the voting power of the then-outstanding equity securities of the Company; (ii) all or substantially all of the assets of the Company; or (iii) in the event that the Executive and Liberty, and the members of their respective Stockholder Groups, collectively cease to beneficially own equity securities of the Company representing a majority of the voting power of the then-outstanding equity securities of the Company (for such purpose, treating any shares of Class B Common Stock of the Company then still subject to the Liberty Option as if they were owned by Liberty and/or the Executive), the greatest of (w) equity securities of

the Company representing 25 percent of the voting power of the then-outstanding equity securities of the Company, (x) equity securities of the Company having an aggregate voting power in excess of the aggregate voting power represented by the equity securities of the Company then owned by Liberty and the members of its Stockholder Group, and (y) equity securities of the Company having an aggregate voting power in excess of the aggregate voting power represented by the equity securities of the Company then owned by the Executive and the members of his Stockholder Group, and (z) at any time when Liberty and the Executive (or their respective affiliates) are parties to a stockholders agreement relating to the ownership and voting of equity securities of the Company, the Executive and his Stockholder Group own at least 1,000,000 shares of Stock (taking into account all shares of Stock issuable upon exercise of all unexercised Options, whether or not then exercisable, any other options to purchase, or securities convertible into, shares of Stock owned by the Executive and the members of his Stockholder Group, the Additional Shares and any other shares of Stock owned by the Executive and the members of his Stockholder Group), and the Executive is Chairman of the Board and/or Chief Executive Officer and/or President of the Company,

equity securities of the Company having an aggregate voting power in excess of the aggregate voting power represented by the equity securities of the Company then owned by Liberty and the Executive and the members of their respective Stockholder Groups, collectively.

(h) The "Change in Control Price" means the higher of (i) the highest reported sales price, regular way, of a share of Stock in any transaction reported on the New York Stock Exchange Composite Tape or other national exchange on which such shares are listed or on NASDAQ during the 60-day period prior to and including the date of a Change in Control or (ii) if the Change in Control is the result of a tender or exchange offer or merger, consolidation or other similar transaction (a "Corporate Transaction"), the highest price per share of Stock paid in such tender or exchange offer or Corporate Transaction; provided, however, that if the Change in Control occurs within six months of the date of this Agreement, then the Change in Control Price shall be the Fair Market Value of the Stock on the date the LSAR is exercised. To the extent that the consideration paid in any such transaction described above consists all or in part of securities or other noncash

consideration, or, for purposes of the proviso in the preceding sentence, to determine the Fair Market Value of the Stock if such value is not otherwise determinable pursuant to the definition of "Fair Market Value" contained herein, the value of such securities or other noncash consideration shall be determined in good faith by the Board.

(i) The "Code" has the meaning assigned to it in paragraph (a) of Section 5.

(j) The "Company" means the Company as defined in the first paragraph of this Agreement and any successor to its business and/or assets that assumes and agrees to perform this Agreement by operation of law, or otherwise.

(k) The "Control Date" means the date on which the Liberty Option shall have been validly exercised.

(l) The "Excise Tax" has the meaning assigned to it in paragraph (b) of Section 5.

(m) The "Executive" has the meaning assigned to it in the first paragraph of this Agreement.

(n) "Fair Market Value" means, as of any given date, the mean between the highest and lowest reported sales prices of the Stock in the over-the-counter market, as reported by NASDAQ, or, if the Stock is listed on a national securities exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national security exchange on which the Stock is listed or admitted to trading, on that date or, if there are no reported sales on that date, on the next day after that date on which there are such reported sales.

(o) "Good Reason" means the assignment to the Executive of any duties inconsistent in any respect with his position as Chairman of the Board and/or CEO and/or President, as the case may be, of the Company, or any other action by the Company that results in a diminution in his position, authority, duties or responsibilities; any reduction of the Executive's compensation or benefits below what is required by the terms of his employment with the Company; and any purported

termination of the Executive's employment by the Company other than for Cause.

(p) The "Initial Bonus" has the meaning assigned to it in paragraph (a) of Section 2.

(q) The "Initial Shares" means the 220,994 shares of Stock purchased by the Executive in exchange for cash as of August 24, 1995.

(r) The "Liberty Option" means the option, held by Liberty on the date hereof, to acquire shares of Class B Common Stock of the Company from RMS Limited Partnership.

(s) The "LSARs" has the meaning assigned to it in subparagraph (ii) of paragraph (d) of Section 1.

(t) "NASDAQ" means the National Association of Securities Dealers, Inc. Automated Quotations System.

(u) The "Options" has the meaning assigned to it in the third paragraph of this Agreement.

(v) The "Severance Bonus" has the meaning assigned to it in paragraph (c) of Section 2.

(w) The "Stock" means the common stock of the Company, par value \$.01 per share.

(x) "Stockholder Group" means, in the case of Liberty, Liberty and the controlled affiliates of Liberty and Tele-Communications, Inc. and, in the case of the Executive, the Executive and his 90-percent owned and controlled affiliates.

(y) "Taxes" means all federal, state and local income and other applicable taxes.

(a) The "Term Sheet" has the meaning assigned to it in the second paragraph of this Agreement.

(aa) An "Underpayment" has the meaning assigned to it in paragraph (b) of Section 5.

8. Successors. (a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive except by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's guardian and legal representatives. The Executive shall be entitled to assign any rights of the Executive under this Agreement to any corporation or other entity at least 90% owned by the Executive, in which case all references in this Agreement to the Executive shall thereafter refer to such corporation or other entity, as the case may be, and such corporation or entity shall thereupon become bound hereby, provided, that prior to such time as the Executive ceases to own at least 90% of such corporation or entity, the Executive shall cause such rights to be reassigned to the Executive or another corporation or entity at least 90% owned by the Executive.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, except as otherwise provided in subparagraph (ii) of paragraph (e) of Section 1.

9. Miscellaneous. (a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) Notices. All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by facsimile, overnight

courier, or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

1940 Coldwater Canyon
Beverly Hills, CA 90210

Facsimile: (310) 247-9153

If to the Company:

12425 28th Street North
St. Petersburg, FL 33716

Attention: Chief Financial Officer

General Counsel

Facsimile: (813) 572-1488

or to such other address or facsimile number as any party shall have furnished to the others in writing in accordance with this paragraph (b) of Section 9. Notice and communications shall be effective when actually received by the addressee.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) Withholding Taxes. No later than the date as of which an amount first becomes includible in the gross income of the Executive for federal income tax purposes with respect to any Options under this Agreement, the Executive shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any Taxes that are required by law to be withheld with respect to such amount. The obligations of the Company under this Agreement shall be conditional on such payment or arrangements.

(e) No Waiver. The failure of the Executive or the Company to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have under this Agreement shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) Entire Agreement. The Executive and the Company acknowledge that this Agreement supersedes any prior agreement (including the Term Sheet) between the parties with respect to the subject matter of this Agreement.

(g) Counterparts. This Agreement may be executed in counterparts, which together shall constitute one and the same original.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to authorization from their respective governing authorities, the Company has caused this Agreement to be executed in its name on their behalf, all as of the day and year first above written.

Barry Diller

SILVER KING COMMUNICATIONS, INC.

By _____

EXHIBIT 10.29

EMPLOYMENT AGREEMENT

AGREEMENT by and between Silver King Communications, Inc., a Delaware corporation (the "Company"), and Douglas Binzak (the "Executive"), dated as of the 13th day of February, 1996.

WHEREAS, the Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to employ the Executive as an Executive Vice President of its Broadcasting Division (the "Broadcasting Division") and the Executive desires to serve in that capacity;

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Employment Period. The Company shall employ the Executive, and the Executive shall serve the Company, on the terms and conditions set forth in this Agreement, for the period beginning two weeks following the first date on which the Executive ceases to be an employee of Fox Broadcasting Company (which date Executive represents is no

later than July 4, 1996) (the "Commencement Date") and ending on the fifth anniversary of the Commencement Date (the "Employment Period").

2. Position and Duties. (a) During the Employment Period, the Executive shall be employed as an Executive Vice President of the Broadcasting Division, with responsibilities for the Company's broadcasting properties. In such capacity, the Executive shall report to the most senior person in the Broadcasting Division (the "Broadcasting Head") who, it is contemplated, will be the President of the Broadcasting Division. The Broadcasting Head will report to the Chief Executive Officer of the Company (the "CEO"). Until the appointment of the Broadcasting Head, the Executive shall report to the CEO. During the Employment Period, the Executive shall be responsible for strategy and implementation of development of the Company's broadcast properties, subject to direction of the Broadcasting Head or CEO, as the case may be.

(b) During the Employment Period, and excluding any periods of vacation and sick leave to which

the Executive is entitled, the Executive shall devote full attention and time during normal business hours to the business and affairs of the Company and use the Executive's reasonable best efforts to carry out such responsibilities faithfully and efficiently.

(c) The Executive's services shall, subject to required travel, be performed primarily in Los Angeles, California.

3. Compensation. (a) Base Salary. During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary") of \$415,000, payable in accordance with the regular payroll practices of the Company. During the Employment Period, the Annual Base Salary shall be reviewed for possible increase at least annually, with any increase being at the sole discretion of the Board of Directors. The term "Annual Base Salary" shall thereafter refer to the Annual Base Salary as so increased.

(b) Bonus. In addition to the Annual Base Salary, the Executive shall be eligible to participate in an incentive bonus plan or program to be adopted by the Company or the Network during the first year of the Employment Period, with the amount and timing of any such bonus awarded thereunder (a "Bonus") to be determined pursuant to such plan or program.

(c) Other Benefits. During the Employment Period: (i) the Executive shall be eligible to participate in all incentive, savings and retirement plans, practices, policies and programs of the Company maintained for the benefit of peer executives of the Company, provided that in determining the Executive's participation in such plans the Stock Options granted to the Executive under the Company's 1996 Stock Incentive Plan shall be taken into account; and (ii) the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in, and shall receive all benefits under, all welfare benefit plans, practices, policies and programs provided by the Company (including, without limitation, those benefits currently

provided by the Company and listed on Schedule I hereto) to the same extent as peer executives of the Company (it being understood that the Company shall be entitled to modify or discontinue any such benefits so long as the benefits provided to the Executive, in the aggregate, are no less favorable than those set forth on Schedule I hereto).

(d) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in carrying out the Executive's duties under this Agreement, provided that the Executive complies with the generally applicable policies, practices and procedures of the Company for submission of expense reports, receipts, or similar documentation of such expenses.

(e) Fringe Benefits. During the Employment Period, the Executive shall be entitled to fringe benefits and perquisites in accordance with the plans, practices, programs and policies of the Company as in effect at the time with respect to peer executives of the Company,

including, without limitation, an automobile allowance of \$1,200 per calendar month and first-class hotel and travel accommodations on all commercial carriers for travel related to the business of the Company.

(f) Office and Support Staff. During the Employment Period, the Executive shall be entitled to an office in Los Angeles and an executive assistant of his choice, subject to the Company's reasonable approval.

(g) Vacation. During the Employment Period, the Executive shall be entitled to three weeks of paid vacation annually.

4. Termination of Employment. (a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. The Company shall be entitled to terminate the Executive's employment because of the Executive's Disability during the Employment Period. "Disability" means that (i) the Executive has been unable,

for a period of 180 consecutive days, to perform the Executive's duties under this Agreement, as a result of physical or mental illness or injury, and

(ii) a physician selected by the Company or its insurers, and acceptable to the Executive or the Executive's legal representative, has determined that the Executive's incapacity is total and permanent. A termination of the Executive's employment by the Company for Disability shall be communicated to the Executive by written notice, and shall be effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), unless the Executive returns to full-time performance of the Executive's duties before the Disability Effective Date.

(b) By the Company. The Company may terminate the Executive's employment during the Employment Period for Cause or without Cause. "Cause" means:

A. a material breach of the terms of this Agreement after the Company has given the Executive notice of such breach and a reasonable opportunity to cure.

B. illegal conduct or gross misconduct by the Executive, in either case that results in material and demonstrable damage to the business or reputation of the Company.

(c) Good Reason. (i) The Executive may terminate employment for Good Reason. "Good Reason" means a material breach by the Company of the provisions of this Agreement after the Executive has given the Company notice of such breach and a reasonable opportunity to cure.

(ii) A termination of the Executive's employment by the Executive without Good Reason shall be effected by giving the Company at least 10 business days' advance written notice of the termination.

(d) Date of Termination. The "Date of Termination" means the date of the Executive's death, the Disability Effective Date, the date on which the termination of the Executive's employment by the Company for Cause or by the Executive for Good Reason or without Good Reason, as the case may be, is effective.

5. Obligations of the Company upon Termination. (a) By the Company Other Than for Cause, Death or Disability or By

the Executive for Good Reason. If, during the Employment Period, the Company terminates the Executive's employment, other than for Cause or Disability or by reason of the Executive's death, or the Executive terminates employment for Good Reason, the Company, in complete satisfaction of its obligations under this Agreement, shall pay to the Executive in a lump sum in cash within ten business days after the Date of Termination the Executive's accrued but unpaid cash compensation (the "Accrued Obligations"), which shall equal the sum of (1) any portion of the Executive's Annual Base Salary through the Date of Termination that has not yet been paid, (2) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) that has not yet been paid; and (3) any accrued but unpaid Bonuses and vacation pay; and, subject to Section 7 hereof, shall also continue to pay the Executive his Annual Base Salary for the remainder of the Employment Period at regular payroll intervals.

(b) Death or Disability. If the Executive's employment is terminated by reason of the Executive's death or Disability during the Employment Period, the Company shall pay

the Accrued Obligations to the Executive or the Executive's estate or legal representative, as applicable, in a lump sum in cash within ten business days after the Date of Termination, and the Company shall have no further obligations under this Agreement.

(c) Cause Other than for Good Reason. If the Executive's employment is terminated by the Company for Cause or by the Executive without Good Reason during the Employment Period, the Company shall pay the Executive the Accrued Obligations and the Company shall have no further obligation to the Executive. The payment of Accrued Obligations shall not prejudice the Company in pursuing remedies at law or in equity as a result of a breach by the Executive of this Agreement.

6. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies for which the Executive may qualify, nor, subject

to paragraph (f) of Section 10, shall anything in this Agreement limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Vested benefits and other amounts that the Executive is otherwise entitled to receive under any plan, policy, practice or program of, or any contract or agreement with, the Company or any of its affiliated companies on or after the Date of Termination shall be payable in accordance with such plan, policy, practice, program, contract or agreement, as the case may be, except as explicitly modified by this Agreement.

7. Mitigation. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, provided that if the Executive obtains other employment during the Employment Period, the amounts otherwise required to be paid hereunder (other than Accrued Obligations) shall be reduced by any amounts he is paid as a result of such other employment during the Employment Period.

8. Confidential Information; Nonsolicitation; No Conflict. (a) The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies and their respective businesses that the Executive obtains during the Executive's employment by the Company or any of its affiliated companies and that is not public knowledge (other than as a result of the Executive's violation of this paragraph (a) of Section 8) ("Confidential Information"). The Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after the Executive's employment with the Company, except in the good faith performance of his duties hereunder, with the prior written consent of the Company or as otherwise required by law or legal process.

(b) The Executive agrees that he will not, for a period of one year after the expiration or termination of the Executive's employment with the Company, without the prior written consent of the Company, solicit the employment

of, any person who is or at any time during the six month period immediately preceding the date of expiration or termination of the Executive's employment with the Company was an employee (not including any clerical or secretarial employee), representative, officer or director of the Company or any of its subsidiaries.

(c) Executive represents to the Company that neither his commencement of employment hereunder nor the performance of his duties hereunder conflicts with any contractual commitment on his part to any third party or violates or interferes with any rights of any third party (it being understood that the Company is aware that the Executive is prohibited from soliciting the employment of Fox employees for a two-year period).

9. Successors. (a) This Agreement is personal to the Executive and, without the prior written consent of the Company, shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean both the Company as defined above and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise.

10. Miscellaneous. (a) This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or

effect. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

Douglas Binzak
620 Alta Avenue
Santa Monica, California 90402

with copy to :

Kleinberg Lopaz Lange Brisbin & Cuddy 2049 Century Park East, Suite 3180 Los Angeles, California 90067

Attention: Robert Lange

If to the Company:

Silver King Communications, Inc.
12425 28th Street, North
St. Petersburg, Florida 33716

Attention: Corporate Secretary

or to such other address as either party furnishes to the other in writing in accordance with this paragraph (b) of Section 10. Notices and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision of this Agreement shall be held invalid or unenforceable in part, the remaining portion of such provision, together with all other provisions of this Agreement, shall remain valid and enforceable and continue in full force and effect to the fullest extent consistent with law.

(d) Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable under this Agreement all federal, state, local and foreign taxes that are required to be withheld by applicable laws or regulations.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision of, or to assert any right under, this Agreement shall not be deemed to be a waiver of such provision or right or of any other provision of or right under this Agreement.

(f) The Executive and the Company acknowledge that this Agreement supersedes any other agreement between them concerning the subject matter hereof.

(g) This Agreement may be executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization of its Board of Directors, the Company has caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written.

Douglas Binzak

SILVER KING COMMUNICATIONS, INC.

By

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EXHIBIT 10.30

EMPLOYMENT AGREEMENT

AGREEMENT by and between Silver King Communications, Inc., a Delaware corporation (the "Company"), and Adam Ware (the "Executive"), dated as of the 28th day of May, 1996.

WHEREAS, the Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to employ the Executive as an Executive Vice President of its Broadcasting Division (the "Broadcasting Division") and the Executive desires to serve in that capacity;

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Employment Period. The Company shall employ the Executive, and the Executive shall serve the Company, on the terms and conditions set forth in this Agreement, for the period beginning on June 10, 1996 (the "Commencement Date") and ending on the third anniversary of the Commencement Date (the "Employment Period").

2. Position and Duties. (a) During the Employment Period, the Executive shall be employed as an Executive Vice President of the Broadcasting Division, with responsibilities for the Company's broadcasting properties. In such capacity, the Executive shall report to the most senior person in the Broadcasting Division (the "Broadcasting Head") who, it is contemplated, will be the President of the Broadcasting Division. The Broadcasting Head will report to the Chief Executive Officer of the Company (the "CEO"). Until the appointment of the Broadcasting Head, the Executive shall report to the CEO. During the Employment Period, the Executive shall be responsible for strategy and implementation of development of the Company's broadcast properties, subject to direction of the Broadcasting Head or CEO, as the case may be.

(b) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive shall devote full attention and time during normal business hours to the business and affairs of the Company and use the Executive's

reasonable best efforts to carry out such responsibilities faithfully and efficiently.

(c) The Executive's services shall, subject to required travel, be performed primarily in Los Angeles, California.

3. Compensation. (a) Base Salary. During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary"), payable in accordance with the regular payroll practices of the Company as follows: (i) from the Commencement Date until (but not including) the first anniversary thereof, the Annual Base Salary shall be \$275,000; (ii) from the first anniversary of the Commencement Date until (but not including) the second anniversary of the Commencement Date, the Annual Base Salary shall be \$300,000; and (iii) from the second anniversary of the Commencement Date through the end of the Employment Period, the Annual Base Salary shall be \$325,000.

(b) Bonus. In addition to the Annual Base Salary, the Executive shall be eligible to participate in an incentive bonus plan or program to be adopted by the Company or the Broadcasting Division during the first year of the Employment Period, with the amount and timing of any such bonus awarded thereunder (a "Bonus") to be determined pursuant to such plan or program.

(c) Other Benefits. During the Employment Period: (i) the Executive shall be eligible to participate in all incentive, savings and retirement plans, practices, policies and programs of the Company maintained for the benefit of peer executives of the Company, provided that in determining the Executive's participation in such plans the Stock Options granted to the Executive under the Company's 1995 Stock Incentive Plan shall be taken into account; and (ii) the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in, and shall receive all benefits under, all welfare benefit plans, practices, policies and programs provided by the Company (including, without limitation, those benefits currently provided

by the Company and listed on Schedule I hereto) to the same extent as peer executives of the Company (it being understood that the Company shall be entitled to modify or discontinue any such benefits so long as the benefits provided to the Executive, in the aggregate, are no less favorable than those set forth on Schedule I hereto).

(d) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in carrying out the Executive's duties under this Agreement, provided that the Executive complies with the generally applicable policies, practices and procedures of the Company for submission of expense reports, receipts, or similar documentation of such expenses.

(e) Fringe Benefits. During the Employment Period, the Executive shall be entitled to fringe benefits and perquisites in accordance with the plans, practices, programs and policies of the Company as in effect at the time with respect to peer executives of the Company,

including, without limitation, an automobile allowance of \$1,000 per calendar month and first-class hotel and travel accommodations on all commercial carriers for travel related to the business of the Company.

(f) Office and Support Staff. During the Employment Period, the Executive shall be entitled to an office in Los Angeles and an executive assistant of his choice, subject to the Company's reasonable approval.

(g) Vacation. During the Employment Period, the Executive shall be entitled to three weeks of paid vacation annually.

4. Termination of Employment. (a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. The Company shall be entitled to terminate the Executive's employment because of the Executive's Disability during the Employment Period. "Disability" means that (i) the Executive has been unable,

for a period of 180 consecutive days, to perform the Executive's duties under this Agreement, as a result of physical or mental illness or injury, and (ii) a physician selected by the Company or its insurers, and acceptable to the Executive or the Executive's legal representative, has determined that the Executive's incapacity is total and permanent. A termination of the Executive's employment by the Company for Disability shall be communicated to the Executive by written notice, and shall be effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), unless the Executive returns to full-time performance of the Executive's duties before the Disability Effective Date.

(b) By the Company. The Company may terminate the Executive's employment during the Employment Period for Cause or without Cause. "Cause" means:

A. a material breach of the terms of this Agreement after the Company has given the Executive notice of such breach and a reasonable opportunity to cure.

B. illegal conduct or gross misconduct by the Executive, in either case that results in material and demonstrable damage to the business or reputation of the Company.

(c) Good Reason. (i) The Executive may terminate employment for Good Reason. "Good Reason" means a material breach by the Company of the provisions of this Agreement after the Executive has given the Company notice of such breach and a reasonable opportunity to cure.

(ii) A termination of the Executive's employment by the Executive without Good Reason shall be effected by giving the Company at least 10 business days' advance written notice of the termination.

(d) Date of Termination. The "Date of Termination" means the date of the Executive's death, the Disability Effective Date, the date on which the termination of the Executive's employment by the Company for Cause or by the Executive for Good Reason or without Good Reason, as the case may be, is effective.

5. Obligations of the Company upon Termination. (a) By the Company Other Than for Cause, Death or Disability or By

the Executive for Good Reason. If, during the Employment Period, the Company terminates the Executive's employment, other than for Cause or Disability or by reason of the Executive's death, or the Executive terminates employment for Good Reason, the Company, in complete satisfaction of its obligations under this Agreement, shall pay to the Executive in a lump sum in cash within ten business days after the Date of Termination the Executive's accrued but unpaid cash compensation (the "Accrued Obligations"), which shall equal the sum of (1) any portion of the Executive's Annual Base Salary through the Date of Termination that has not yet been paid, (2) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) that has not yet been paid; and (3) any accrued but unpaid Bonuses and vacation pay; and, subject to Section 7 hereof, shall also continue to pay the Executive his Annual Base Salary for the remainder of the Employment Period at regular payroll intervals.

(b) Death or Disability. If the Executive's employment is terminated by reason of the Executive's death or Disability during the Employment Period, the Company shall pay

the Accrued Obligations to the Executive or the Executive's estate or legal representative, as applicable, in a lump sum in cash within ten business days after the Date of Termination, and the Company shall have no further obligations under this Agreement.

(c) Cause Other than for Good Reason. If the Executive's employment is terminated by the Company for Cause or by the Executive without Good Reason during the Employment Period, the Company shall pay the Executive the Accrued Obligations and the Company shall have no further obligation to the Executive. The payment of Accrued Obligations shall not prejudice the Company in pursuing remedies at law or in equity as a result of a breach by the Executive of this Agreement.

6. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies for which the Executive may qualify, nor, subject

to paragraph (f) of Section 10, shall anything in this Agreement limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Vested benefits and other amounts that the Executive is otherwise entitled to receive under any plan, policy, practice or program of, or any contract or agreement with, the Company or any of its affiliated companies on or after the Date of Termination shall be payable in accordance with such plan, policy, practice, program, contract or agreement, as the case may be, except as explicitly modified by this Agreement.

7. Mitigation. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, provided that if the Executive obtains other employment during the Employment Period, the amounts otherwise required to be paid hereunder (other than Accrued Obligations) shall be reduced by any amounts he is paid as a result of such other employment during the Employment Period.

8. Confidential Information; Nonsolicitation; No Conflict. (a) The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies and their respective businesses that the Executive obtains during the Executive's employment by the Company or any of its affiliated companies and that is not public knowledge (other than as a result of the Executive's violation of this paragraph (a) of Section 8) ("Confidential Information"). The Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after the Executive's employment with the Company, except in the good faith performance of his duties hereunder, with the prior written consent of the Company or as otherwise required by law or legal process.

(b) The Executive agrees that he will not, for a period of one year after the expiration or termination of the Executive's employment with the Company, without the prior written consent of the Company, solicit the employment

of, any person who is or at any time during the six month period immediately preceding the date of expiration or termination of the Executive's employment with the Company was an employee (not including any clerical or secretarial employee), representative, officer or director of the Company or any of its subsidiaries.

(c) Executive represents to the Company that neither his commencement of employment hereunder nor the performance of his duties hereunder conflicts with any contractual commitment on his part to any third party or violates or interferes with any rights of any third party (it being understood that the Company is aware that the Executive is prohibited from soliciting the employment of Fox employees for a two-year period).

9. Successors. (a) This Agreement is personal to the Executive and, without the prior written consent of the Company, shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean both the Company as defined above and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise.

10. Miscellaneous. (a) This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or

effect. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

Adam Ware
c/o Robert Lange
Kleinberg Lopez Lange Brisbin & Cuddy 2049 Century Park East, Suite 3180 Los Angeles, California 90067

If to the Company:

Silver King Communications, Inc.
12425 28th Street, North
St. Petersburg, Florida 33716

Attention: Corporate Secretary

or to such other address as either party furnishes to the other in writing in accordance with this paragraph (b) of

Section 10. Notices and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision of this Agreement shall be held invalid or unenforceable in part, the remaining portion of such provision, together with all other provisions of this Agreement, shall remain valid and enforceable and continue in full force and effect to the fullest extent consistent with law.

(d) Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable under this Agreement all federal, state, local and foreign taxes that are required to be withheld by applicable laws or regulations.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision of, or to

assert any right under, this Agreement shall not be deemed to be a waiver of such provision or right or of any other provision of or right under this Agreement.

(f) The Executive and the Company acknowledge that this Agreement supersedes any other agreement between them concerning the subject matter hereof.

(g) This Agreement may be executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization of its Board of Directors, the Company has caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written.

Adam Ware

SILVER KING COMMUNICATIONS, INC.

By

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EXHIBIT 10.33

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into as of this 14th day of October, 1996 (the "Effective Date") by and between James G. Gallagher (the "Employee") and Home Shopping Network, Inc. (the "Company").

WHEREAS, the Company through its divisions or subsidiaries desires to employ the Employee; and

WHEREAS, the Employee is desirous of being employed by the Company and committing to serve the Company on the terms herein provided.

NOW, THEREFORE, in consideration of the forgoing and of the respective covenants and agreements of the parties herein contained, the parties agree as follows:

1. Position, Responsibilities and Term of Employment.

1.01 Employment and Duties. Subject to the terms and conditions of this Agreement, the Company agrees to employ the Employee to perform the duties of Executive Vice President, General Counsel and Secretary of the Home Shopping Network division of the Company and Vice President, General Counsel and Secretary of HSN, Inc. and the Employee accepts such employment and agrees to perform in a diligent, careful and proper manner such reasonable responsibilities and duties commensurate with such position as may be assigned to Employee by the officers or other designees of the Company commencing October 14, 1996 (the "Commencement Date"). During the term and as long as employment with the Company continues, Employee shall comply with the Company's policies and procedures as in effect from time to time.

1.02 Term. Subject to the provisions of this Agreement, the term of this Agreement shall commence upon the Effective Date and shall continue for a two (2) year period from the Commencement Date (the "Term"), unless sooner terminated as provided in paragraph 4.

2. Compensation.

2.01 Signing Bonus. Upon execution hereof by both parties, the Company shall pay to Employee Thirty Thousand Dollars (\$30,000), net of applicable taxes, as a one time signing bonus.

2.02 Salary. From and after the Commencement Date and during the remaining Term of this Agreement, the Company shall pay Employee a salary at the rate of Two Hundred Thousand Dollars (\$200,000) per year in accordance with Company policy. Salary may be reviewed during the Term of this Agreement in accordance with Company policy and adjusted accordingly hereunder (but not downward). Employee shall be paid once every two (2) weeks or in such other regular periodic installments, at least as frequently as monthly, as salary payments are generally made by the Company to its employees.

2.03 Participation in Benefit Plans. The Employee shall be entitled to participate in, or receive benefits under, any of Company's employee benefit plans solely in accordance with the terms of such plans and, as provided to other senior level executives of the Company. In addition, Employee shall be granted options to purchase Fifteen Thousand Seven Hundred Fifty (15,750) shares of HSN, Inc. common stock pursuant to the Company's 1996 Stock Option Plan for Employees (the "Plan"). Such options shall be reflected in a separate agreement which will, in accordance with the Plan, govern all rights and obligations with respect to the vesting and expiration of such options.

2.04 Vacation Days. The Employee shall be entitled to four weeks of paid vacation per year which shall accrue and be available in accordance with Company policy. Employee shall receive paid holidays and sick days in accordance with the Company's policies and procedures.

2.05 Bonus Plans. The Employee shall be eligible to participate in the Company's bonus plans, as the same may exist from time to time, commencing fiscal year 1996.

2.06 Deductions. All amounts payable under this Agreement shall be subject to such deductions as may from time to time be required to be made pursuant to law or governmental regulation or by agreement with or consent of Employee.

3. Moving Expenses. The Company shall pay to Employee his moving expenses from his current primary residence to the Tampa Bay area in accordance with the Company's policies and procedures.

4.
Termination by Company for Any Reason.

4.01 Termination for Cause. Employee's employment under this Agreement may be terminated by the Company, prior to expiration of the Term, for Cause upon at least 30 days prior written notice. The term "Cause" shall mean only one or more of the following: (i) Employee's conviction by a court of competent jurisdiction (which conviction, through lapse of time or otherwise, is not subject to appeal) of any felony, fraud or business crime; (ii) Employee's possession or use of illegal drugs or prohibited substance, or Employee's excessive drinking of alcoholic beverages that impairs his ability to perform his duties under this Agreement; (iii) Employee's commission of a tort, or act of fraud, upon the Company; (iv) a breach by Employee of any of the covenants made by Employee in Sections 5 and 6 hereof; or (v) Employee's continuous failure or refusal to perform his duties under this Agreement and his failure to remedy such failure or refusal after sixty (60) days written notice and opportunity to cure. If the Company terminates this Agreement for Cause, the Company shall pay to Employee his salary under this Agreement, until the date of termination specified in the Company's notice of termination.

4.02 Termination without Cause. If the Company terminates this Agreement without Cause (other than as a result of Employee's death or disability), Company shall (A) pay to Employee as liquidated damages and not as a penalty, (1) Employee's salary under this Agreement until the date of termination and (2) the amount of salary Employee would have received under this

Agreement during the remainder of the then current Term if this Agreement had not been terminated and (B) maintain or pay the cost of maintaining during the remainder of the then current Term all medical and other health insurance benefits and coverage previously provided to Employee by the Company. Payment of such salary amounts shall be made periodically as described in Section 2.02. Employee shall be required to mitigate the amount of any payment provided for in this paragraph 4.02 by seeking other employment or otherwise, and the amount of any such payment shall be reduced by any compensation received by Employee as a result of his employment by any other person, firm or corporation. Notwithstanding the foregoing, the Company agrees it shall not make any claim or assertion of failure to mitigate, if Employee has not secured other employment, for up to one (1) year following Employee's termination. As a condition precedent to receipt of such damages, Employee shall be required, at the time of termination, to execute a general release and waiver in favor of the Company.

4.03 Disability. In the event that Employee shall be physically or mentally disabled so as not to be able to perform his duties pursuant to this Agreement for any period of three months or more, the Company shall have the right to terminate Employee's employment upon written notice of such termination to Employee, whereupon the Company shall continue to pay Employee his salary under this Agreement until the date of termination specified in Company's notice of termination.

4.04 Death. This Agreement shall terminate upon the date of death of Employee, and the Company shall be obligated to pay to the Employee's estate his salary under this Agreement until the end of the calendar month in which his death occurred.

5. Covenant and Confidential Information.

(a) Non-Competition. During Employee's employment with the Company and for eighteen (18) months thereafter (but in no event less than forty-two (42) months from the Commencement Date), the Employee shall not, directly or indirectly, on behalf of the Employee or on behalf of or with any other person, enterprise or entity, in any individual or representative capacity, engage or participate in any business that is in competition with any subsidiary or affiliate of Home Shopping Network, Inc. in the United States of America in the field of on-line retail or electronic retailing. The Employee's obligations under this paragraph shall continue during the Term and for the period after the Term set forth above, and shall not, for any reason, cease upon termination of the Employee's employment with the Company (whether by a wrongful discharge or otherwise).

(b) Non-Solicitation. Employee shall not, during the eighteen (18) months following Employee's employment with the Company (but in no event less than forty-two (42) months from the Commencement Date), solicit the employment of any employee of the Company or its subsidiaries on behalf of any other person, firm, corporation, entity or business organization, or otherwise interfere with the employment relationship between any employee of the Company and the Company.

(c) Confidential Information.

(i) Definition. "Confidential Information" means any information that relates to or is used in the business or operations of the Company or any of its Affiliates and that is not generally known to the public, or that is competitively sensitive to the Company or any of its Affiliates, including without limitation, customer lists, marketing methods, merchandise sources, methods of merchandising deemed proprietary by the Company, product and assortment selection, sales and price lists, product research or data, vendors, contractors, financial information, business plans and methods or other trade secrets of the Company, and all information that the Company or any of its Affiliates is required to keep confidential pursuant to any confidentiality or non-disclosure agreement or that is otherwise delivered to the Company or any of its Affiliates in confidence. Confidential Information includes information in any form whatsoever, including without limitation oral information, any notes, documents, files, records and information in any other written form, any magnetic, electric, digital and other recording medium, and any products, equipment, technology and any other tangible object.

(ii) Confidentiality Obligation. The Employee shall preserve and protect the confidentiality of all Confidential Information and shall not, without the prior written consent of an executive officer of the Company or except as required in the course of the Employee's employment with the Company, (i) remove any Confidential Information from the Company's premises or disclose, make available or transmit in any manner any Confidential Information to any other person, enterprise or entity, or (ii) use, directly or indirectly, any Confidential Information for the Employee's own benefit or for the benefit of any other person, enterprise or entity. The Employee's obligations under this Paragraph 5(c) (ii) shall continue during the Term and indefinitely after the term, and shall not, for any reason, cease upon termination of the Employee's employment with the Company (whether by wrongful discharge or otherwise).

(d) Proprietary Rights; Assignment. All Employee Developments shall be made for hire by the Employee for the Company. "Employee Developments" means any idea, discovery, invention, design, method, technique, improvement, enhancement, development, computer program, machine, algorithm or other work or authorship that (A) relates to the business or operations of the Company or any of its Affiliates, or (B) results from or is suggested by any undertaking assigned to the Employee or work performed by the Employee for or on behalf of the Company or any of its Affiliates, whether created alone or with others, during or after working hours. All Confidential Information and all Employee Developments shall remain the sole property of the Company and its Affiliates. The Employee shall acquire no proprietary interest in any Confidential Information or Employee Developments developed or acquired during the term. To the extent the Employee may, by operation of law or otherwise, acquire any right, title or interest in or to any Confidential Information or Employee Development, the Employee hereby assigns to the Company all such proprietary rights. The Employee shall, both during and after the Term, upon the Company's request, promptly execute and deliver to the Company all such assignments, certificates and instruments, and shall promptly perform such other acts, as the Company may from time to time in its discretion deem

necessary or desirable to evidence, establish, maintain, perfect, protect, enforce or defend the Company's rights in Confidential Information and Company Developments.

(e) Remedies for Breach. Employee expressly agrees and understands that the remedy at law for any breach by Employee of this Paragraph 5 will be inadequate and that damages flowing from such breach are not usually susceptible to being measured in monetary terms. Accordingly, it is acknowledged that upon Employee's violation of any provision of this Paragraph 5, the Company shall be entitled to obtain from any court of competent jurisdiction (including without limitation in Pinellas or Hillsborough County, Florida) immediate injunctive relief and obtain a temporary order restraining any threatened or further breach as well as an equitable accounting of all profits or benefits arising out of such violation. Nothing in this Paragraph 5 shall be deemed to limit the Company's remedies at law or in equity for any breach by Employee of any of the provisions of this Paragraph 5 which may be pursued or available of by the Company.

(f) Tolling of Periods. In the event Employee shall violate any provision of this Paragraph 5 as to which there is a specific time period during which Employee is prohibited from taking certain actions or from engaging in certain activities, as set forth in such provision, then, such violation shall toll the running of such time period from the date of such violation until such violation shall cease.

(g) Acknowledgment. Employee has carefully considered the nature and extent of the restrictions upon Employee and the rights and remedies conferred upon the Company under this Paragraph 5, and Employee acknowledges and agrees that the same are reasonable in time and territory, are designed to eliminate competition, which otherwise would be unfair to the Company, do not stifle the inherent skill and experience of Employee, would not operate as a bar to Employee's sole means of support, are fully required to protect the legitimate interests of the Company, do not confer a benefit upon the Company disproportionate to the detriment to Employee and are material provisions without which the Company would not employ Employee pursuant to this Agreement.

6. Time to be Devoted by Employee. Employee agrees to devote substantially all of his business time, attention, efforts and abilities to the business of the Company and to use his best efforts to promote the interests of the Company.

7. Delivery of Materials. Employee agrees that upon the termination of his employment he will deliver to the Company all documents, papers, materials and other property of the Company relating to its affairs which may then be in his possession or under his control.

8. Assignment.

This Agreement and the rights and obligations of the parties hereto shall bind and inure to the benefit of each of the parties hereto but, except as to any such successor or assignee of the Company, neither this Agreement nor any rights or benefits hereunder may be assigned by the Company or the Employee.

9. Miscellaneous.

9.01 Entire Agreement. This Agreement embodies the entire agreement and understanding between the Company and Employee relating to the subject matter hereof. This Agreement supersedes and cancels all prior agreements between Company and Employee, whether written or oral, relating to the employment of Employee.

9.02 Governing Law. This Agreement shall be construed in accordance with, and governed for all purposes by, the laws of the State of Florida.

9.03 Notice. Any notice, request, or instruction to be given hereunder shall be in writing and shall be deemed given when personally delivered or three days after being sent by United States certified mail, postage prepaid, with return receipt requested to, the parties at their respective addresses set forth below:

(a) To the Company: Home Shopping Network, Inc. 2501 118th Avenue North St. Petersburg, FL 33716 Attn: Legal Department

(b) To the Employee: James G. Gallagher 837 S. Dakota Avenue Tampa, FL 33606

9.04 Severability. If any paragraph, subparagraph or provision hereof is found for any reason whatsoever to be invalid or inoperative, that paragraph, subparagraph or provision shall be deemed severable and shall not affect the force and validity of any other provision of this Agreement. If any covenant herein is determined by a court to be overly broad thereby making the covenant unenforceable, the parties agree and it is their desire that such court shall substitute a reasonable judicially enforceable limitation in place of the offensive part of the covenant and that as so modified the covenant shall be as fully enforceable as if set forth herein by the parties themselves in the modified form. The covenants of Employee in this Agreement shall each be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of Employee against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants in this Agreement.

9.05 Amendment and Waiver. This Agreement may not be amended, supplemented or waived except by a writing signed by the party against which such amendment or waiver is to be enforced. The Waiver by any party of a breach of any provision of this Agreement shall not operate to, or be construed as a waiver of, any other breach of that provision nor as a waiver of any breach of another provision.

9.06 Arbitration of Dispute. Except as set forth in Section 5, any controversy or claim arising out of or relating to this Agreement or to the breach thereof or to Employee's employment by the Company (other than claims expressly excluded by statute) shall be settled exclusively by binding arbitration conducted in the City of Tampa, Florida in accordance with the commercial rules of the American Arbitration Association then in effect (the "Rules"), by a single, independent arbitrator selected by the Company and Employee. If the parties can not agree on an arbitrator, within thirty (30) days of the commencement of an arbitration proceeding hereunder, either party may request that the American Arbitration Association select a candidate, with experience in employment law, in accordance with the Rules. The decision of the arbitrator shall be final and binding. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The cost of any arbitration proceeding conducted hereunder shall be borne equally between Employee and the Company unless otherwise determined by the arbitrator. By signing this Agreement, Employee agrees that all disputes, except as set forth in the first sentence hereof, will be decided by mutual arbitration, and Employee is giving up any right to a jury trial or court trial.

9.07 Survival of Rights and Obligations. All rights and obligations of the Employee or the Company arising during the term of this Agreement shall continue to have full force and effect after the date that this Agreement terminates or expires.

9.08 Confidentiality. The parties agree that confidentiality is an important element of this Agreement and that neither party will disclose its terms to another employee or other third party, except that the Company may disclose this Agreement to such of its employees it deems necessary or otherwise as may be required by any securities law or other law or regulation.

9.09 Counterparts. This Agreement may be executed in two counterparts, each of which is an original but which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have entered into this Agreement as of the Effective Date.

EMPLOYEE

HOME SHOPPING NETWORK, INC.

/s/ James G. Gallagher

By: /s/

James G. Gallagher

Name:

Title:

EXHIBIT 10.34

April 3, 1996

Honorable H. Norman Schwarzkopf
400 N. Ashley, Suite 3050
Tampa, Florida 33602

Re: Consulting Agreement

Dear General Schwarzkopf:

This letter constitutes the agreement between you and Home Shopping Network, Inc. (the "Company") regarding consulting services that you have agreed to provide to the Company.

You have agreed to consult with and advise senior executive officers of the Company, from time to time, on matters relating to the Company's business, both domestic and international. It is understood that you will not be required to devote any specific time to your services as a consultant hereunder, but shall respond to requests from the Company on a reasonable basis based upon your other time commitments. You will not be expected to travel or attend meetings with third parties unless you specifically agree to do so. Any travel undertaken at the Company's request will be reimbursed by the Company.

In consideration of your services as consultant to the Company, you will be granted options to purchase 50,000 shares of the Company's common stock under the 1996 Stock Option Plan for Employees. Your options will vest in equal installments over a three year period from the date of this letter, and otherwise will conform to the provisions of the Stock Option Plan. The exercise price for your options will be based on the closing price of the Company's common stock on the day action is taken by the Compensation/Benefits Committee of the Board of Directors to approve the grant of the options.

This agreement will continue in force for three years from the date set forth above.

We are delighted to have the benefit of your assistance and counsel and look forward to working with you. Please sign and return a copy of this letter to confirm the terms of this consulting agreement.

Very truly yours,

James G. Held President and Chief Executive Officer

Accepted and agreed to:

H. Norman Schwarzkopf

EXHIBIT 10.35

DATED 12TH DECEMBER 1996

(1) JUPITER PROGRAMMING CO;. LTD

(2) HOME SHOPPING NETWORK, INC.

(3) JUPITER SHOP CHANNEL CO;. LTD

SHAREHOLDERS AGREEMENT

Relating to
Jupiter Shop Channel Co;. Ltd

THIS AGREEMENT is made the 12th day of December 1996

BETWEEN

(1) JUPITER PROGRAMMING CO;. LTD a company incorporated in Japan whose principal place of business is at Tokyo Opera City Tower 35F, 20-2, 3-chome, Nishi-Shinjuku, Shinjuku-ku Tokyo 163-14 Japan ("JPC").

(2) HOME SHOPPING NETWORK INC., a company incorporated in the State of Delaware United States of America whose principal place of business is at 2501 118th Avenue North, St. Petersburg, Florida 33716, USA ("HSN").

(3) JUPITER SHOP CHANNEL CO;. LTD a company incorporated in Japan whose principal place of business is at Tokyo Opera City Tower 35F, 20-2, 3-Chome, Nishi-Shinjuku, Shinjuku-ku Tokyo 163-14 Japan ("the Company").

WHEREAS:

(A) JPC and HSN are from the date of this Agreement the owners of all the issued share capital of the Company.

(B) JPC and HSN propose that the Company will carry on the Business (as hereinafter defined).

(C) JPC and HSN are entering into this Agreement in order to record the basis of their relationship as shareholders in the Company and to establish the manner in which the business affairs of the Company will be conducted.

NOW IT IS HEREBY AGREED as follows:

1. DEFINITIONS

1.1 In this Agreement and the recitals hereto the following words and expressions shall save as otherwise specifically provided have the following meanings:

"Applicable Law": with respect to a Party, any domestic or foreign, federal, state or local statute, law, ordinance, rule, administrative interpretation, regulation, order, writ, injunction, directive, judgement, decree or other requirement of any Governmental Authority applicable to such Party or its properties, business or assets;

"Approved Public Company": a company or its subsidiary whose securities are either publicly traded on the Nasdaq National Market (USA), the New York Stock Exchange (NYSE), the American Stock Exchange (ASE), the Tokyo Stock Exchange (TSE), the Osaka Stock Exchange (OSE), Nagoya Stock Exchange (NSE) or the London Stock Exchange (LSE) (other than an electronic retailing company whose principal place of business is in the United States of America) and which is approved where necessary pursuant to Clause 8.1(b);

"the Articles": the articles of incorporation of the Company prepared by JPC so as to make them as simple as possible and so as only to include minimum mandatory legal requirements in the agreed form as set out in Schedule I (Japanese and its English

translation) or as they may be altered from time to time in accordance with this Agreement;

"Associate": in relation to any Shareholder, another company in which the Shareholder owns at least ten per cent (10%) of the issued voting shares of that company;

"the Board": the board of Directors of the Company from time to time acting by quorate meeting or as otherwise empowered in this Agreement or in the Articles;

"the Business": the ownership management and operation of a television shopping business in the Territory of which the principal element will be a live shopping television channel;

"Business Plan": any total macro (annual or longer) business plan (other than the Initial Business Plan) in a form substantially similar to the Initial Business Plan prepared for the Company on an annual basis and reviewed prior to the period to which it relates and then approved by the Board on an annual basis;

"Capital Expenditure": the total amount of capital expenditure as set out in the Initial Business Plan or any Business Plan (as the case may be);

"Closing": as defined in the Subscription Agreement;

"Control": a person shall be taken to have control of a Shareholder if it exercises, or is able to exercise or is entitled to exercise or is entitled to acquire direct or indirect control over the Shareholder's affairs including if it possesses or is entitled to:

(1) a majority of the share capital or voting rights of the Shareholder; or

(2) a majority of any distributions from the Shareholder or assets on a winding up of the Shareholder.

and "Controlled" shall be construed accordingly;

"Deed of Adherence": the deed substantially in the form of the draft set out in Schedule III;

"Directors": the directors (full time and part time) appointed by the Shareholders for the time being of the Company;

"Encumbrance": any mortgage, charge, pledge, option, attachment, restriction, assignment, security interest, title retention, preferential right, equity or trust arrangement, lien, right of set-off, hypothecation, encumbrance or any security interest whatsoever howsoever created or arising, including any analogous security interest under local law (other than arising solely by the operation of law);

"Fair Value": in respect of each Share the same proportion of the fair market value of the Company as a whole on the date of service of the Transfer Notice (or deemed date thereof) as it bears to the whole of the issued ordinary share capital of the Company stated as a price per Share as certified by the Referees on the basis of a sale thereof as between a willing vendor and a willing purchaser on the assumption that the Shares will be purchased in one lot by a purchaser contracting on arm's length terms, who has no other interest in the Company and (if the Company is then continuing as a going

concern) on the assumptions that all the Shares were ordinary shares of the same class and that the Company will continue in business as a going concern and having regard to any goodwill attaching to the Company, but without taking account (if that be the case) that the relevant Shares represent a minority, majority or controlling interest in the Company;

"Foreign Shareholder": HSN and any other non-Japanese Shareholder from time to time;

"Governmental Authority": any foreign, domestic, federal, territorial, state or local governmental authority, quasi-governmental authority, court, government or self regulatory organisation, commission, tribunal, organisation or any regulatory, administrative or other agency, or any political or other subdivision, department or branch of any of the foregoing;

"HSN Directors": the Directors nominated by HSN;

"HSN Trademarks": those of the HSN registered trademarks licensed to the Company from time to time by HSN;

"HSN Shares": those Shares beneficially owned by HSN including any held by a lawful nominee on behalf of HSN;

"Initial Business Plan": the five year business plan as agreed between the Shareholders and set out in Schedule II;

"in writing" or "written": includes any communication made by letter or facsimile;

"JPC Directors": the Directors nominated by JPC;

"Last Business Plan": the last Business Plan approved by the Board;

"Management Agreement": the management agreement to be entered into between the Company (1) and JPC (2) in the form agreed by the Shareholders as set out in Schedule 1 of the Subscription Agreement;

"Operating Cash Flow": the total amount of operating cash flow as set out in the Initial Business Plan or any Business Plan (as the case may be);

"Operating Expenses": the items of expenditure as set out in Section 3 headed "Expenses" of the Initial Business Plan;

"Party" or "Parties": a party or the parties to this Agreement;

"person": any individual, firm, company or other incorporated or unincorporated body;

"Prescribed Price":

(a) in relation to a voluntary Transfer of Shares in respect of which a Transfer Notice shall have been served pursuant to Clause 10.6.1, the price per Share offered by the Proposed Transferee (as defined in Clause 10.6.1(a))

(b) in relation to a Transfer of Shares in respect of which a Transfer Notice shall be deemed to have been served pursuant to Clause 11, such price as the Shareholders may agree per Share, or in default of agreement within 30 days after the date on which the Transfer Notice is deemed to be served, following a reference by any of the Shareholders, such price per Shares as the Referees (acting as experts and not arbitrators and whose determination shall be final and binding on the Shareholders) shall determine to be:

(i) in the case of Clause 11.1(a) the Fair Value; and

(ii) in the case of Clause 11.1(b) the Fair Value less a discount of 30%;

"President": the president from time to time of the Company nominated by JPC;

"Referees": One reputable outside firm of professional accountants knowledgeable about the Business appointed by the Company acting as experts and not as arbitrators whose decision shall be final and binding;

"Representative Director": the Representative Director of the Company from time to time appointed by JPC;

"Services and Trademark Licence Agreement": the services agreement to be entered into between the Company (1) and HSN (2) in the form agreed by the Shareholders as set out in Schedule II of the Subscription Agreement;

"Shareholder": a holder of a Share or Shares being JPC and/or HSN or any other Shareholder who may execute a Deed of Adherence;

"Shares": ordinary shares of the Company, as authorised by the Articles;

"Subscription Agreement": the subscription agreement dated 14th November 1996 and entered into between JPC and HSN;

"Subsidiary": in relation to any Shareholder, another company in which the Shareholder owns at least fifty per cent (50%) of the issued voting shares of that Company;

"Territory": the country of Japan and such other countries as the Board may from time to time unanimously determine;

"Transfer": any sale, assignment, transfer or grant of lease; and

"Yen" and "Y": the lawful currency of Japan;

1.2 References in this Agreement to Clauses, sub-Clauses, paragraphs and Schedules are references to those contained in this Agreement.

1.3 The Schedules to this Agreement are an integral part of this Agreement and references to this Agreement include references to such Schedules.

1.4 Clause headings are for ease of reference only and shall not be taken into account in construing this Agreement.

2. PURPOSE OF THE COMPANY

The primary object of the Company shall be to carry on the Business. The Business shall be conducted in the best interests of the Company and its Shareholders collectively on sound commercial principles so as to generate the maximum achievable value for the Shareholders.

3 SHARES IN THE COMPANY

Pursuant to the terms of the Subscription Agreement, the capital of the

Company is held at the date of this Agreement as follows:

	Number of Shares	Percentage
	-----	-----
JPC	9,100	70%
HSN	3,900	30%
Total	13,000	100%

4. FINANCE

4.1 The Shareholders agree that the funding requirements for the Company will be as determined by the Board from time to time in accordance with any Business Plan and the Shareholders shall provide funding in proportion to their prevailing shareholding ratios on terms and at times such funding is required as so determined by the Board.

4.2 Notwithstanding Clause 4.1, JPC and HSN agree that in so far as they may have the right to approve a Business Plan pursuant to Clause 8.1 (a) neither of them will withhold their consent to the funding requirements in such Business Plan where they are for amounts (in aggregate or otherwise) up to and including those set out in the Initial Business Plan and JPC and HSN confirm that they are obligated to provide funding in proportion to their prevailing shareholding ratios for amounts (in aggregate or otherwise) up to and including those set out in the Initial Business Plan irrespective of when funding is required.

4.3 Without prejudice to the obligations of HSN under Clauses 4.1 and 4.2 at any time after HSN loses its right of approval pursuant to Clause 8.4 HSN shall remain obligated to provide funding (in proportion to its prevailing shareholding ratio) for:

(a) the Operating Cash Flow in any Business Plan which provides that the total amount of the Operating Expenses in such Business Plan has not increased by more than ten per cent (10%) over:

(i) the total amount of the Operating Expenses in the Initial Business Plan (or if greater the total amount of the Operating Expenses in the Last Business Plan for which HSN is obliged to provide its share of funding of Operating Cash Flow); and

(ii) after the expiration of the Initial Business Plan, the total amount of the Operating Expenses in the Last Business Plan for which HSN is obliged to provide its share of funding of Operating Cash Flow; and

(b) the total amount of the Capital Expenditure in the Initial Business Plan (or if greater the total amount of the Capital Expenditure for which HSN is obliged to provide its share of funding in the Last Business Plan) and after the expiration of the Initial Business Plan the Capital Expenditure for the particular year for which HSN is obliged to provide its share of funding in the Last Business Plan.

4.4 In the event that the increase in the total amount of the Operating Expenses pursuant to Clause 4.3 is more than ten per cent (10%), HSN shall remain obligated to provide funding (in proportion to its prevailing shareholding ratio) for:

(a) the Operating Cash Flow but adjusted for the difference between the total amount of the Operating Expenses in the Business Plan for the particular year and the total amount of the Operating Expenses in the Initial Business Plan (or if greater the total amount of the Operating Expenses in the Last Business Plan for which HSN is obliged to provide its share of funding of Operating Cash Flow) or (after the expiration of the Initial Business Plan) in the Last Business Plan increased by ten per cent (10% (which based on the shareholding ratios at the date of this Agreement can as an example be expressed by way of the formula: "HSN funding = 30% [OCFact - (OEact - OE110) + CAPEXlbp"); and

(b) the total amount of the Capital Expenditure in the Initial Business Plan (or if greater the total amount of the Capital Expenditure in the Last Business Plan) and after the expiration of the Initial Business Plan the Capital Expenditure for the particular year for which HSN is obliged to provide its share of funding in the Last Business Plan;

but for additional funding above and beyond the funding that HSN is obliged to provide as set out above HSN may elect whether to participate or not.

4.5 Notwithstanding Clause 12 in the event HSN so elects not to participate in the additional funding pursuant to Clause 4.4, the relevant Business Plan shall remain in full force and effect (and HSN shall continue to have no right of approval) and the Board and management of the Company shall have the right to decide in their sole discretion how best to fund such shortfall and whether this should be through internal working capital or external finance and should the Board decide to fund either by:

(a) requesting additional capital from the other existing Shareholder(s) (other than HSN), then such Shareholders shall receive Shares proportionate to the additional capital it or they contribute (and HSN's equity percentage will be diluted accordingly); or

(b) introducing new capital from one or more new Shareholders, then solely in such circumstances HSN will have no right of approval in respect of such new Shareholders pursuant to Clause 8.1(b) and Clause 10.6.1(a) shall not apply.

5. THE BOARD, AUDITORS AND MANAGEMENT

5.1 Subject to Clause 5.2 the Board shall initially comprise six (6) Directors. On the date of this Agreement JPC shall have the right to nominate four (4) Directors and HSN shall have the right to nominate two (2) Directors (subject to Clause 5.8) and to remove and replace any such appointees and, to the extent that Japanese law and regulations permit, such Directors appointed by JPC and HSN need not be

Japanese nationals or resident in Japan. Such rights shall be exercisable at a Shareholders Meeting and the Shareholders shall be required to vote in favour of resolutions proposed by JPC or HSN appointing or removing directors nominated by JPC and HSN respectively so that such persons may be properly appointed or removed. Any appointee so removed shall automatically cease to hold the office and status to which he or she had been appointed.

5.2 The Company shall (where necessary) have three (3) statutory auditors of which one (1) shall be full time and the other two (2) part time and JPC shall have the right to appoint all of them.

5.3 The Board shall act by majority vote only. JPC and HSN shall use their reasonable endeavours to procure that a quorum is present at any meeting of the Board. The quorum necessary for the transaction of the business of the Board shall consist of four (4) Directors of which at least three (3) must be JPC Directors. The business to be conducted shall be limited to that referred to in the agenda accompanying the notice of meeting unless it is in the proper commercial interests of the Company for any new business to be considered. In the event that a quorum is not present on a first call of a Board Meeting as prescribed in Clause 5.5(b), the Board Meeting shall be reconvened on the day being three weeks thereafter (which may be shortened by the written consent of all JPC and HSN Directors) and any matter on the agenda can be decided by those Directors attending and Clause 8.1 shall be construed accordingly. Notice of any such reconvened meeting shall be given to all Directors not in attendance at the original inquorate meeting.

5.4 One JPC Director shall be the President and the Representative Director and shall be responsible for conducting delegating and managing the day to day business and affairs of the Company subject to the provisions of this Agreement and the Articles and to those other matters which are otherwise required to be decided by the Board or general meeting of the Company.

5.5 Save as otherwise provided in this Agreement, the Company (so far as it is legally able) shall and JPC and HSN shall exercise their respective powers and rights in relation to the Company so as to ensure that the Company shall:

(a) convene and hold a formal meeting of the Board at least once in every period of three months;

(b) procure that not less than two weeks' prior written notice of any meeting of the Board shall be given to the Directors, that every such notice shall be accompanied by a written agenda (in Japanese and English) specifying the business of such meeting (provided, however, that such fourteen day period may be shortened with the consent of all JPC and HSN Directors);

(c) provide each Director with a management report and quarterly financials (in Japanese and English) at least seven days prior to every meeting of the Board;

(d) carry on and conduct the Business and its affairs on a commercial basis, in a proper, lawful and efficient manner and for its own benefit and in accordance with and within the parameters prescribed by Clause 2;

(e) transact all its business on arm's length terms;

(f) ensure that all the Business and affairs of the Company are undertaken and transacted by the Company in accordance with this Agreement;

(g) at all times observe and duly perform its obligations under the Articles and this Agreement.

5.6 A synopsis of each Board meeting shall be prepared in both Japanese and English by the Company which shall distribute them to JPC and HSN.

5.7 Immediately preceding formal meetings of the Board, there will be informal discussions in English between those JPC Directors and HSN Directors attending the relevant Board Meeting on all the matters which are the subject of such Board Meeting and all Directors attending such Board Meeting shall participate. All Board Meetings shall be conducted in the English language.

5.8 For whatever reason other than pursuant to Clause 10.4 but without prejudice to the obligations of the Shareholders in this Agreement, each time a Shareholder's equity interest declines by at least fifteen per cent (15%) of the total number of the Shares it shall procure the resignation from the Board of one Director (per fifteen percent (15%) of the Shares) it has nominated to the Board or where it does not own at least fifteen percent (15%) of the total number of the Shares then it shall not be entitled to nominate any Directors and shall procure the resignation from the Board of all Directors it has nominated to the Board. Such Shareholder shall procure that, in his or her resignation, such Director shall deliver to the Company a letter acknowledging that he or she has no claim outstanding for director's fees or compensation for wrongful dismissal or unfair dismissal or entitlement to any payment for redundancy or in respect of any other moneys or benefits due to him or her from the Company arising out of such resignation other than those arising or accrued due prior to the effective date of such resignation. If the Company pays any amount to a Director resulting from a claim by such Director in connection with the resignation of such Director then the Shareholder who nominated such Director shall reimburse such amount to the Company.

5.9 JPC shall have the right to nominate the Chief Operating Officer, the Chief Financial Officer and any other executive officers and staff of the Company.

6. AGREEMENT TO PERFORM

6.1 Each Shareholder undertakes with the other or others generally to use its reasonable endeavours to promote (and not do anything detrimental to) the Business and the Company in accordance with Clause 2.

6.2 Each Shareholder shall at all times exercise its respective powers and votes as a shareholder of the Company to ensure that (to the extent that the same is within such powers and voting rights) the Company will comply with all of its obligations under this Agreement and the Articles.

7. INFORMATION

7.1 Each Shareholder shall exercise its rights and powers so far as it is able to procure that the Company shall:

(a) at all times keep true, accurate and up to date books and records of all the affairs of the Company;

(b) subject to Clause 9, at all times make available to each other and their duly authorised representatives full and complete access (including copying facilities) to the books, records, accounts, documents, data, information and premises of the Company.

7.2 Without prejudice to Clause 7.1 the Company shall at its own cost prepare and send to JPC and HSN and each Director:

(a) within four (4) weeks from the end of each calendar month unaudited financial statements of the Company for that month and cumulative financial statements for the current accounting period up to and including the end of each six calendar month period all in a form agreed by the Board but prepared in accordance with Japanese GAAP (generally accepted accounting principles); and

(b) within ninety (90) days from the end of each financial year audited accounts of the Company prepared in accordance with Japanese GAAP and certified by the auditors of the Company.

7.3 HSN may at its own cost (reimbursing the Company where necessary) have periodic partial or full audited accounts for the Company prepared for its own use in accordance with US GAAP so long as it notifies the Company of its intention to do so and ensures that HSN and its auditors and representatives at all times cooperate with the Company and the Company's auditors and that HSN and its employees, representatives and auditors do not materially interfere with or interrupt the Company's business and operations.

8. IMPORTANT MATTERS

8.1 For so long as any Shareholder owns directly or indirectly fifteen per cent (15%) or more of the total number of the Shares a decision relating to any of the following matters shall require the unanimous approval (which is not to be unreasonably withheld) of such Shareholder's Directors at the relevant Board meeting (and when necessary the unanimous approval (which is not to be unreasonably withheld) of such Shareholders at a Shareholders meeting) and the Shareholders shall exercise all voting rights and other powers of control available to them in relation to the Company and the Directors so as to procure (insofar as they are able by the exercise of such rights) that the Company shall not without such approval:

(a) approve any Business Plan for the Company or implement any material amendment to or material departure from the same save that no approval shall be necessary where any amendment, variation or departure does not exceed in any one year an aggregate amount equal to ten per cent (10%) of the amounts of the Operating Expenses for the particular year as set out in the Initial Business Plan for the period of five (5) years from the date of this Agreement and thereafter five per cent (5%) of the amounts of the Operating Expenses of the Company for that particular year;

(b) approve any third party who is to become a Shareholder (either by acquiring, issued or granted an option to acquire Shares) other than either an

Associate of JPC, a Subsidiary of JPC or (subject to JPC retaining fifty one per cent (51%) of the Shares) any broadcaster or services/systems provider;

(c) make any material change to the Articles (other than a change relating to the share capital of the Company and related Shares resulting from the implementation of the Initial Business Plan and any Business Plan);

(d) other than in the ordinary course of business enter into any contract with a Shareholder or Director which is not on arms length and bona fide terms and which is for an annual amount in excess of ten million yen;

(e) enter into any sub-license or contract with a third party for the use of the HSN Trademarks;

(f) make any material change in the nature of the Business;

(g) other than in the ordinary course of business merge or amalgamate with any third party or transfer the whole or any material part of the undertaking, property and/or assets of the Company (or any interest therein).

(h) other than in the ordinary course of business create, acquire or dispose of any subsidiary or otherwise acquire or dispose of any shares, securities or other interest in any company or business or permit any subsidiary to issue or allot any share or security or grant or create any option or right to acquire any share or security except to the Company;

(i) take or permit the taking of any step to have the Company voluntarily wound up or voluntarily to take advantage of any provisions of winding up legislation or similar legislation;

(j) other than for the protection of the Company institute any material litigation, arbitration or tribunal proceedings against any person (other than HSN for whom no approval shall be necessary).

8.2 Where appropriate, if the Directors shall not have approved any Business Plan for the Company before the commencement of the period to which it is to relate, the Shareholders shall procure that the Company shall continue to carry on the business on the basis of the Last Business Plan of the Company but with the amounts of the Operating Expenses as set out in the Initial Business Plan for the year in question and thereafter from the Last Business Plan increased by five per cent (5%) until the matter is resolved pursuant to Clauses 8.3 and 8.4.

8.3 In the event that the relevant Directors or Shareholders (as the case may be) do not approve any of the matters as required in Clause 8.1 then they will use all reasonable endeavours to reach agreement. If no agreement is reached within ten (10) business days from the date the matter is put to the Board or the Shareholders (as the case may be) for approval then the President of each Shareholder (or an authorised representative designated by such President) will use all reasonable endeavours to try and reach agreement.

8.4 Where the matter requiring agreement is pursuant to Clause 8.1(a) then if no agreement can be reached within a further fifteen (15) business days after the expiry of the ten (10) business days referred to in Clause 8.3 JPC shall forthwith be entitled

(which HSN and any other Shareholder hereby acknowledges) to treat the failure to reach agreement as the deemed confirmation by HSN and the other Shareholder(s) whose President or representative does not agree with JPC's President or representative that HSN and such other Shareholders (and its/their Directors) will upon the expiry of such fifteen (15) business day period no longer have a right of approval under Clause 8.1 in respect of those matters requiring approval pursuant to Clause 8.1(a) for the remaining term of this Agreement and this Agreement shall be construed accordingly.

8.5 Where the matter requiring agreement is pursuant to Clause 8.1(i) then if no agreement can be reached within a further fifteen (15) business days after the expiry of the ten (10) business days referred to in Clause 8.3 the Shareholder who does not agree that the Company should be wound up ("the Acquiring Shareholder") shall be entitled (by written notice within ten (10) business days after the expiry of such further fifteen (15) business day period) in its entire discretion to treat the occurrence of the failure to reach agreement as the deemed service by the other Shareholder(s) of a Transfer Notice pursuant to Clause 10.6 the provisions of which shall accordingly apply mutatis mutandis save that:

(i) there shall be no right to withdraw the Transfer Notice;

(ii) the Prescribed Price shall be determined in accordance with paragraph (b)(i) of the definition of "Prescribed Price" in Clause 1.1; and

(iii) the provisions of Clause 10.6 shall be construed on the basis that there is no proposed third party purchaser of the Shares other than the Acquiring Shareholder,

and if the Acquiring Shareholder is HSN and it does not serve notice as aforesaid then it shall forthwith no longer have a right of approval under Clause 8.1 in respect of those matters requiring approval pursuant to Clause 8.1 (i) for the remaining term of this Agreement and this Agreement shall be construed accordingly.

9. CONFIDENTIALITY

9.1 Each Shareholder shall at all times keep secret and confidential and shall not use (and shall procure that its Subsidiaries, officers employees and agents shall keep secret and confidential and shall not use) any information which it may have or acquire in relation to the customers, business, finances, assets or affairs of the Company or in relation to each other and their Subsidiaries or which, in consequence of the negotiation or operation of, or the exercise of rights under, this Agreement it may have or acquire in relation to the customers, business or affairs of each other or their Subsidiaries, save for any information:

(a) which is publicly available or becomes publicly available through no act of that Shareholder;

(b) which is disclosed to that Shareholder by a third party which did not acquire the information under an obligation of confidentiality;

(c) which is independently acquired by that Shareholder as the result of work carried out by an employee to whom no disclosure of such information had been made;

(d) which (after full consultation with the other Shareholder) is required to be disclosed by any law (including any order of a court of competent jurisdiction) or the rules of any stock exchange or governmental, revenue or other regulatory authority, whether or not having the force of law; or

(e) which any Shareholder feels necessary to disclose in relation to the development of the Business provided that such Shareholder shall first obtain consent from the Board for the proposed disclosure.

9.2 The provisions of this Clause shall survive for a period of five (5) years after termination of this Agreement.

10. TRANSFER OF SHARES

- 10.1 The Shareholders agree and undertake with each other that they shall procure that a Transfer or purported Transfer of Shares may only be made or registered in accordance with this Agreement and the Articles.
- 10.2 The Shareholders shall procure that the Company does not and the Company shall refuse to register any Transfer of any Share other than a Transfer permitted by or made in accordance with the provisions of this Agreement.
- 10.3 The Shareholders agree and undertake that no Transfer of any Shares may be made or registered prior to _____ (save pursuant to Clauses 10.4, 10.9 and 11).
- 10.4 JPC may at any time transfer or sell all of its Shares to a Subsidiary of JPC or some of its Shares to an Associate of JPC or (subject to approval pursuant to Clause 8.1(b) where JPC is not retaining fifty one (51) or more percent of the Shares) to any broadcaster or services/systems provider in whatever multiples and on whatever terms it desires.
- 10.5 If any Shareholder proposes to Transfer any Shares to any person ("the Transferee") then it shall be a condition precedent to the effectiveness of such Transfer and the registration thereof that the parties to this Agreement, the Transferee and (if required by the Board) a guarantor acceptable to it of the Transferee's obligations hereunder shall execute a Deed of Adherence in the form set out in Schedule II and deliver a legal opinion in a form, and from legal counsel, acceptable to the other Shareholders concerning the issues warranted and represented by them in Clauses 2 and 3 of the Deed of Adherence.
- 10.6 Save pursuant to Clauses 10.4, 10.9 and 11, any Shareholder must comply with this Clause 10.6 before selling or transferring its Shares:
- 10.6.1 Any Shareholder who wishes to sell or transfer its Shares (a "Vendor") after _____ shall give notice in writing to the Company and the other Shareholders of such wish (a "Transfer Notice") identifying:
- (a) the party to whom it proposes to sell all (but not some only of) its Shares which person must be an Approved Public Company if it is not a Shareholder pursuant to the provisions of this Clause 10 (the "Proposed Transferee");

- (b) the name of the Proposed Transferee's ultimate parent company and controlling shareholder(s), if any;
- (c) the Prescribed Price and other terms of the proposed sale.

The Transfer Notice shall not be effective if it does not contain such information (unless it is a deemed Transfer Notice pursuant to Clause 11). The Transfer Notice shall constitute the Company as the Vendor's agent for the sale of all, but not some only, of the Shares held by the Vendor (and in the case of a Foreign Shareholder those shares (if any) also registered in the name of a third party nominated by the Foreign Shareholder pursuant to Clause 10.8 ("the Sale Shares") to the other Shareholder(s) or any person procured or nominated by the other Shareholder(s) (as it may in its absolute discretion determine) at the Prescribed Price. The Transfer Notice shall be accompanied by the Vendor's share certificates and a duly executed transfer in blank in respect thereof and (save as hereinafter provided) may not be withdrawn.

- 10.6.2 In any case where there is a Transfer Notice (whether deemed or not) and the determination of the Prescribed Price has been referred to the Referees, the Company shall as soon as it receives the Referees' certificate serve a certified copy thereof on the Shareholders. The fees and expenses of the Referees shall be borne as to one half by the Vendor and as to the other half by the purchasers (if any) of the Sale Shares.
- 10.6.3 Within ten (10) business days of receipt of the Transfer Notice by the Company or, where a Referees' certificate is required, within ten (10) business days of receipt by the Company of the Referees' certificate, the Company shall give notice in writing to the other Shareholder(s) specifying the number of Sale Shares and the Prescribed Price therefore and offering the Sale Shares for sale to the other Shareholder(s) at the Prescribed Price. Such notice shall be accompanied by a copy of the Transfer Notice and, if applicable, the Referees' certificate and shall require each other Shareholder to state in writing within thirty (30) days of the date of the notice:
 - (a) that it is willing to purchase a stated amount of the Sale Shares at the Prescribed Price; or
 - (b) (except in the case of a deemed Transfer Notice pursuant to Clause 11) that it consents to the sale of all of Sale Shares within ten (10) days thereof to the Proposed Transferee at the Prescribed Price.

In the event that no notice is received within the said period of thirty (30) days or (except in the case of a deemed Transfer Notice pursuant to Clause 11) notice(s) have been given pursuant to Clause 10.6.3(a) but not collectively in respect of all the Sale Shares then such other Shareholder(s) shall be deemed to have served a notice pursuant to Clause 10.6.3(b) at the end of such thirty (30) day period.

- 10.6.4 In the event that a notice is served pursuant to Clause 10.6.3(a) in respect of all of the Sale Shares the Company shall, by notice, allocate the Sale Shares to (or amongst) the other Shareholder(s) or its (their) nominees in accordance with its willingness as stated in the notice given pursuant to that clause and (if more than one) pro rata to the number of Shares for the time being held by it (but so that no such other Shareholder shall be obliged to purchase more than the Sale Shares so notified by it) as aforesaid). Such Shareholder(s) as aforesaid shall within fifteen (15) days thereafter complete the

purchase from the Vendor of the Sale Shares so allocated to them at the Prescribed Price. The Vendor shall be bound to transfer the Sale Shares comprised in the notice to the other Shareholder(s) or its (their) nominees at the Prescribed Price, and if it makes default in so doing the Company may receive the purchase money and the relevant Directors appointed to the Board by the other Shareholder(s) may authorise some person to execute a transfer of the Sale Shares in accordance with the aforesaid allocation in favour of the other Shareholder(s) or its (their) nominees as aforesaid ("the Shareholder Purchaser") and the Company shall hold the purchase money in trust for the Vendor. The receipt by the Company of the purchase money shall be a good discharge to the Shareholder Purchaser and after its name has been entered in the Company's Register of Members in exercise of the aforesaid power, the validity of the proceedings shall not be questioned by any person. If such purchase is not completed (for any reason other than the Vendor's default) within such period of fifteen (15) days, then the certificates and duly completed transfer in respect of the Sale Shares shall be returned to the Vendor and consent shall be deemed to have been given pursuant to Clause 10.6.3(b) and the provisions of Clause 10.6.3 shall apply.

10.6.5 In the event that a notice is given or deemed to be given by the other Shareholders pursuant to Clause 10.6.3(b) the Vendor shall be at liberty to sell all of the Sale Shares at any time within fifteen (15) days after the date of such notice (or, if no actual notice is given pursuant to Clause 10.6.3, the expiry of the period of thirty (30) days provided for under Clause 10.6.3) to the Proposed Transferee at the Prescribed Price and otherwise upon no more favourable terms than those offered to the other Shareholder(s) and as stated in the Transfer Notice PROVIDED THAT: -

(a) if prior to completion of the said sale an event has occurred in relation to the Proposed Transferee which, if the Proposed Transferee had been a member of the Company at the date of the Transfer Notice, would have meant that a deemed Transfer Notice arose under Clause 11 then the identity of the Proposed Transferee shall need to be reapproved and failing such re-approval the Transfer Notice shall be deemed to have been withdrawn by the Vendor and such sale shall not take place. At completion of any such sale the Proposed Transferee shall deliver to the other Shareholder an undertaking that no such event has occurred; and

(b) if any Shareholder (other than JPC) has with its notice Pursuant to Clause 10.6.3(b) stated that it wishes the Proposed Transferee to also purchase all (but not part only) of its Shares at the Prescribed Price then the Vendor shall procure that the Proposed Transferee shall also purchase such Shares at the Prescribed Price in the event that the Vendor does actually sell its Shares to the Proposed Transferee.

10.6.6 The Board shall refuse to register any Transfer of any Share other than a Transfer permitted by or under and made in accordance with the preceding provisions of Clause 8.5, 10, or Clause 11, which Transfer the Board shall register.

10.6.7 All Shares Transferred pursuant to Clauses 8.5 and 10.6 shall be transferred as beneficial owner and free from all Encumbrances together with all rights, benefits and advantages attached thereto as at the date of the Transfer Notice or deemed Transfer Notice except the right to any dividend declared but not paid prior to the date of the relevant Transfer Notice.

- 10.6.8 Immediately upon completion of the Transfer of any Shares by any Shareholder pursuant to the provisions of Clauses 8.5 and 10.6 the Vendor shall procure the resignation of any Director appointed to the Board by the Vendor without any claim or compensation for loss of office of any kind whatsoever.
- 10.6.9 The Shareholders shall together procure that at all times during the continuation of this Agreement the Board acts in accordance with the provisions of Clause 10.
- 10.7 The Shareholders shall procure that the Company maintains an executed copy of this Agreement on file and that the Company shall not transfer any certificates representing Shares or issue any certificates in lieu thereof unless all the conditions therein have been complied with and a purported transfer not in accordance with the terms hereof shall be null and void.
- 10.8 Notwithstanding that a Foreign Shareholder may at any time be prevented from increasing its shareholding in the Company by reason of any Applicable Law, decree, regulation, law directive or other requirement of the Japanese Governmental Authorities any Shareholder proposing to transfer any Shares shall nevertheless be obliged to serve a Transfer Notice on the Foreign Shareholder and the Foreign Shareholder shall (notwithstanding any other provision of this Agreement or the Articles) be entitled within thirty (30) business days of the notice served by the Company pursuant to Clause 10.6.3 to nominate in writing any third party approved by the other Shareholder(s) (such approval not to be unreasonably withheld or delayed) to acquire the relevant Shares which would otherwise have been offered to the Foreign Shareholder (provided that such acquisition by such third party does not itself infringe any Applicable Law, decree, regulation, law directive or other requirement of the Japanese authorities and such third party executes a Deed of Adherence) and such third party for all purposes shall be the transferee of such Shares on completion of the above procedures.
- 10.9 HSN may transfer all (but not part) of its Shares to a wholly owned subsidiary of HSN subject to obtaining the approval of JPC (such approval not to be unreasonably withheld) and to HSN guaranteeing the obligations of that subsidiary on terms satisfactory to JPC.
11. DEEMED TRANSFER OF SHARES
- 11.1 If any Shareholder ("the Defaulter");
- (a) goes into receivership, liquidation or administration or passes a resolution putting it into voluntary liquidation (other than for the purposes of amalgamation or reconstruction) or some analogous procedure; or
 - (b) shall commit a material breach of any provision of this Agreement to which it is a party or the Articles and shall have failed to remedy such breach, if capable of remedy, within sixty (60) days after the date of a notice from any other Shareholder specifying the nature of the breach and requiring it to be remedied; or
 - (c) shall become Controlled by another person or persons acting in concert (other than by such person or persons who are shareholders (or who are shortly to become shareholders pursuant to an offer made prior to the date hereof) in the relevant Shareholder at the date of this Agreement);

then in any such event (without prejudicing or in any way limiting their other rights) the other Shareholder(s) ("the Non-Defaulter(s)") shall be entitled (by notice) in its entire discretion to treat the occurrence of any such event as the deemed service by the Defaulter of a Transfer Notice pursuant to Clause 10.6 the provisions of which shall accordingly apply mutatis mutandis save that;

- (i) there shall be no right to withdraw the Transfer Notice; and
- (ii) the Prescribed Price shall:
 - (1) in the events referred to in Clause 11.1(a) and (c) be determined in accordance with paragraph (b)(i) of the definition of "Prescribed Price" in Clause 1.1; and
 - (2) in the events referred to in Clause 11.1(b) be determined in accordance with paragraph (b)(ii) of the definition of "Prescribed Price" in Clause 1.1.

To be effective, such notice shall be given to the Defaulter within thirty (30) days of the Non-Defaulter (or the last of them if more than one) becoming aware of the occurrence of such event.

11.2 The provisions of Clauses 10.6.7 and 10.6.8 shall apply to any Transfer pursuant to the provisions of this Clause.

11.3 Any notice given by the Non-Defaulter(s) pursuant to Clause 11.1 shall have the effect that (notwithstanding any provision of the Articles) until further notice from the Non-Defaulter(s):

- (a) any transfer by a Defaulter of its Shares ("the relevant Shares") (other than to or at the direction of the Non-Defaulter(s)) shall be void;
- (b) no voting rights shall be exercisable by the Defaulter in respect of its Shares;
- (c) no further Shares shall be issued or need be offered to the Defaulter;
- (d) except in a liquidation, no interest, dividend or other payment shall be made of any sums due from the Company on the Defaulter's Shares (whether in respect of capital or otherwise) to the Defaulter;
- (e) all the Defaulter's rights under this Agreement shall be suspended; and
- (f) the Defaulter or its nominee (as appropriate) shall not be required to be present to make a quorum for general meetings of the Company or meetings of the Board.

The Non-Defaulter(s) may by notice remove or relax such restriction in whole or in any particular case at any time.

12. NEW SHARES

If the Company at any time issues new Shares, the Shareholders shall (subject to Clause 4.5) subscribe for such new shares in proportion to their respective

shareholding ratios in the Company at that time. No new shares may be issued to any third party without the approval of the Board.

13. TERMINATION

This Agreement shall continue in full force and effect from the date thereof until:

- (a) all the Shareholders agree in writing to its termination; or
- (b) all of the Shares become beneficially owned by one Shareholder; or
- (c) the Company goes into liquidation whether voluntary or compulsory (other than for the purpose of an amalgamation or reconstruction approved by all the Shareholders) or is wound up;

whereupon this Agreement (with the exception of Clauses 9, 16 and 29) shall automatically terminate with neither Party having a claim against the other save for any breach by a Party prior to the date of termination.

14. REPRESENTATIONS AND WARRANTIES

- 14.1 Each of the Parties hereto represents warrants and undertakes to each other that:
 - (a) it is a company duly incorporated and validly existing in all respects under the laws of the jurisdiction or its incorporation with full power and authority to own its assets and to carry on its business as it is now being conducted and no action has been taken or threatened (whether by it or any third party) for or with a view to its or their liquidation, receivership or analogous process;
 - (b) so far as it is aware having made reasonable enquiry no litigation or administrative or arbitration proceedings before or of any court, judicial, administrative or governmental authority, arbitrator(s) or other body is taking place, pending or threatened against it or against any or their respective assets which might have a material adverse effect on its business, assets, condition or operations taken as a whole, or might adversely affect its ability duly and punctually to perform and observe all its obligations hereunder.

15. REGULATORY

- 15.1 In connection with the Company, JPC shall be primarily responsible for dealing with all Japanese Governmental Authorities and regulatory issues and seeking to obtain all necessary Japanese approvals which may at any time be required for the Company (but not HSN) for whatever purpose, with HSN providing such support and assistance as may be necessary.
- 15.2 In so far as HSN may itself require any Japanese Governmental Authority approvals for investing in the Company then JPC will use reasonable endeavours to assist HSN subject to HSN paying JPC for all costs it may incur in providing such assistance.

16. COMPETITION

- 16.1 The Shareholders agree that the Company will be the sole vehicle through which all Business opportunities are conducted in the Territory and that they will not invest

manage or otherwise participate in any Business opportunity which may compete with the Business without first offering such opportunity to so invest manage or otherwise participate to the Company and if the Company (by way of a simple majority Board decision) should decline only then will the particular Shareholder be free to invest manage or otherwise participate in such Business.

- 16.2 It is the intention of the Parties where and when practical and appropriate to discuss and offer new Business opportunities in Asia to the Company.
- 16.3 The provisions of this Clause 16 shall continue to apply to any Shareholder for a period of one year from the date it ceases to be a Shareholder.
17. MANAGEMENT/SERVICES AGREEMENT
- The Parties agree that:
- (i) JPC will support the management of the Company by providing the services pursuant to the terms of the Management Agreement; and
 - (ii) HSN will provide services to the Company pursuant to the terms of the Services and Trademark Licence Agreement.
18. NO ASSIGNMENT
- No Party may assign its rights under this Agreement.
19. WAIVERS, REMEDIES CUMULATIVE, AMENDMENTS, ETC.
- 19.1 No failure or delay by any of the parties hereto in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof nor shall any single or partial exercise by any of the parties hereto of any right, power or privilege preclude any further exercise thereof or the exercise of any other right, power or privilege.
- 19.2 The rights and remedies herein provided are cumulative and not exclusive of any rights and remedies provided by law.
- 19.3 No provision of this Agreement may be amended, modified, waived, discharged or terminated, otherwise than by the express written agreement of the parties hereto nor may any breach of any provision of this Agreement be waived or discharged except with the express written consent of the parties not in breach.
20. INVALIDITY
- Should any provision of this Agreement be or become ineffective for reasons beyond the control of the parties, the parties shall use reasonable efforts to agree upon a new provision which shall as nearly as possible have the same commercial effect as the ineffective provision.
21. COSTS
- Each of the parties hereto shall pay its own costs, charges and expenses connected with the preparation and implementation of this Agreement and the transactions contemplated by it.

22. CONFLICT WITH ARTICLES ETC.

To the extent permitted by Applicable Law, in the event of any conflict between the provisions of this Agreement and the Articles, the provisions of this Agreement shall at all times prevail and the Parties shall exercise all voting and other rights and powers available to them so as to give effect to the provisions of this Agreement and shall further if necessary procure any required amendment to the Articles as may be necessary to eradicate such conflict or any conflict between this Agreement and the Articles.

23. NOTICES

Any notice or other communication given or made under this Agreement shall be in writing in English and, without prejudice to the validity of any other method of service, may be delivered via facsimile or personally or by courier addressed as follows:

(a) If to JPC:

Jupiter Programming Co., Ltd

Tokyo Opera City Tower 35F 20-2, 3-chome
Nishi-Shinjuku
Shinjuku-ku
Tokyo 163-14
Japan
Attention: President
Fax: 81-3-5353-7040

(b) If to HSN:

2501 118th Avenue North, St. Petersburg Florida 33716
U.S.A.

Attention: President

Fax: 813-573-0866

or to such other address or facsimile number as the relevant addressee may hereafter by notice hereunder substitute.

24. ENGLISH LANGUAGE

Where this or any other English language agreement between the parties or referred to herein is translated into Japanese for the convenience of the parties or some of them the English language version hereof/thereof shall for all purposes be deemed to be the definitive and binding version thereof. Conversely where the Articles are translated into English for such convenience, the Japanese language version shall for all purposes be deemed to be the definitive and binding version thereof.

25. GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of Japan. As required by the Applicable Law of Japan, this Agreement will be filed with the Japanese Fair Trade Commission.

26. DISPUTES

- 26.1 Other than as provided in Clauses 8.3, 8.4 and 8.5, in the event of a disagreement among the Parties, including a disagreement regarding this Agreement, or any breach thereof, each Party will use its best efforts to resolve such disagreement amicably and where applicable the Party in breach shall promptly take all reasonable steps to remedy such breach. If, at the end of 15 days from the occurrence of such disagreement or breach, no resolution has been reached the President of each Party or an authorised person designated by the President of each party will meet to resolve the matter. If they, too, are unable to reach a mutually agreeable resolution within 30 days of the matter being referred to them, the matter will be arbitrated in accordance with Clause 26.2
- 26.2 Any and all disputes with respect to which such authorised persons failed to reach a mutually agreeable resolution pursuant to Clause 26.1 shall be finally settled by arbitration conducted in London under UNCITRAL Arbitration Rules by three (3) arbitrators (none of whom shall be Japanese or US citizens) in the English language. The award shall be final and binding upon the Parties.
27. ENTIRE AGREEMENT
- This Agreement (including the Articles which are incorporated herein by reference) and the Subscription Agreement replaces, supersedes and cancels all other previous and contemporaneous arrangements, understandings, representations or agreements between the Parties either oral or written with respect to the subject matter of this Agreement and the Subscription Agreement and expresses and constitutes the entire agreement between the Parties with reference to the terms and conditions of the constitution and operation of the management of the Business and affairs of the Company.
28. NO PARTNERSEHIP/AGENCY
- Nothing herein contained shall be construed or deemed to constitute a partnership or joint venture between the Parties and save as expressly herein provided no Party shall hold itself out as the agent of the other.
29. SURVIVAL OF PROVISIONS
- The expiry or earlier termination of this Agreement shall not operate to terminate any provisions which are expressed to continue in force thereafter.
30. EXECUTION
- This Agreement may be executed in counterparts (which may be exchanged by facsimile transmissions) each of which shall be an original and which together shall constitute one document. Without prejudice to the foregoing, if this Agreement shall initially be exchanged by facsimile transmissions as aforesaid the Parties shall as soon as reasonably possible thereafter arrange for the signature and exchange of original signed copies of this Agreement.

EXHIBIT 10.36

DATE 12th December 1996

(1) HOME SHOPPING NETWORK INC.

(2) JUPITER SHOP CHANNEL CO;LTD

SERVICES AND TRADEMARK LICENCE AGREEMENT

THIS SERVICES AND TRADEMARK LICENCE AGREEMENT is made the 12th day of December 1996.

BETWEEN:-

(1) HOME SHOPPING NETWORK INC. a company incorporated in the State of Delaware United States of America whose principal place of business is at 2501 118th Avenue North, St. Petersburg, Florida 33716, USA ("HSN").

(2) JUPITER SHOP CHANNEL CO.;LTD a company incorporated in Japan whose principal place of business is at Tokyo Opera City Tower 35F, 20-2 3-chome, NishiShinjuku, Shinjuku-ku, Tokyo 163-14 Japan ("the Company").

WHEREAS:-

(1) HSN owns thirty per cent (30%) of the Shares.

(2) HSN has agreed to provide the Services and support to the Company as provided in this Agreement.

NOW IT IS HEREBY AGREED as follows:-

1. DEFINITIONS

In this Agreement and the recitals hereto the following words and expressions shall save as otherwise specifically provided have the following meanings:

"APPLICABLE LAW": with respect to a Party, any domestic or foreign, federal, state or local statute, law, ordinance, rule, administrative interpretation, regulation, order, writ, injunction, directive, judgement, decree or other requirement of any Governmental Authority applicable to such Party or its properties, business or assets;

"BUSINESS": the Business as defined in the Shareholders Agreement;

"FEES": those fees as referred to in Clause 4;

"HSN PRIVATE LABEL TRADEMARK": the trademarks for which registration applications have been or may in the future be filed and/or for which common law rights have been or may in the future be established through use belonging to HSN or any of its subsidiaries which relate solely to HSN's private label products with the exception of those relating to HSN's private label products with the brand label "Essence of Time";

"HSN TRADEMARKS": the trademarks (including Home Shopping, Home Shopping Network and The Home Shopping Network) registered or for which applications have been or may in the future be filed and/or for which common law rights have been or may in the future be established through use belonging to HSN excluding the HSN Private Label Trademarks;

"PARTY" or "PARTIES": a party or the parties to this Agreement;

"SERVICES": the services to be provided by HSN to the Company as set out in Clause 2;

"SHAREHOLDER": a holder of Shares;

"SHAREHOLDERS AGREEMENT": the Shareholders Agreement dated and made between Jupiter Programming Co., Ltd(1), HSN(2) and the Company(3);

"SHARES": ordinary shares of the Company;

"TERRITORY": the country of Japan;

"TRADEMARKS": the HSN Trademarks and the HSN Private Label Trademarks together.

2. HSN SERVICES

HSN shall provide the Services for the duration of this Agreement (including any renewal of it whether in full or on some other basis) exclusively to the Company in the Territory as follows:

- 2.1 HSN shall at all times (and at no cost to the Company):
 - 2.1.1 provide to the Company photos or samples of products as and when available;
 - 2.1.2 inform the Company of on-going marketing trends identified in its customers by item by season and by general market segments;
 - 2.1.3 provide to the Company either at HSN's principal place of business or in a manner as may be agreed between HSN and the Company lists of its best selling products, and the following information with respect to those products:
 - (a) product description, specifications and background information;

(b) selling price(s) and product cost;

(c) time of day airings;

(d) frequency of airings;

(e) return rates;

(f) quantities of the products sold;

(g) whether the product attracted new buyers or repeat buyers;

(h) sales of units per minute; and

(i) gross profit per minute.

- 2.2 HSN will use all reasonable endeavours to:
- 2.2.1 obtain for the Company access to all HSN products (including obtaining product rights for the Territory when HSN purchases new products from its various vendors).
 - 2.2.2 provide that the Company shall have access to the lesser of 15% of an item's SKUs or 500 units per SKU of HSN's inventory, HSN will provide such merchandise at HSN's cost for the particular product. HSN and the Company expect that products that are subject to check fallout will also be available for allocation to the Company.

2.3 Without prejudice to HSN's obligations hereunder, the Company will be permitted to have one of its employees located at HSN to help with the flow of information and communication between HSN and the Company. The Company will take reasonable steps to ensure that the information is kept confidential and that persons with access to such information will be limited.

2.4 HSN and the Company will work together to minimize, wherever possible, shipping costs to the Territory. The Company will undertake its own quality control in the Territory unless HSN does on site inspections at the point of shipment or has already performed this function. HSN will be reimbursed for any reasonable incremental costs that it may properly incur for quality control inspections on behalf of the Company.

2.5 HSN will use all reasonable endeavours to encourage its vendors to offer identical pricing and terms to the Company to those that HSN receives and to assist the Company in refining and/or altering products to meet the marketing needs of the Territory.

2.6 Any products that are identified for liquidation by HSN will be made available by HSN to the Company at HSN's liquidation value.

2.7 For all products that HSN is buying for its own purposes, all contacts with vendors should be through HSN. HSN will use all reasonable endeavours (having regard to the circumstances) to ensure that the vendors provide the Company with similar quantities, prices, product information, and specifications to those that are made available to HSN. HSN and the Company will use their mutual discretion in addressing unusual issues.

2.8 HSN will use all reasonable endeavours to ensure that products requested to be tested and aired by the Company will receive a fair airing on HSN in the hours between 10 a.m. and midnight. HSN will air for the Company a minimum of five products per month that the Company identifies it wants aired. In addition, products in excess of five items per month may be aired by HSN based on the desirability of the product from HSN's perspective. Any product of the Company to be aired must reasonably satisfy basic standard HSN product requirements (for example quality assurance approval, regulatory compliance).

2.9 HSN will allow the Company to broadcast 3-hour remote programs from the HSN campus twice per year at times requested by the Company. HSN will determine

whether the program should be simultaneously broadcast on one or more of HSN's programming services. The Company will reimburse HSN for any reasonable incremental costs that HSN may properly incur in respect of this broadcast.

2.10 With regard to HSN employees:

- (a) The Company shall remain HSN for its reasonable out of pocket expenses (e.g., travel, hotel, food) incurred in coming to the Territory in connection with the Services so long as they have been approved by the Company before they are incurred;
- (b) HSN will provide full time two HSN employees dedicated to the Company at no cost to Company. Such employees may be hired specifically for these positions, subject to the approval of Company, whose approval shall not be unreasonably withheld;
- (c) All communication between the Company and HSN will generally be coordinated through the two HSN dedicated employees for day to day operational matters and through HSN offices for other general operational matters. Any communication relating to the Company and its business in Japan will be coordinated by and through the Company;
- (d) The Company will reimburse preapproved reasonable and proper expenses, including salaries, relating to extended assistance requested by the Company from other HSN employees other than the two dedicated HSN employees. Extended assistance means 12 days of work, excluding travel days, in any 6 month period;
- (e) The timing of requests by the Company for assistance from other HSN employees is subject to mutual agreement of the Parties; and
- (f) Neither Shareholder will hire employees of the other Shareholder.

2.11 With regard to shipping any products direct from the United States of

America to Japanese consumers in the Territory:

- (a) HSN will be given reasonable notice;
- (b) Assistance given by HSN must be during times reasonably acceptable to HSN;
- (c) The volume of shipments must be approved by HSN (not to be unreasonably withheld) so as not to interfere with HSN's ongoing operations;
- (d) The Company must provide shipping labels to HSN unless otherwise agreed;
- (e) HSN will use a carrier designated by the Company and reasonably acceptable to HSN and the Company shall be responsible for payment, delivery, and all other matters directly related thereto; and

(f) Any reasonable incremental costs properly incurred by HSN for

such services will be paid by the Company within 30 days of the Company receiving an acceptable invoice from HSN.

- 2.12 HSN will use all reasonable endeavours to secure all on-air rights for products and related materials for the Territory. If HSN has these rights, it will provide these to the Company at no cost to the Company. In addition, HSN will provide at no cost to the Company, all audio, music, graphics, product B-roll, animated show opens, show titles, logos, and promotional materials that HSN has from time to time. Videos will be provided as and when agreed between HSN and the Company.
- 2.13 HSN will provide to the Company at no cost to the Company access to any promotion, production technology equipment or software that HSN owns so long as the technology access relates to television shopping. HSN must own any rights prior to sublicensing any technology to the Company.
- 2.14 The terms of this Clause 2 shall survive termination of the Shareholders Agreement and HSN shall continue to comply with such terms (irrespective of whether it remains a Shareholder or not) until this Agreement expires or terminates pursuant to Clauses 5 or 6.
- 2.15 HSN hereby agrees to indemnify and hold the Company harmless on demand from and against any and all costs, liabilities, obligations, losses, damages, penalties, actions, judgments, expenses and disbursements of any kind or nature whatsoever in any way relating to or arising out of this Clause 2.
- 2.16 The Company hereby agrees to indemnify and hold HSN harmless on demand from and against any and all costs, liabilities, obligations, losses, damages, penalties, actions, judgments, expenses and disbursements of any kind or nature whatsoever, which HSN suffers as a result of a default by the Company in complying with its direct contractual obligations to vendors and third party service providers under orders for goods and/or services (as appropriate) placed directly by the Company, or to customers of the Company in the Territory, provided that this Clause 2.16 shall not apply where HSN also has a contractual relationship with such vendor, third party service provider or customer and has not complied in full with its obligations to that vendor, third party service provider or customer or where HSN's actions or failure to act have caused or contributed to the Company's default.
- 2.17 Without prejudice to HSN's obligation to provide the Services, the

Company shall:

(a) communicate its product selection to HSN promptly;

(b) where it has any communication with HSN's vendors, communicate in a professional manner, provided that this Subclause shall not apply to a vendor with whom the Company is in dispute;

(c) notify HSN promptly of any problems it encounters with the performance by HSN of HSN's obligations under this Clause 2 (and for this purpose HSN shall inform the Company of the person or persons at HSN to whom such matters should be addressed and will keep the Company informed of any change); and

(d) not intentionally do anything to frustrate the due performance by HSN of its obligations under this Clause 2.

3. NAMES, LOGOS AND TRADEMARKS

3.1 So far as it proves necessary the Company grants HSN the right subject to the Company's prior approval to use the appropriate names and logos of the Company which the Company may designate as being appropriate for HSN carrying out the Services subject to HSN complying with any guidelines and conditions imposed by the Company relating to such use.

3.2 Clauses 3.4, 3.5 and 3.7 shall apply for the purposes of Clause 3.1 as if references to the Company therein were to HSN and vice versa and references to the HSN Trademarks were to the names and logos of the Company as referred to in Clause 3.1.

3.3 In consideration of the Company agreeing to pay the Fees to HSN, HSN hereby grants, to the Company for the duration of this Agreement (including any renewal of it whether in full or on some other basis) as follows:

(a) the Company shall have a nontransferable, exclusive licence to use the HSN Trademarks in the Territory in connection with the Business;

(b) the Company shall have a nontransferable licence to use the HSN Private Label Trademarks in the Territory in connection with selling HSN's private label products in connection with the Business, which licence shall be exclusive to the Company except to the extent that a licence or licences or other right to use the HSN Private Label Trademarks has been granted to the infomercial joint venture company established by the Parties and others; and

(c) HSN hereby reserves all rights to the Trademarks, except as specifically granted herein to the Company, and HSN may exercise such reserved rights at any time.

3.4 Ownership of Trademarks The Company acknowledges and agrees that:

(a) HSN is and shall at all times remain the exclusive owner of the Trademarks;

(b) it will not act inconsistently with HSN's ownership interests;

(c) nothing in this Agreement shall give the Company any right, title or interest in the Trademarks other than the right to use the Trademarks on the terms of this Agreement;

(d) it will not attack the validity of HSN's ownership of the Trademarks;

(e) any goodwill arising solely out of the Company's direct use of the Trademarks shall inure to the benefit of HSN;

(f) it shall not register (directly or indirectly) any trademark, trade name or logo identical or substantially similar to any Trademark. Any registration effected in contravention of this subclause shall be deemed conclusively to have been effected on behalf of HSN and upon request shall be transferred to HSN;

(g) the nature and quality of all services rendered in conjunction with the Trademarks shall conform to reasonable quality and usage standards set by HSN;

(h) it shall not use the Trademarks in connection with prescriptions, medications, or pornographic materials without the prior consent of HSN;

(i) it shall at HSN's request submit samples of materials containing the HSN Trademarks to enable HSN to confirm that the Company's services conform to HSN's quality standards. Upon written notice from HSN, the Company shall take such steps as are reasonably necessary and which do not unreasonably delay or otherwise interfere with the Company carrying on the Business in the ordinary course to bring all services into conformance with HSN's quality standards; and

(j) it will use the Trademarks in compliance with Applicable Law, and

(k) it will use the Trademarks in a form approved by HSN (such approval not to be unreasonably withheld or delayed). Any requirement imposed by HSN as a condition of their approval shall be limited to matters necessary to ensure that the Company's use of the Trademarks complies with this Clause 3.4 and shall not be such as to cause any unreasonable interference or delay with the Company carrying on the Business in the ordinary course.

3.5 Infringement

(a) The Company agrees to notify HSN Of.

(i) any unauthorized use or practice of the Trademarks by third parties as soon as practical after discovery by the Company of such third party use or practice;

(ii) any legal action or claim alleging a violation of any of the Trademarks filed, threatened, or asserted against the Company; and

(iii) any other act, matter or thing that has occurred or may occur in connection with the licence that the Company has knowledge of and that may adversely affect the interests of HSN in the Trademarks.

(b) HSN shall have the right and discretion to bring, control, and compromise proceedings involving the Trademarks. HSN shall bear all costs of any such action and any damages or other relief obtained by HSN as a result of such claim shall be retained solely by HSN except to the extent that such damages are awarded in respect of the loss incurred by the Company.

3.6 HSN shall use its best endeavors to secure for the benefit of the Company rights to use the trademark and trade name rights of vendors and third party service providers.

3.7 Termination

Except as otherwise provided herein, upon termination or expiration of this Agreement, the Company will:

- (a) discontinue all use of the HSN Trademarks;
- (b) cooperate where necessary with HSN to cancel records of the licences from all government records;
- (c) where practical destroy any retained printed or visual materials in its possession which include a portion of the HSN Trademarks; and
- (d) perform any act or execute any instrument reasonably necessary to vest in HSN all right, title and interest in and to the Trademarks and all goodwill associated therewith in the form reasonably requested by HSN

4. FEES

4.1 Subject to HSN complying with its obligations in this Agreement and to Clauses 5 and 6 the Company agrees to pay to HSN from the date of this Agreement an all inclusive fee of twelve (12) instalments of Yen Thirty seven million five hundred thousand (Y37,500,000) each in arrears with the first payment due on the date being six (6) months after the date of this Agreement and each subsequent payment due on the date six months thereafter up to a total maximum amount of Yen Four Hundred and fifty million (Y450,000,000),

which without limitation shall include:

- (i) all fees, expenses and other costs of any nature whatsoever incurred by HSN in providing the Services with the exception of payments under Clauses 2.9, 2.10 (a) and 2.10 (d); and
- (ii) any taxes payable by HSN in respect of any of its obligations under this Agreement or in respect of any costs, fees and expenses incurred by HSN in connection with this Agreement.

4.2 All payments by the Company shall be made net of any deduction for or on account of any taxes which the Company is required by Applicable Law to deduct. If such tax or amount in respect of tax must be deducted from any amounts payable or paid by the Company under this Agreement, the Company shall supply to HSN a tax credit, voucher or other receipt evidencing the deduction.

5. TERM

This Agreement shall continue in full force and effect (unless terminated pursuant to Clause 6 hereof) for a period of six (6) years from the date hereof (unless the Parties have agreed by the expiry of the fifth (5th) year from the date hereof that the

Agreement will continue for a longer period either in full or on some other basis) or if earlier until the Company ceases trading for whatever reason whereupon this Agreement will automatically terminate with neither Party having a claim against the other save for any breach by a Party prior to the date of termination.

6. DEFAULT

6.1 Either Party may (without prejudice to its other rights and remedies) by notice in writing to the other Party terminate this Agreement at any time during the term of this Agreement if the other Party shall:

- 6.1.1 have committed any material breach of any of its obligations hereunder and which such other Party shall not have remedied (or taken substantive steps to diligently rectify the same) within fifteen (15) days of receipt of written notification thereof, or
- 6.1.2 go into receivership or liquidation or some analogous procedure,

whereupon this Agreement will automatically terminate with neither Party having a claim against the other save for any breach by a Party prior to the date of termination.

6.2 Without prejudice to the rights of the Company under Clause 6.1 if HSN shall commit a breach of any provision of this Agreement in circumstances where there is a persistent lack of performance by HSN and/or where HSN fails to provide products or any of the Services to the Company on a timely basis or where the performance by HSN of its obligations under this Agreement is in the Company's opinion in any other way unsatisfactory then HSN shall, at its own cost, promptly make arrangements to rectify the problem in the manner requested by and satisfactory to the Company as dictated by the circumstances (e.g., provide for another shipment of the product by expedited transportation or by substitution of another substantially similar type of product for sale by the Company) and the Parties recognize that facts and circumstances surrounding each breach may vary but the Parties agree the following:

- (i) HSN shall be responsible for paying all additional costs that may be incurred by it or the Company,
- (ii) The Company may at any time in its discretion suspend payment of the Fees (or such proportion that the Company considers appropriate);
- (iii) HSN shall also provide commercial remedies to the Company similar to those that it provides to its vendors or seeks from its vendors in the normal course of its business;
- (iv) In the event that (other than set out in this Agreement) a remedy to the particular issue cannot be agreed within a fifteen (15) days of the issue arising, then the Presidents of HSN and the Company (or an authorized person designated by such Presidents) will attempt to negotiate a mutually acceptable agreement. In the event that no such agreement can be reached within a further period of ten (10) days then the Parties agree that the arbitration provisions set forth in Clause 13.2 shall be

applicable with instructions to the arbitrators that the panel may award the Company in its sole judgement and discretion any form of monetary penalty which it deems appropriate.

7. REPRESENTATIONS AND WARRANTIES

7.1 Each of the Parties hereto represents warrants and undertakes to each other that:

(a) it is a company duly incorporated and validly existing in all respects under the laws of the jurisdiction of its incorporation with full power and authority to own its assets and to carry on its business as it is now being conducted and no action has been taken or threatened (whether by it or any third party) for or with a view to its or their liquidation, receivership or analogous process; and

(b) so far as it is aware having made reasonable enquiry no litigation or administrative or arbitration proceedings before or of any court, judicial, administrative or governmental authority, arbitrator(s) or other body is taking place, pending or threatened against it or against any of their respective assets which might have a material adverse effect on its business, assets, condition or operations taken as a whole, or might adversely affect its ability duly and punctually to perform and observe all its obligations hereunder.

8. INVALIDITY

Should any provision of this Agreement be or become ineffective for reasons beyond the control of the Parties, the Parties shall use reasonable efforts to agree upon a new provision which shall as nearly as possible have the same commercial effect as the ineffective provision.

9. FORCE MAJEURE

9.1 On the occurrence of an event which would render compliance by a Party of its obligations under this Agreement:

(a) illegal according to the law of any jurisdiction in which it is resident or incorporated or of the country in which performance of the obligation is to take place; or

(b) otherwise impossible to perform;

and that event is also outside of that Party's control, its relevant obligations under this Agreement shall be suspended indefinitely until performance by that Party is no longer illegal or impossible (as the case may be), at which time that Party's obligations under this Agreement shall resume in full force and effect.

9.2 If the suspension under Clause 9.1 continues for a period of six (6) months or longer, either Party shall have the right to terminate this Agreement upon written notice to the other.

9.3 The Party whose obligations are so suspended shall not be liable to the other Party for any breach of this Agreement resulting from its failure to perform those relevant obligations during the period of suspension.

10. COSTS

Each of the Parties hereto shall pay its own costs, charges and expenses connected with the preparation and implementation of this Agreement and the transactions contemplated by it.

11. NOTICES

Any notice or other communication given or made under this Agreement shall be in writing in English and, without prejudice to the validity of any other method of service, may be delivered via facsimile or personally or by courier addressed as follows:

(a) If to the Company:

Jupiter Shop Channel Co., Ltd.
Tokyo Opera City Tower 35F

20-2, Nishi-Shinjuku 3-chome Shinjuku-ku
Tokyo 163-14
Japan
Attention: President
Fax: 81-3-5353-7056

(b) If to HSN:

2501 118th Avenue North, St. Petersburg
Florida 33716

U.S.A.

Attention: President

Fax: 813-573-0866

or to such other address or facsimile number as the relevant addressee may hereafter by notice hereunder substitute.

12. GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of Japan.

13. DISPUTES

- 13.1 Other than as provided in Clause 6.2, in the event of a disagreement among the Parties, including a disagreement regarding this Agreement, or any breach thereof, each Party will use its best efforts to resolve such disagreement amicably and where applicable the Party in breach shall promptly take all reasonable steps to remedy such breach. If, at the end of fifteen(15) days from the occurrence of such disagreement or breach, no resolution has been reached the President of each Party or an authorized person designated by the President of each Party will meet to resolve the matter. If they, too,

are unable to reach a mutually agreeable resolution within thirty (30) days of the matter being referred to them, the matter will be arbitrated in accordance with Clause 13.2.

- 13.2 Any and all disputes with respect to which such authorized persons failed to reach a mutually agreeable resolution shall be finally settled by arbitration conducted in London under UNCITRAL Arbitration Rules by three (3) arbitrators (none of whom shall be Japanese or US citizens) in the English language. The award shall be final and binding upon the Parties.
14. ENTIRE AGREEMENT
- This Agreement replaces, supersedes and cancels all other previous and contemporaneous arrangements, understandings, representations or agreements between the Parties either oral or written with respect to the subject matter of this Agreement and expresses and constitutes the entire agreement between the Parties.
15. NO PARTNERSHIP/AGENCY
- Nothing herein contained shall be construed or deemed to constitute a partnership or joint venture between the Parties and save as expressly herein provided no Party shall hold itself out as the agent of the other.
16. SURVIVAL OF PROVISIONS
- The expiry or earlier termination of this Agreement shall not operate to terminate any provisions which are expressed to continue in force thereafter.
17. EXECUTION
- This Agreement may be executed in counterparts (which may be exchanged by facsimile transmissions) each of which shall be an original and which together shall constitute one document. Without prejudice to the foregoing, if this Agreement shall initially be exchanged by facsimile transmissions as aforesaid the Parties shall as soon as reasonably possible thereafter arrange for the signature and exchange of original signed copies of this Agreement.
18. NO ASSIGNMENT
- No Party may assign its rights under this Agreement.
19. WAIVERS, REMEDIES CUMULATIVE, AMENDMENTS, ETC.
- 19.1 No failure or delay by any of the Parties in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof nor shall any single or partial exercise by any of the Parties of any right, power or privilege preclude any further exercise thereof or the exercise of any other right, power or privilege.
- 19.2 The rights and remedies herein provided are cumulative and not exclusive of any rights and remedies provided by law.

19.3 No provision of this Agreement may be amended, modified, waived, discharged or terminated, otherwise than by the express written agreement of the Parties nor may any breach of any provision of this Agreement be waived or discharged except with the express written consent of the Parties not in breach.

20. ENGLISH LANGUAGE

Where, this or any other English language agreement between the Parties or referred to herein is translated into Japanese for the convenience of the Parties or some of them the English language version hereof/thereof shall for all purposes be deemed to be the definitive and binding version thereof.

IN WITNESS WHEREOF the Parties hereto have executed this Agreement on the date first written above.

HOME SHOPPING NETWORK INC.,

By its duly authorized executive officer

Name: /s/ Michael W.D. McMullen

Title: President

JUPITER SHOP CHANNEL CO.; LTD.

By its duly authorised executive officer

Name: /s/

Title: President

EXHIBIT 10.37

A.Prot. 1997/13 Vorab-Ausfertigung

NOTARIAL DEED

PURCHASE & SALE AGREEMENT

Negotiated at Basel/Switzerland, this 16th (sixteenth) day of January 1997
(nineteen hundred and ninety-seven)

Before me, the undersigned notary

STEPHAN CUENI

in my offices in Basel, Switzerland, today appeared

1. Attorney-at-Law Dr.Hans-Jorg Ziegenhain, born August 9, 1961, German citizen, with business address c/o DOSER AMERELLER NOACK, Bethmannstrasse 50-54, D-60311 Frankfurt am Main, and private domicile at Wilhelm-Bonn-Str. 6C, D-61476 Kronberg, known by person,

not acting on his own behalf, but as representative with authority of representation and exempted from the restrictions imposed by Section 181 German Civil Code in the name and on behalf of

a) HSN Home Shopping Network GmbH i.Gr., a German company limited by shares in process of incorporation with head office at Bethmannstr. 50 - 54, D-60311 Frankfurt am Main, Germany, to be registered in the Commercial Register at the local court of Frankfurt am Main, according the attached certified copy of the Deed of Incorporation dated December 12, 1996, and the attached written power of attorney dated January 15, 1996
(recte 1997)

-hereinafter "HSN GmbH"-

b) Home Shopping Network Inc., 11831 30th Court North, St. Petersburg, Florida 33716, U.S.A., according the aforementioned power of attorney

-hereinafter "HSN"-

2. Attorney-at-Law Philipp Blomeyer, born June 8, 1964, German citizen, with business address c/o Schickendanz Holding - Stiftung & Co.KG, Nürnberger Str. 91 - 95, D-90762 Furth, and with private domicile at Hallerwiese 10, D-90419 Nürnberg, identified by his German Personalausweis,

not acting on his own behalf but

a) as representative with authority of representation and exempted from the restrictions imposed by Section 181 of the German Civil Code for Quelle Schickendanz AG & Co., a German limited partnership with head office at Nürnberger Strasse 91 - 95, D-90762 Furth, Germany, registered with the Commercial Register at the local court of Furth under HRA 2425, according the attached certified power of attorney dated December 17, 1996, and the attached certified extracts from the Commercial Register concerning the partnership (HRA 2425) and its unlimited partner (HRB 4990) dated December 13, 1996,

-hereinafter "QUELLE"-

b) as representative without authority of representation and waiving any personal liability for Mr. Thomas Kirch, born _____, German citizen, with private domicile at Felix-Dahm-Str. 8. D-81925 München, Germany

-hereinafter "KIRCH"-

c) as representative without authority of representation and waiving any personal liability for Dr. Georg Kofler, born _____, German citizen, with private domicile at Heinrich-Knote-Str. 14, D-82343 Pocking,

-hereinafter "DR. KOFLER"-

The persons appeared requested this Deed including certain Exhibits hereto to be recorded in the English language. The acting Notary Public who is in sufficient command of the English language ascertained that the persons appeared are also in command of the English language. After having been instructed by the acting Notary, the persons appeared waived the right to obtain the assistance of a sworn interpreter and to obtain a certified German translation of this Deed including the English Exhibits hereto.

The persons appeared, acting as indicated, asked for the Notarization of the following:

PREAMBLE

WHEREAS, HSN sells a variety of consumer goods and services by means of customer interactive electronic retail sales programmes which are transmitted via satellite to cable television systems, affiliated broadcast television stations and satellite dish receivers (hereinafter "HSN GmbH Business"). HSN GmbH is a German limited liability company, newly formed for purposes of engaging in the German electronic retail market and is indirectly wholly owned by HSN.

WHEREAS, H.O.T. Home Order Television GmbH & Co.KG (hereinafter "H.O.T.") is Germany's first and only television shopping network, operating a teleshopping T.V. programme comprising in particular the distribution of products and merchandise by means of interactive home-ordering television (hereinafter "H.O.T. Business").

WHEREAS, HSN GmbH intends to acquire a 29% partnership interest in H.O.T. and a 29% share interest in H.O.T.'s General Partner, Home Order Television Verwaltungs GmbH (hereinafter "General Partner").

WHEREAS, Quelle and Kirch (hereinafter also referred to as "Sellers") are willing to sell an aggregate interest of 29% in the Limited Partnership and an aggregate interest of 29% in the General Partner.

WHEREAS, Dr. Kofler accedes to this Agreement with respect to the provisions set forth below in Section 2.5, Section 5 and Section 12 in his capacity as shareholder of the General Partner and in his capacity as a limited partner of H.O.T.

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

Section 1 CURRENT STATUS

1.1 H.O.T.'s aggregate liability capital ("Haftkapital") of DM 5,000,000.00 (hereinafter "Liability Capital") is held as follows:

Quelle holds an aggregate partnership interest ("Beteiligung am Festkapital") in the amount of DM 2,500,000.00.

Kirch holds an aggregate partnership interest in the amount of DM 2,000,000.00.

Dr. Kofler holds an aggregate partnership interest in the amount of DM 500,000.00.

The above partnership interests, save for Dr. Kofler's, are hereinafter referred to as the "Partnership Interests".

1.2 The General Partner's aggregate nominal share capital of DM 50,000.00 (hereinafter "Share Capital") is held as follows:

Quelle holds a share in the nominal amount of DM 25,000.00.

Kirch holds a share in the nominal amount of DM 20,000.00.

Dr. Kofler holds a share in the nominal amount of DM 5,000.00.

The above shares, save for Dr. Kofler's, are hereinafter referred to as the "Shares".

1.3 Sellers and Dr. Kofler have entered into a cooperation agreement by written instrument dated December 7, 1995 which amended the former cooperation agreement, originally entered into by Quelle and Pro 7 Televisions GmbH, in the meantime renamed into ProSieben Media Aktiengesellschaft (hereinafter "ProSieben") under the notarial deed of the notary public Dr. Dieter Granicher, Basel, of April 24, 1995 (deed roll A.Prot. 1995/34), to the effect that, as to the cooperation agreement, ProSieben was succeeded by Kirch and Dr. Kofler (hereinafter jointly referred to as the "Existing Cooperation Agreement").

Section 2 SALE AND ASSIGNMENT OF PARTNERSHIP INTERESTS AND SHARES

2.1 Sellers hereby sell to HSN GmbH with economic effect ("mit wirtschaftlicher Wirkung") as of the Effective Date (as defined in Section 6.1) and hereby assign with effect of the Closing Date (as defined in Section 6.4) each a portion of their respective Partnership Interests in the following amounts:

Quelle	DM 950,000.00
Kirch	DM 500,000.00

(hereinafter the "Acquired Partnership Interests").

The Acquired Partnership Interests in the aggregate amount of DM 1,450,000.00 equal a 29% partnership interest of HSN GmbH in HOT. The transfer in rem ("dinglicher Übergang") shall be subject to the conditions precedent set forth in Section 6.4. and the registration of HSN GmbH in the Commercial Register as successor in title to the Acquired Partnership Interests ("Sonderrechtsnachfolge"). No additional conditions precedent exist as to the acquisition of the Acquired Partnership Interests. The passing of risk occurred as of the Effective Date (defined in Section 6.1).

2.2 Sellers hereby sell with economic effect as of the Effective Date and hereby assign as of the Closing Date by way of partitioning their Shares in the General Partner the following fractions of shares, including all rights and obligations pertaining thereto:

Quelle DM 9,500.00

Kirch DM 5,000.00

(hereinafter the "Acquired Shares").

Consent of General Partner to the above partitioning of Shares is attached in copy hereto as Exhibit 2.2. The assignment of the Shares is made subject to the compliance with the conditions precedent described under Section 6.4. No additional conditions precedent exist as to the assignment of the Acquired Shares. The passing of risk occurred as of the Effective Date.

2.3 HSN GmbH purchases the above Acquired Partnership Interests and Acquired Shares and hereby accepts their transfer and assignment subject to terms and conditions of this Agreement.

2.4 Sellers shall not dispose of any of the above Partnership Interests sold to HSN GmbH between the Effective Date and the registration in the Commercial Register of HSN GmbH as successor in law without prior written consent of HSN GmbH. Further, Sellers shall not exercise any rights conferred with the Acquired Partnership Interests without prior written approval of HSN GmbH. Sellers shall account for and shall be severally liable for any breach of the foregoing undertakings.

2.5 Sellers and Dr. Kofler each hereby waive any rights of first refusal, preemptive rights or any rights of similar nature granted to them under the existing H.O.T. partnership agreement (hereinafter "Existing Partnership Agreement"), or the existing Articles of Association for the General Partner (hereinafter "Existing Articles of Associations")

or the Existing Cooperation Agreement and consent hereby to the transfer of the Acquired Partnership Interests and of the Acquired Shares to HSN GmbH.

Section 3 PURCHASE PRICE

3.1 The Purchase Price to be paid by HSN GmbH for the Acquired Partnership Interests and the Acquired Shares shall be

US\$ 15,000,000.00

(in words: 15 million US-Dollars)

(hereinafter the "Purchase Price"). Permission of the Deutsche Bundesbank pursuant to Section 3 Wahrungsgesetz is attached hereto as Exhibit 3.1.

3.2 The Purchase Price for the Acquired Partnership Interests and the Acquired Shares is payable as follows:

- 3.2.1 The first installment of US\$ 5,000,000.00 was placed in escrow under the escrow agreement dated November 20, 1996, with any interest on such account payable to Sellers after HSN GmbH has been reimbursed for all of its escrow-related costs. The first installment shall be released upon the Closing Date (as defined in Section 6.3).
- 3.2.2 The second installment of US\$ 5,000,000.00 shall become due and payable on April 1, 1997.
- 3.2.3 The third installment of US\$ 5,000,000.00 shall become due and payable on September 1, 1997.

3.3 Any monies payable under these provisions to Sellers shall be paid into Quelle's account with Deutsche Bank AG, Nurnberg, account no.0191650, sort code 760 700 12, swift code deutdem 760. Quelle shall arrange that the monies received in the above account shall be distributed to the other Sellers in proportion to their Partnership Interests and Shares sold hereunder. With payment into the above account, Sellers' respective payment demands against the HSN GmbH are deemed to be fulfilled.

Section 4 BALANCE SHEET ADJUSTMENT AS OF AUGUST 31, 1996

4.1 Sellers shall make a payment to H.O.T. equal to the net deficit ("nicht durch Eigenkapital gedeckter Fehlbetrag") as shown in the Management Accounts as of August 31, 1996, attached hereto as Exhibit 4.1, which have been prepared by H.O.T.'s management in accordance with generally accepted German principles of accounting and preparation of balance sheets in keeping the continuity and valuation principles compared to H.O.T.'s former audited annual accounts (hereinafter "Management Accounts"). Such payment shall be referred to as Balance Sheet Adjustment Payment.

4.2 HSN GmbH will not have any responsibility for any liability, which for purposes of this Clause shall include any liabilities within the meaning of Section 266(3)(C) HGB, any accruals to be provided for in connection with employee benefits (such as Christmas and holiday pay), tax accruals, deferred payments ("erhaltene Anzahlungen") and accruals for pending or conditional sales ("bedingte Umsatze") (hereinafter jointly "Liabilities") of which H.O.T. or the Sellers were aware or should have been aware of, except as reflected in the Management Accounts. Sellers shall, in lieu of any other remedies, be jointly and severally liable for putting H.O.T. in the same financial position that it would have been in if the liabilities were properly disclosed in the Management Accounts and had thereby increased the Balance Sheet Adjustment Payment.

4.3 All payments of Sellers and Dr. Kofler identified as partner contributions ("Gesellschafterzuschüsse") provided to H.O.T. since September 1, 1996, shall be credited against any Balance Sheet Adjustment Payment determined in accordance with the provisions above. If and to the extent, the aggregate amount of these partner contributions exceed the Balance Sheet Adjustment Payment (hereinafter the "Excess Amount"), such Excess Amount shall be credited against Sellers' obligation to compensate losses of H.O.T. as from September 1, 1996. In such case HSN GmbH shall make a contribution to H.O.T. equalling 29/71 times the Excess Amount within ten (10) banking days after the Closing Date.

Section 5 CHANGES TO THE CORPORATE STRUCTURE AND THE CORPORATE GOVERNANCE

5.1 Immediately after the Closing Date, the parties to this Agreement

- 5.1.1 will cause a general meeting of the partners of the H.O.T. to be convened and that the Existing Partnership Agreement of the Limited Partnership shall be amended in accordance with the approved terms as set forth in Exhibit 5.1.1 hereto;
- 5.1.2 shall undertake jointly to arrange for filing of the certified application to the Commercial Register regarding the change of title in the Partnership Interests and the amendment of the Partnership Agreement, and HSN GmbH shall take all action to deliver such application to the Commercial Register received pursuant to Section 6.4.2 to the competent court for registration of the above changes.

5.2 Immediately after the Closing Date, the Parties shall cause a general meeting of the shareholders of the General Partner to be convened and

that

- 5.2.1 the Existing Articles of Association shall be changed in accordance with the approved terms set forth in Exhibit 5.2.1 hereto in notarial form before the notary public Dr. Rudiger Graf von Stosch, Munchen, Maximilianplatz, 10;
- 5.2.2 the existing rules of procedure for the managing directors shall be changed in accordance with the approved terms as set forth in Exhibit 5.2.2 hereto;
- 5.2.3 the existing rules of procedure for the advisory board shall be changed in accordance with the approved terms as set forth in Exhibit 5.2.3 hereto.

5.3 The Parties hereto hereby execute the Joint Venture Agreement as set forth in Exhibit 5.3 hereto, which shall supersede and replace the Existing Joint Venture Agreement as from the Closing Date (An English translation of Exhibit 5.3 is also attached to this deed, but does not form part of the deed and shall not be deemed to be notarized).

5.4 The Partnership Agreement, the Articles of Association, the Joint Venture Agreement, rules of procedure for the managing directors and the rules of procedure for the advisory board, as amended in each case in accordance with the above provisions, shall ensure that all actions set forth in Exhibit 5.4 shall require the approval of 90% or more of the shareholders of the General Partner, the partners of the Limited Partnership, or their authorized representatives appointed to the advisory board (hereinafter "Veto Right Issues"). All of the Veto Right Issues may be amended by the shareholders of the General Partner or the limited partners of the Limited Partnership by a 90% supermajority.

Section 6 EFFECTIVE DATE, SIGNING DATE, CLOSING DATE

6.1 Effective Date shall be September 1, 1996, 0.00 hours (hereinafter "Effective Date").

6.2 Signing Date shall mean the day on which this Agreement shall be notarized (hereinafter "Signing Date").

6.3 Closing Date shall mean the day on which the conditions precedent under Section 6.4 are complied with (hereinafter "Closing Date").

6.4 On the Closing Date all of the following conditions must be fulfilled:

6.4.1 premerger clearance of the Federal Cartel Office, Berlin, was received in accordance with Section 24a GWB or any of the time periods contained in Section 24a GWB have lapsed without the issuance of an injunction prohibiting the transaction contemplated hereunder;

6.4.2 delivery of the duly certified applications to the Commercial Register pursuant to Section 5.1.2 by Sellers to HSN GmbH.

Section 7 REPRESENTATIONS AND WARRANTIES of HSN GmbH AND HSN

7.1 HSN GmbH represents and warrants with regard to Section 7.1.1 and Section 7.1.2 as of the Signing Date and HSN represents and warrants with regard to Section 7.1.3 as of the Signing Date

7.1.1 Organization

HSN GmbH is a limited liability company in formation ("GmbH i. Gr.") duly organized, validly existing and in good standing under the laws of the Federal Republic of Germany and has the necessary power and authority to conduct its business.

7.1.2 Corporate Power

HSN GmbH has the corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereunder. The execution and delivery of this Agreement by HSN GmbH and the

consummation by HSN GmbH of the transactions contemplated hereunder, have been duly authorized by HSN GmbH's shareholders and no other corporate proceeding on the part of HSN GmbH is necessary to authorize this Agreement or the consummation of the transactions contemplated hereunder.

7.1.3 No Competitive Restrictions

The execution and implementation of this Agreement does not constitute a violation of any non-compete restrictions HSN is subject to in relation to any third parties.

7.2 If and to the extent, that representations and warranties of HSN GmbH or HSN, as the case may be, are untrue, misleading or broken, HSN GmbH shall (i) put Sellers in a position as if such representations and warranties were true by making the representations and warranties true ("Naturalrestitution") or, at Sellers option, shall (ii) pay damages for nonfulfilment of the representations and warranties ("Schadensersatz in Geld").

Section 8. REPRESENTATIONS AND WARRANTIES OF SELLERS

8.1 Sellers represent and warrant as of the Effective Date, unless provided otherwise, hereinafter:

8.1.1 Compliance with Articles

The execution of this Agreement and the performance of all obligations undertaken hereunder have, as of the Signing Date, been validly authorized by all necessary corporate action, and the obligations undertaken by Sellers under this Agreement constitute valid, legal and binding, obligations enforceable against each of them in accordance with the terms of such authorization.

8.1.2 Corporate Power

Each of Sellers, as of the Signing Date, is either a corporation duly incorporated and validly existing in all respects under the laws of the jurisdiction of their respective incorporation or an individual with full power

and authority to own its assets and to carry on the H.O.T. business as presently conducted.

8.1.3 No Breach of Third Party Obligations

Neither the execution and the delivery by Sellers of this Agreement nor the performance or observance of any of their obligations hereunder does or will, as of the Signing Date, conflict with, or result in a breach or violation of any judgement, order or decree, indenture, mortgage, trust deed, agreement or other instrument, arrangement, obligation or duty in each case by which either Seller is bound at the date hereof or cause any limitation on any of either Sellers' powers whatsoever, howsoever imposed, or on the right or ability of the directors of either Seller to exercise such powers, to be exceeded.

8.1.4 Existence of Partnership Interests and Shares

As of the Signing Date, all Partnership Interests and Shares listed in Section 1 above exist in the amounts set out therein, are fully paid up and have not been repaid; the Partnership Interests and the Shares and all rights attaching thereto are free and clear of any third-party rights and have not been pledged, assigned, charged or used as a security other than as listed in Exhibit 8.1.4; Sellers have all right, authority and power to transfer the Partnership Interests and Shares.

Sellers and Dr. Kofler are as of the Signing Date the only partners in H.O.T. and the only shareholders in the General Partner, and there are no options or agreements outstanding which call for the grant to any other person of any partnership or other interest in H.O.T. or the General Partner, as the case may be.

8.1.5 Bankruptcy

As of the Signing Date, no bankruptcy or judicial composition proceedings concerning the assets of H.O.T. or the General Partner or any of the Sellers exist pursuant to the Bankruptcy or Reorganisation Code or the Avoidance Law ("Anfechtungsgesetz") and there are no grounds which could justify the voidance of this Agreement and that the participation of each Seller in

H.O.T. or the General Partner does not represent the whole or a substantial part of the assets of any of the Sellers within the meaning of Section 419 BGB.

8.1.6 Powers

As of the Signing Date, H.O.T. is a limited partnership duly constituted and validly existing in all respects under the laws of the Federal Republic of Germany with full power and authority to own its assets and to carry on its business as previously conducted.

As of the Signing Date, General Partner is a limited liability company duly constituted and validly existing in all respects under the laws of Germany with full power and authority to own its assets and to carry on its business as previously conducted.

8.1.7 AGREEMENTS

To the best knowledge of Sellers, all material agreements, rights and duties binding on H.O.T. and/or enforceable against H.O.T., in particular those specified hereunder, are made in the ordinary course of business and have no material negative effect on the financial condition or the H.O.T. Business, and to the best knowledge of Sellers, those agreements and rights remain unchanged and no circumstances exist, including the transaction contemplated hereunder, which will impair or endanger the unaltered continuation of these agreements. The foregoing statements apply to all of the agreements of H.O.T. including but not limited to the following agreements and obligations:

- 8.1.7.1 employment agreements and pension and benefit plans for Kirch, Dr. Kofler, general managers, Prokurists and senior employees ("leitende Angestellte") of H.O.T. and/or General Partner;
- 8.1.7.2 other employment contracts and service agreements providing for an annual remuneration of more than DM 100,000.00, bonus, commission entitlements or similar pension and benefit plans or having a termination period of more than one year;

- 8.1.7.3 any consultancy agreements providing for an annual remuneration of an average more than DM 50,000.00, or having a termination period of more than six months;
- 8.1.7.4 any material technical assistance, programming, licence, and production agreements;
- 8.1.7.5 material agreements with customers or suppliers as well as agreements with customers and suppliers outside the ordinary course of business, in particular any agreements granting deductions, discounts, credits or prepayments;
- 8.1.7.6 material rental and lease agreements, other than usual leasing agreements relating to office equipment;
- 8.1.7.7 loan, credit, guarantee and security agreements, letters of credit and surety undertakings of any nature, and loans to employees in excess of two months' salaries;
- 8.1.7.8 material sales representative, agency and distribution agreements;
- 8.1.7.9 insurance policies taken out by H.O.T. or the General Partner, other than insurances for company cars;
- 8.1.7.10 restrictive covenants or agreements limiting any of H.O.T.'s or General Partner's rights to deal in certain products or in certain territories, or any other restrictive covenants or agreements limiting H.O.T.'s or General Partner's business as carried out prior to the Signing Date;
- 8.1.7.11 any material agreements with or other rights and obligations to Sellers or any of their relatives according to Section 15 AO or any entity in which any or several of them has a financial interest of more than 5%, a list of which is set out in Exhibit 8.1.7.11;
- 8.1.7.12 any other material agreements and/or commitments involving a consideration or liability per agreement or in total of more than DM 50,000.00 per annum for H.O.T. or the General Partner or providing for performance beyond June 30, 1997;

8.1.7.13 works council agreements and agreements with trade unions, other than industry-wide regional or supraregional collective bargaining agreements;

8.1.7.14 all rights of third parties regarding the acquisition of rights to H.O.T. or the General Partner.

8.1.8 Performance of Agreements

H.O.T. and the General Partner have performed and complied, to the best knowledge of Sellers, with all material obligations under the agreements referred to in Section 8.1.7 above and have done everything which is necessary in order to be in a position to meet obligations under these agreements when they become due. To the best knowledge of Sellers, none of the parties referred to in Section 8.1.7 above is entitled to terminate or modify its obligations thereunder as a result of the execution of this Agreement. To the best knowledge of Sellers, H.O.T. and General Partner have fulfilled all requirements of these agreements and no event has occurred which, but for the passage of time, would constitute a default of such agreements. Prices on all agreements, bids, orders and quotes of H.O.T. or the General Partner which were fully enforceable against H.O.T. or the General Partner or given by H.O.T. or the General Partner to any affiliates of ProSieben as of the Signing Date, are calculated above cost and are negotiated at arm's length.

H.O.T. has in effect a transponder lease agreement through April 2005 for a monthly lease payment not exceeding DM 850,000.00 as from January 1, 1997 per month exclusive of V.A.T. and that SES has approved and consented to the sub-leasing of the transponder agreement to H.O.T. in due form.

8.1.9 Intellectual Property Rights

To the best knowledge of Sellers, H.O.T. owns and/or retains all intellectual property rights used in the present or planned business activities of H.O.T. or the General Partner, including the rights from notifications, and to the best knowledge of Sellers

- 8.1.9.1 these rights are the unencumbered and unlimited property of H.O.T. or the General Partner and no rights of third parties to these intellectual property rights or their use exist;
- 8.1.9.2 none of the intellectual property rights have been charged, nor have been threatened to be charged with infringement and there exists no basis on which any of these rights are threatened with nullification or invalidation;
- 8.1.9.3 neither these intellectual property rights nor their use infringes upon the intellectual property rights of third parties;
- 8.1.9.4 all payment of fees and other measures needed to maintain the intellectual property rights have been undertaken fully and in a timely manner; and
- 8.1.9.5 the business of H.O.T. or the General Partner does not infringe any intellectual property right of a third party.

8.1.10 Software

To the best knowledge of Sellers, the software developed, used and applied by H.O.T. or the General Partner (hereinafter "the Software"), the copyrights relating thereto and the rights accruing thereunder are not charged, burdened or encumbered in any way or any rights of any employees or sub-contractors whether arising under the Employees Invention Act ("Arbeitnehmer-erfindungsgesetz") or on any other legal basis attaching thereto. To the best knowledge of Sellers all source codes relating to the developed Software are the unlimited property of H.O.T. or the General Partner and have only been supplied to third parties in the ordinary course of business. All maintenance agreements relating to the Software have been duly and completely performed.

8.1.11 Insurances

To the best knowledge of Sellers, H.O.T. or the General Partner, as the case may be, maintain in full force and effect for their own benefit, policies of insurance valid for a period of at least up to December 31, 1996 against fire, water, theft and any other usually insured business risks, in particular with

regard to statutory liabilities and business interruption in adequate amounts to provide reasonable protection for the business and assets of H.O.T. or the General Partner. To the extent, H.O.T. or the General Partner have benefitted or benefit of umbrella insurance agreements taken out by Sellers, ProSieben or any of their affiliates, H.O.T. or the General Partner do not owe any outstanding premiums nor shall H.O.T. or the General Partner be charged back for any such premiums by Sellers or their respective affiliates, relating to periods prior to the Closing Date.

8.1.12 Assets

To the best knowledge of Sellers, all assets of H.O.T. are in a condition which is commensurate with the H.O.T. Business or General Partner's business and in an adequate condition to carry on the H.O.T. Business in substantially the same fashion as carried out prior to the Closing Date. To the best knowledge of Sellers, H.O.T. or the General Partner, as the case may be, are in the lawful possession or are the unrestricted owners, as the case may be, of all such assets which are necessary to carry out the H.O.T. Business in the same fashion as prior to the Closing Date. Except as disclosed in Exhibit 8.1.12 each of the material assets of H.O.T. is the absolute property of H.O.T. free from any mortgage, charge, pledge, lien, encumbrance, license, lease, right of pre-emption or any other third party interest and none of the assets of the same subject to any hire, hire purchase, conditional or credit sale or any other agreement for payment on deferred terms.

8.1.13 Permits and Licenses

H.O.T. has obtained all material licenses, permissions and consents necessary to carry on its business as presently conducted and is not in breach of any of the same. The current media law situation, as understood by the Sellers, is described in Exhibit 8.1.13.

8.1.14 Litigation and Compliance

To the best knowledge of Sellers, there is no litigation or administration or arbitration proceeding before any court, judicial, administrative or governmental authority or arbitrators or other body to which H.O.T. or the

General Partner is a party, nor to the best of their knowledge is any of such event pending or threatened against them or against any of their assets which might have a material adverse effect on their ability to duly and punctually perform and observe all of their obligations hereunder, except as set forth in Exhibit 8.1.14.

8.1.15 Taxes and Accounts

To the best knowledge of Sellers, H.O.T. and General Partner have duly complied with all material legal requirements relating to taxation and H.O.T. and General Partner have in particular

8.1.15.1 properly kept all material records and documents required to be kept;

8.1.15.2 properly and punctually made all returns and provided accurate information to the German tax authorities and any other German body concerned as so required;

8.1.15.3 paid all taxation charged, assessed, levied or payable in accordance with the relevant statute or legislation as and when it became due;

8.1.15.4 deducted taxation from all payments where required so to do by law and accounted to the appropriate fiscal body for taxation so deducted;

8.1.15.5 not become liable and have not been liable to pay any interest, penalty, fine or sum or similar nature in respect of taxation;

8.1.15.6 not entered into any dispute with any fiscal authority.

8.1.15.7 accrued sufficient amounts at the Effective Date in the Management Accounts to address any material tax liabilities.

8.1.16 Foreign Tax Returns

No taxes or tax returns have become due by H.O.T. or General Partner outside of the Federal Republic of Germany, except for the Republic of Austria.

8.1.17 Employee Benefits

To the best knowledge of Sellers, all obligations whether arising by operation of law, by agreement or by past custom, for payments and contributions with respect to direct or indirect pension and retirement benefits or other compensation or benefits such as anniversary payments to the employees of H.O.T. or the General Partner and pension fund old age pension liabilities for the period prior to the Effective Date have been paid by H.O.T. and the General Partner or full provision therefor has been made in the Management Accounts to cover fully their current value.

8.1.18 Business Plan

The business plan exhibited hereto as Exhibit 8.1.18 shows a substantially accurate view of the state of affairs and the financial position of H.O.T. based on reasonable assumptions and projections as of August 31, 1996.

8.1.19 Management Accounts

The Management Accounts as attached hereto in Exhibit 4.1 show a substantially accurate view of the state of affairs and the financial position of H.O.T. as at and for the financial period ending on August 31, 1996, and the profits and losses of H.O.T. for the period ended on such date. Substantial for purposes of this Section shall mean any discrepancy at or exceeding DM. 1,000,000.00 (Deutsche Mark one million) and for purposes of this Section, the DM 1,000,000.00 basket shall not constitute a deductible and therefore the whole amount will be taken into account for determining the remedies in accordance with Section 9 below, if and to the extent the discrepancy exceeds DM 1,000,000.00 ("Freigrenze").

8.1.20 Absence of Material Changes

Since the Effective Date, H.O.T. and the General Partner have carried on their businesses in the ordinary and usual course.

8.1.21 Accurate Disclosure

To the best knowledge of Sellers, there is no material effect or material matter relevant to the H.O.T. Business, H.O.T. assets, and H.O.T. or the

General Partner, as the case may be, which has not been disclosed to HSN GmbH or which might render any information contained in the documents attached to this Agreement materially misleading or inaccurate.

8.2 Sellers shall account for all of the above representations and warranties jointly and severally with exception of the representations given under Sections 8.1.1 through 8.1.5.

8.3 If and to the extent any of the above representations and warranties are made subject to the best knowledge, best knowledge shall mean actual knowledge of Sellers or any actual knowledge they should have obtained after due inquiry of the managing directors of General Partner and Mr. Henning Schnepfer, inhouse counsel to H.O.T. Sellers shall not account for any knowledge they failed to obtain due to slight negligence ("leichte Fahrlässigkeit").

Section 9 REMEDIES

9.1 In the event of any breach or non-fulfilment by either of the Sellers of any of the warranties and representations contained in Section 8, Sellers shall be liable, at the Seller's election, for putting HSN GmbH, H.O.T. and/or the General Partner, into the same financial position that it would have been in if the warranties and representations contained in Section 8 had been correct or had not been breached, or, at Sellers' election, HSN GmbH can claim damages for non-performance ("Schadensersatz wegen Nichterfullung"). Any remedies granted under Section 4 above, shall be without prejudice to those remedies set forth hereunder, if and to the extent such remedies result from the breach or non-fulfilment of any of the warranties and representations contained in Section 8. To the extent any breach or non-fulfilment of any of the warranties and representations contained in Section 8 has been remedied by the way of the Balance Sheet Adjustment Payment, Sellers shall not have to account for hereunder ("no double dip").

9.2 HSN GmbH is entitled to rescind the Agreement only if any of the Acquired Partnership Interests or any of the Acquired Shares are legally defective.

9.3 In case of rescission pursuant to Section 9.2 above, the revocation of the Agreement ("Rückabwicklung des Vertrages") is made in accordance with the provisions of the German Civil Code on the condition that Sellers have to reimburse HSN GmbH for all reasonable costs and expenses incurred in conjunction with the preparation, the

negotiation and completion of this Agreement, including all legal, tax and economic due diligence in connection with this Agreement. Section 352 BGB shall not apply.

9.4 In the event of any breach or non-fulfilment by Sellers of any of the representations and warranties contained in Section 8 of this Agreement, HSN GmbH will give to Sellers written notice of such breach or non-fulfilment stating the nature thereof and the amount involved to the extent that such amount has been determined at the time when such notice was given. Section 377 HGB shall not apply.

9.5 Any other remedies of HSN GmbH, regardless of the underlying legal basis therefor, including but not limited to, reduction of Purchase Price, rescission of contract, damages arising under culpa in contrahendo or clausula rebus sic stantibus, are expressly excluded hereby.

9.6 The maximum aggregate liability of each Seller in respect of all claims arising hereunder shall not exceed the amount of the Purchase Price plus the aggregate amount of the contributions made by HSN GmbH between the Effective Date until the Closing Date plus any reasonable attorney fees spent in connection with the transactions contemplated hereunder up to an amount of DM 300,000.00, allocable to each Seller in proportion to the amount of the Purchase Price received by each Seller.

9.7 No liability shall attach to Sellers where the aggregate amount of claims is less than DM 100,000.00, such claims, however, not being ignored for the purpose of calculating the liability of Seller under this Agreement once the threshold is exceeded ("Freigrenze").

Section 10 STATUTE OF LIMITATION

- 10.1 All claims of HSN GmbH arising under this Agreement against Sellers are time barred as from March 31, 1998. Exempted herefrom are all claims of the HSN GmbH in respect of tax liabilities which shall expire six (6) months after the date of the final, non appealable assessment of the relevant liability of H.O.T. and/or the General Partner, in any event, not prior to March 31, 1998.
- 10.2 As to the defect of title, the statutory provisions shall apply.

Section 11 ADDITIONAL UNDERTAKINGS

- 11.1 H.O.T. and ProSieben entered into a sublease agreement regarding certain transponder services in the format as exhibited hereto in Exhibit 11.1 (however, the transponder agreement referenced in Section 3 of the "Vereinbarung betreffend Transponderkapazität will not be attached as part of Exhibit 11.1).
- 11.2 HSN guarantees the payment of the Purchase Price owed in accordance with Section 3.1 above. To the extent the Joint Venture Agreement, as defined in Section 5.3 above, provides for non-compete undertakings of the parties to the Joint Venture Agreement, HSN herewith accedes to the respective undertakings.
- 11.3 If the pre-merger clearance referred to under Section 6.4.1 above shall not be withheld with final effect, this Agreement shall be rescinded in accordance with the provisions of the German Civil Code. Section 352 BGB shall not apply.

Section 12 MISCELLANEOUS

- 12.1 Any notices or other communications in connection with this Agreement need to be made in writing and shall be delivered or sent by registered mail, fax or telecopy to the addresses below or to such other addresses which may be specified by the Parties in the future in writing.

to HSN GmbH: Home Shopping Network GmbH
Bethmannstr. 50-54
D-60133 Frankfurt am Main

to Seller 1: Quelle Schickedanz AG & Co.
Nurnberger Str. 91-95
D-90762 Furth
Attention: Dr. Steffen Stremme

with a copy to

Attorney-at-Law Philipp Blomeyer
Schickedanz Holding-Stiftung & Co. KG
Nurnberger Str. 91-95
D-90762 Furth

to Seller 2:

Thomas Kirch
Felix-Dahm-Str.8
D-81925 Munchen

with a copy to

Attorney-at-Law Dr. Bernhard-R. Heiss
Rechtsanwalte Bosebeck Droste
Marstallstr. 8
D-80539 Munchen

to Dr. Kofler:

Dr. Georg Kofler
Heinrich-Knote-Str. 14
D-82343 Pocking

with a copy to

Attorney-at-Law Dr. Bernhard-R. Heiss
Rechtsanwalte Bosebeck Droste
Marstallstr. 8
D-80539 Munchen

to HSN:

Home Shopping Network Inc.
11831 30th Court North
St. Petersburg, Florida 33716, U.S.A.
Attention: Michael McMullen

with a copy to

Attorney-at-Law Dr. Hans-Jorg Ziegenhain
Doser Amereller Noack
Bethmannstr. 50-54
D-60311 Frankfurt am Main

- 12.2 The costs and expenses of this Agreement, including legal, financial and advisory fees, shall be borne by the party commissioning the respective cost. The costs incurred with regard to the notarisation of this Agreement shall be borne by HSN GmbH. The costs incurred with the premerger cartel clearance are borne by H.O.T.
- 12.3 All Exhibits to this Agreement constitute an integral part of this Agreement.
- 12.4 This Agreement and the Exhibits referred to under Section 12.3 comprise the Agreement between the Parties containing the subject matter of the Agreement and replace all oral and written declarations of intention made by the Parties in connection with the contractual negotiations. Changes or/and amendments to this Agreement need to be made in writing or by way of a notarial instrument, as the case may be.
- 12.5 The Agreement shall be governed by the laws of the Federal Republic of Germany. As to the dispute resolution the Parties hereto will enter into a separate arbitration agreement of even date.
- 12.6 In the event that one or more provisions of this Agreement shall be, or shall be deemed to be invalid or unenforceable, or this Agreement is incomplete, the validity and enforceability of the other provisions of this Agreement shall not be affected hereby. In such cases the Parties hereto agree hereby on such valid and enforceable provision or on provisions completing the Agreement which are commensurate with the commercial intent of this Agreement. The same applies if it turns out that there are gaps in this Agreement.

(continued on next page)

IN WITNESS THEREOF this Notarial Deed including the Exhibits hereto (except the English translation of Exhibit 5.3, which is not notarized) has been read aloud to the persons appeared. The persons appeared then confirmed and approved this Deed including the Exhibits hereto and signed this Deed. All this was done at the day herebelow written in the presence of me, the Notary Public, who also signed this Deed and affixed my official Seal.

Basel, this 16th (sixteenth) day of January 1997 (nineteen hundred and ninety-seven)

/s/ Hans-Jorg Ziegenhain

/s/ Philipp Blomeyer

/s/ Stephan Cueni
Notary

[NOTARY SEAL]

EXHIBIT 10.38

JOINT VENTURE AGREEMENT

BETWEEN

1. Quelle Schickedanz AG & Co. with its seat in Furth, Germany (hereinafter referred to as "Quelle") and
2. Home Shopping Network Inc. with its seat in St. Petersburg, Florida, United States of America (hereinafter referred to as "HSN Inc."),
3. Home Shopping Network GmbH i.Gr. with its seat in Frankfurt am Main, Germany (hereinafter referred to as "HSN GmbH") (together with HSN Inc. jointly referred to as "HSN").
4. Thomas Kirch, (hereinafter referred to as "Kirch")
5. Dr. Georg Jakob Kofler, (hereinafter referred to as "Kofler")

Quelle, HSN, Kirch and Kofler are occasionally referred to as "Shareholders" or "Parties".

PREAMBLE

A. In April, 1995, Pro7 Television GmbH and Quelle have agreed to cooperate in the area of teleshopping in the form of the joint venture company H.O.T. Home Order Television GmbH & Co. KG, Unterfohring -- hereinafter referred to as "HOT-KG" -- and its general partner H.O.T. Home Order Television Verwaltungs GmbH, Unterfohring -- hereafter referred to as "HOT-GmbH". HOT-KG and HOT-GmbH are occasionally also referred to hereafter as "HOT Companies".

In December, 1995, Pro 7 Television GmbH was released from certain duties under the said cooperation agreement. At that time, Pro 7 Television GmbH divided its share in HOT-GmbH into two shares and transferred them to Kirch and Kofler. Also, Pro 7 Television GmbH transferred its interests in HOT-KG to Kirch and Kofler, who joined into the joint venture cooperation agreement described above.

Now, HSN, Quelle, Kirch and Kofler have agreed that HSN will join the HOT Companies pursuant to the provisions of the Purchase and Sale Agreement of the same day and the Articles of Incorporation attached as Exhibit 5.2.1 thereto -- hereafter referred to as Articles of Incorporation" -- for HOT-GmbH and the Partnership Agreement for HOT-KG attached as Exhibit 5.1.1 thereto -- hereafter referred to as Partnership Agreement" -- as well as the Rules of Procedure for the General Management of HOT-GmbH attached as Exhibit 5.2.2 thereto -- hereafter referred to as Rules of Procedure for the General Management" -- and the Rules of Procedure for the Advisory Board of HOT-GmbH attached as Exhibit 5.2.3 thereto -hereafter referred to as Rules of Procedure for the Advisory Board" -- as of September 1, 1996 hereafter referred to as the "Relevant Date" -- or as soon as practicable and that HSN will join into the joint venture pursuant to the provisions of this Agreement.

B. HOT-KG produces teleshopping programs and broadcasts such programs via cable, satellite and terrestrially in Germany and other German speaking territories.

C. As there have not been any experiences in Germany with teleshopping as a new mode of distribution at the time of establishing the Joint Venture, HOT-KG was entrusted with the development of specific teleshopping formats and systems. In this respect the HOT-KG also took over the responsibility for selection of products to be marketed by way of teleshopping.

D. However, in order to enable HOT-KG to set up the teleshopping business and to operate it successfully, the shareholders are supporting and will support the HOT-Companies in the areas of their respective specific expertise as provided hereunder.

E. It is the purpose of this Agreement to govern the relationships among the shareholders of the venture on the one hand, and the relationship of the shareholders with the HOT-companies on the other hand in more

detail. This Agreement shall control in the event that there is a conflict between this Agreement and the other corporate agreements among the parties or in the event that the other corporate agreements are silent on an issue.

Therefore it is agreed as follows:

PART 1

CONCEPT OF THE PROJECT

SEC. 1 -- PROJECT "TELESHOPPING"

(1) The shareholders have agreed to distribute goods and services by way of teleshopping through the HOT Companies.

Teleshopping for the purposes of this Agreement is any form of broadcast which makes direct offers to the public for the purposes of sale, purchase or renting or leasing of goods or for the purposes of supplying services in consideration of money.

(2) HOT-KG currently operates, maintains and utilizes the systems required for the distribution of goods by way of teleshopping. HOT-KG is and will be responsible in particular for the choice of goods to be marketed by way of teleshopping.

(3) Furthermore, HOT-KG will rely on the support of the shareholders pursuant to service agreements insofar as necessary, economically viable and reasonable. All such related party agreements shall be subject to approval of the Advisory Board.

(4) The Parties are aware that HSN Inc. is subject to certain restraints of competition relating to the infomercial business.

PART 2

IMPLEMENTATION OF THE PROJECT

SEC. 2 -- ADVISORY BOARD

(1) Currently the Advisory Board consists of Dr. Steffen Stremme (Chairman), Dr. Gunter Moissl, Dr. Georg Jakob Kofler (Vice Chairman) and Herbert Schroder.

(2) With effect as of the execution of the Purchase and Sale Agreement, the number of the members of the Advisory Board will be extended to six. HSN GmbH will appoint Michael McMullen and James G. Gallagher as members of the Advisory Board. With effect from the next Ordinary Shareholders' meeting pursuant to sec. 11 subsection (2) of the Articles of Incorporation of HOT-GmbH a representative of HSN GmbH will be chosen Chairman of the Advisory Board pursuant to sec. 10 Subsection (1) of the Articles of Incorporation of HOT-GmbH. With effect from the point of time set forth in the sentence before, a representative of Quelle will be chosen Vice Chairman of the Advisory Board. Otherwise there are no changes to the alternating of the chairmanship among the representatives of the Shareholders on the Advisory Board of HOT-GmbH as provided in the Articles of Incorporation.

SEC. 3 -- BUDGET AND INVESTMENT PLAN

(1) The Profit Plan attached as EXHIBIT 8.1.18 to the Purchase and Sale Agreement (hereinafter: "Profit Plan"), covers the period until December 31, 2000. The Parties undertake to provide HOT-KG with the means necessary for the implementation of the Profit Plan, subject to the reviews provided for in sec. 6.

(2) If due to a change of the underlying conditions, facts and circumstances, the Profit Plan referred to in subsection (1) needs to be changed, the parties undertake to amend it. Each Party hereof has the right to request such a change within 3 months of the date of the request.

If the Shareholders do not agree on a change to the Profit Plan as described above within a further period of 21 days after such a request has been submitted to the shareholders by the General Manager of HOT-KG the shareholders will present the matter in dispute to the accountant of HOT-KG who shall act as mediator. If the mediation fails for any reason whatsoever within a further period of 21 days, the matter in dispute will be presented to an accountant, who is not the accountant of HOT-KG -- hereinafter referred to as "Chartered Accountant" -- who shall render an arbitration decision observing the limitations set forth under sec. 3 (4) hereunder within a period of 21 days after the issue is presented to him. If the Parties cannot agree on a Chartered Accountant, the Chamber of Chartered Accountants in Dusseldorf shall nominate a Chartered Accountant who shall serve as the arbitrator. The Profit Plan, as amended by the Chartered Accountant, shall become binding on the Parties hereof.

(3) For the avoidance of doubt, the shareholders are mutually obliged to provide HOT-KG with the means necessary to continue its business operation in the ratio respective to their shares and Partnership Interests after Execution of the Purchase and Sale Agreement if the parameters on which the Investment Plan is based -- whether in the version attached hereto as EXHIBIT 8.1.18 or in a version adapted thereafter pursuant to subsection (2) above -- are changed (e.g., less demand, less turnover of goods or increased costs/expenses). Subject to any other agreement between the Parties, the required liquidity has to be provided by payment of money into HOT-KG as a further contribution of the limited partners. Such duties exist for each shareholder in relation to its interests and shares in the HOT-Companies in such scope as means are required by HOT-KG in order to remain solvent after consideration of other means to finance the business. The shareholders will pass a resolution on such request by the General Management of HOT-KG after taking into account all facts and circumstances, including tax considerations, of the HOT-Companies and their shareholders.

(4) For purposes of the agreed upon Profit Plan the duty of the parties shall be DM 130 million in aggregate. An amount of DM 68.717.600,-- out of the amount of DM 130 million has already been provided until November 29, 1996. The outstanding amount of DM 61.282.400,-- shall be provided by the shareholders according to their interests in the HOT-Companies except for revisions due to payments made after

November 29, 1996, and except for payments pursuant to sec. 4.3 of the Purchase and Sale Agreement relating to the Balance Sheet Adjustment Payment. The request to provide such liquidity cannot be made by HOT-KG itself but only by the other parties to this Joint Venture Agreement. The amount set out above may be amended upon mutual agreement of the Parties hereto.

(5) The Parties may consider the establishment of a second shop at home channel, aimed primarily at a market outside German-speaking territories. In such event the HOT Advisory Board would vote on the creation of the second channel. If the vote is approved, the second channel would be developed within HOT-KG, in which case the above DM 130 million cap would have to be reasonably raised. If the vote fails, any partners who elect to proceed with a second channel may form a separate venture to do so which shall not be governed by the provisions set forth hereunder. In such case the Parties are in agreement, that all shareholders in HOT-KG will be invited to participate in the second venture and that additional parties may be brought into the new venture. However, no third party may be brought in if it competes with a shareholder in a country in which the shareholder is otherwise engaged in significant business. For purposes of this subsection a competitor of Quelle shall mean any electronic retailer. As to the definition of HSN's and Kirch's and Kofler's competitors, reference is made to sec. 7 (2) below.

SEC. 4 -- SERVICE AGREEMENTS

(1) In so far as necessary, commercially viable and reasonable, HSN and HOT-KG on the one hand and the other Parties hereto, Quelle and HOT-KG, on the other hand will enter into service contracts pursuant to the general terms provided in EXHIBIT (5.3) 4.1 for the services defined in following Subsection (2).

(2) HSN Inc. will support HOT-KG to the best of its ability in the performance of the following functions itself or through its affiliates and subsidiaries:

- Access to, and purchase of, HSN's products and services
- Access to related background information and selling materials on each item for use by show hosts
- Access to HSN marketing and sales know how: consumer research, on-air presentation, sales histories of individual items and product categories, etc.
- Consulting on HSN systems: computer, etc.
- On the job training and consultation for HOT key employees
- Various licenses and trademarks owned by HSN
- Facilitate cooperation with HSN Direct, if mutually valuable.

Quelle, Kirch and Kofler are supporting and will support HOT-KG to the best of their ability in the performance of the following functions themselves or through their affiliates and subsidiaries:

- German management (i.e., operating the business in its entirety)
- Equipment
- Facilities and related operational requirements
- Marketplace know how
- Operating licenses (including transponder)
- Inbound and outbound telemarketing (Quelle)
- Governmental compliance and lobbying (federal and local)
- Distribution (cable, satellite) in Germany and other German speaking markets
- Order fulfillment (processing, accounting, physical distribution and supply of products) (Quelle)
- Credit card processing (Quelle)
- Customer service (Quelle)
- Upsell marketing
- Check processing (Quelle)
- Ongoing accounting and financial services
- Legal Compliance
- HOT Catalogue/Program Guide
- Access to and purchase of Quelle's products and services (Quelle)
- MIS reports (Quelle)

The above list is neither conclusive nor exclusive.

SEC. 5 -- "WINDOW"

(1) Each party is entitled, possibly together with any third party, subject to its own choice to use no more than 1 hour of broadcasting time per day on the teleshopping channel for teleshopping activities in consideration of a fee to be agreed with HOT-KG. Such fee shall cover HOT's cost and a reasonable profit margin. sec. 8 of this Agreement shall only apply to such teleshopping activities to the extent that one or more of the other Parties must not allow such third party to be a mail-order company a broadcasting company, or a electronic retailer.

(2) In the set-up of the programs, the respective Party must take into account the image of HOT-KG.

(3) Further details are subject to a separate agreement. This agreement shall be subject to the approval of Advisory Board of HOT-KG.

SEC. 6 -- REVIEW OF COOPERATION AND NOTICE OF TERMINATION

(1) The parties will jointly review the status of the project in regular intervals of no more than 6 months.

(2) Each party has the right to terminate this Agreement and the Participation in the HOT-Companies by giving two months' written notice if

a) the broadcasting has been prevented by administrative action and legal measures against such administrative action have not been successful in summary proceedings in a second court instance; or

b) in 1997 the turnover profits (gross sales) are below DM 75 million; or

c) in 1997 the annual aggregate loss exceeds DM 51 million.

This right to give notice of termination is to be exercised in writing only within the period from January 1, 1998 until April 30, 1998. Except as provided below, if such notice is duly given, the Joint Venture Agreement shall be terminated with effect at the expiration of the above notice period except for the parties' claims against each other which have already come into existence, in particular the obligation to provide the Company with the necessary liquidity pursuant to sec. 3 of this Agreement. The shareholder giving such notice is obliged to offer to the other shareholders pursuant to the provisions of the relevant Articles of Incorporation or Partnership Agreement the quotas/partnership interests in the appropriate form for purchase. In such case the compensation shall be determined pursuant to sec. 17 of the Partnership Agreement of HOT-KG and sec. 19 of the Articles of Incorporation of HOT-GmbH. If such offer has not been accepted within one month after receipt of the written notice in the appropriate form, the shareholders shall undertake to wind up the companies.

(3) The exercise of rights arising from sec. 18 of the Articles of Incorporation of HOT-GmbH and sec. 16 of the Partnership Agreement of HOT-KG remains otherwise unaffected.

SEC. 7 -- DISPOSAL OF INTERESTS IN THE HOT-COMPANIES

(1) Subject to sec. 6 of this Agreement the parties undertake not to dispose of their interests in HOT-GmbH and HOT-KG prior to September 1, 1999. This applies also to the transfer to affiliated undertakings in terms of sec. 15 AktG (German Stock Corporation Act).

(2) The transfer of a share or a part of a share of HOT-GmbH or a Partnership Interest of HOT-KG requires the written consent of the other shareholders or partners, as applicable, pursuant to sec. 5 Subsection (1) of the Articles of Incorporation of HOT GmbH and sec. 14 Subsection (1) of the Partnership Agreement of HOT KG in order to be valid. The consent of a party shall, however, not be unreasonably withheld. Such

consent may, in particular, be withheld if the interests and shares are to be transferred to a competitor of the remaining Shareholders. For purposes of this Subsection

- Competitor of Quelle shall mean any mail order company,
- Competitor of Kirch and Kofler shall mean any broadcasting company,
- Competitor of HSN shall mean any electronic retailer,

and affiliated entities to the competitors within the meaning of sec. 15 AktG.

Each Shareholder shall grant the written consent and waive any preemption rights to sec. 5 subsections (1) through (3) of the Articles of Incorporation of HOT GmbH and sec. 14 of the Partnership Agreement of HOT KG if it

- a) is transferred to an entity which is affiliated with the transferring shareholder within the meaning of sec. 15 Aktiengesetz and
- b) such entity does not directly or indirectly compete with the HOT-KG and
- c) it is ensured in an appropriate way that in case of the termination of the affiliation the share and Partnership Interest shall be transferred back to the disposing shareholder and
- d) the transferring shareholders transfers all of its shares or its Partnership Interests and
- e) the acceding party shall join into this Agreement.

Any such transfer does not affect this Agreement nor any of the obligations of the respective Party hereunder.

PART 3

MISCELLANEOUS

SEC. 8 -- TERMINATION OF JOINT VENTURE AGREEMENT

In general, each Party has the right to terminate this Agreement by giving six months' written notice before the end of a calendar year. Such notice may not be effective prior to the earlier of December 31, 2000 or at the return on investment, (repayment of any capital contributions of all Parties to HOT-KG plus interest at a rate of 6% p.a.). This termination shall not affect a terminating party's interest in any of the HOT Companies nor any agreement pursuant to sec. 4 of this Agreement. Upon the effective date of termination, the party terminating shall no longer be party of this Agreement with the exception of sec. 7 and sec. 9 hereunder which shall survive in relation the terminating party. The Agreement shall continue in full force and effect among the remaining parties except for the obligations set forth under sec. 3 (4) hereunder.

SEC. 9 -- COMPETITION CLAUSE

(1) During the time that a Party holds shares in HOT-GmbH or partnership interests in HOT-KG and for one year thereafter, that party will neither directly nor indirectly participate as an owner, partner, shareholder, consultant, employee, affiliate, officer or director in other telemarketing activities in terms of sec. 1 subsection (1) of this Agreement targeted at German Speaking Territories or in the German Language other than those of HOT-KG or support such telemarketing activities in any other way.

(2) DRTV spots and infomercials broadcast as a part of any other TV-program which does not have telemarketing as its focus are not affected by this sec. 9. Not affected either is third party fulfillment unless it is for competitors of HOT and its affiliated entities within the meaning of sec. 15 AktG which are engaged in the electronic retailing business and of which the parent company is based in the Americas.

SEC. 10 -- GENERAL PROVISIONS

- (1) If any provision of this Agreement is invalid or becomes invalid, the validity of the rest of the Agreement shall not be affected. The parties mutually undertake to replace the provision which is or became invalid by a provision which equals the commercial purpose of the provision to be replaced as far as possible. The same applies if there are gaps in the agreement.
- (2) Changes and amendments of this agreement need to be in writing in order to be valid unless a notarized form is required. The same applies to the change of this clause. Verbal collateral agreements have not been concluded.
- (3) Exclusive place of jurisdiction for disputes arising from this Agreement is Frankfurt am Main unless prohibited by law.
- (4) This Agreement is exclusively subject to German law (unless prohibited).
- (5) This Agreement is executed in German and English. Only the German version is notarized and shall be binding.

(End of text)

EXHIBIT 10.39

**RONALD A. KATZ TECHNOLOGY LICENSING, L.P.
LICENSE AGREEMENT**

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HOME SHOPPING NETWORK, INC.

LICENSE AGREEMENT

This License Agreement ("Agreement") is entered as of January 1, 1996 (the "Effective Date") by and between the Parties, Ronald A. Katz Technology Licensing, L.P. (Licensor), a California Limited Partnership, having offices at 9401 Wilshire Blvd., Suite 900, Beverly Hills, California 90212, and Home Shopping Network, Inc., having offices at 11831 30th Court North, St. Petersburg, Florida 33716.

WHEREAS, Licensor is the owner of patent and patent application rights relating to Automated Transaction Processing Utilizing Communication Facilities and/or Computer Telephone Integration (ACTI patents) and has the right to grant non-exclusive licenses and covenants not to sue thereunder;

WHEREAS, Licensee desires to obtain certain non-exclusive rights under the ACTI patents as provided herein;

WHEREAS, Licensor and Licensee (the "Parties") recognize the potential difficulty and inefficiency to both parties of negotiating and administering individual licenses to each of such ACTI patents relating to a given activity of Licensee;

WHEREAS, the Parties have reviewed the activities of Licensee as related to the ACTI patents and on the basis of their knowledge have selected appropriate Fields-Of-Use for the activities of Licensee with respect to the ACTI patents;

WHEREAS, in view of the nature of the ACTI patents, the business and activities of Licensee, the mutual convenience of and efficiency to the Parties and the equities of the situation, the Parties have resolved that specific Field-Of-Use Licenses are proper and appropriate as set forth herein; and

NOW, THEREFORE, in consideration of the mutual promises and other consideration as set forth herein, the Parties agree as follows:

1. DEFINITIONS

1.1 "Licensed Patents" shall mean all United States and foreign patents listed in Exhibit A, as well as all United States and foreign patents that have issued or may issue on applications whose subject matter in whole or in part is entitled to the benefit of the filing date(s) of any such patents or applications on which they are based, including, without limitation, continuations, continuations-in-part, divisions, reissues and extensions.

1.2 "Licensed Territories" shall mean the United States and its Territories, and all foreign countries in which one or more of the Licensed Patents have issued and remain in effect at any time during the term of this Agreement.

1.3(a) "Field-of-Use" shall mean an activity defined in Exhibit B.

(b) "Field-Of-Use License" shall mean a license to make, have made and use (but not sell, lease or otherwise transfer for use by others, except as specified herein) products and processes of the Licensed Patents within one or more specified Fields-Of-Use. As specified below in detail, the relative Field-Of-Use of this Agreement is Television Shopping Systems.

1.4. "Carrier" shall mean any entity which transmits a communication having a voice component over a communication channel.

1.5(a) "Campaign" shall mean automated transaction processing services provided by Licensee or its Subsidiaries.

(b) "Customers" of Licenses are all those to whom Licensee sell products during the course of electronic on-air retailing.

1.6 "Elapsed Carrier Time" shall mean, with respect to Campaigns, the transport minutes, i.e. the aggregate elapsed time of all callers participating in Campaigns during which each caller is connected to a Carrier (whether or not Licensee is the customer of record with the billing carrier) in relation to the Campaign. The following examples illustrate the proper application of the foregoing definition: (i) if a caller is connected to a Carrier in the execution of a Campaign and while the caller is so connected, an outbound call is made by Licensee, the elapsed time during which the outbound call is connected to a Carrier is not to be added to the elapsed time during which the caller is connected to his Carrier in computing the Elapsed Carrier Time of the Campaign, (ii) if ten (10) separate individual callers call Licensee in connection with a Campaign and each caller is connected to Licensee for ten (10) minutes, the Elapsed Carrier Time of the Campaign would be the aggregate of the elapsed time for each Caller is connected through a Carrier to Licensee in connection with the Campaign (in this example, one hundred (100) minutes), and (iii) if three, (3) calls were connected to Licensee of the following durations: first call, one hundred (100) seconds; second call, fifty (50) seconds; and third call, forty (40) seconds (all as measured by the Carrier) the Elapsed Carrier Time for these calls would be one hundred ninety (190) seconds irrespective of any rounding methods that might be applied.

1.7 "Automated Minutes" shall mean all minutes of Elapsed Carrier Time utilized in the course of Campaigns, other than: (i) minutes spent automatically answering a call and thereafter immediately transferring the call to a live operator, without any automated call processing, because the caller elects not to use the automated system(s); (ii) minutes spent

with such live operator; and (iii) minutes spent waiting for connection to, or talking to, a show host.

1.8 "Subsidiary" shall mean a person or entity controlled by Licensee; such control being exercised through the ownership or control, directly or indirectly, of more than 50% of all the voting power of the shares or other interests entitled to vote for the election of directors or other governing authority; however, a person or entity shall be considered an Subsidiary only for the time during which such control exists. Sublicensee's "Subsidiaries" on the date of execution of this Agreement are: Home Shopping Club, Inc., Home Shopping Network Outlets, Inc., Home Shopping Services, Inc., HSN Capital Corporation, HSN Credit Corporation, HSN Entertainment Events, Inc., HSN Entertainment Holding Company, Inc., HSN Entertainment Joint Ventures II Inc., HSN Fulfillment, Inc., HSN Fulfillment of Iowa, Inc., HSN Fulfillment of Nevada, Inc., HSN Fulfillment of Virginia, Inc., HSN Insurance, Inc., HSN Interactive, Inc., HSN Lifeway Health Products, Inc. dba HSN Products, Inc., HSN Liquidation, Inc., HSN Liquidation of Florida, HSN Mail Order, Inc., HSN Realty, Inc., HSN Redi-Med, Inc., HSN Television Shopping Mall, Inc., HSN Transportation, Inc., HSN Travel, Inc., Internet Shopping Network, Inc., MarkeTechs Services, Inc., National Call Center, Inc., Ortho-Vent, Inc., Vela Research, Inc., World Rez, Inc.

1.9 "Arbitrator" must be a patent attorney acceptable to the parties having an electrical engineering, computer science or similar background and licensing experience in the field of telecommunications and experience in alternative dispute resolution procedures.

2. LICENSE

2.1 Licensor hereby grants to Licensee, and Licensee's Subsidiaries, a non-exclusive, Field-Of-Use License to make, have made, use and provide services using (but not to sublicense, sell, lease or otherwise transfer for use by others) products or processes embodying any and all inventions claimed in the Licensed Patents within the Television Shopping Systems Field-Of-Use and in the Licensed Territories.

2.2 Although Licensee does not currently conduct activities within the Television Shopping Systems Via Cable Facilities Field-Of-Use, Licensor hereby covenants not to sue Licensee if Licensee undertakes such activities in the future in conjunction with its use of interactive voice response system(s) within the Television Shopping Systems Field-Of-Use; however, any such activities shall not convey a license or right of any kind, either express or implied, to any entity offering cable facilities and/or terminals to access Licensee's ordering system(s). This covenant not to sue is expressly conditioned on Licensee's notifying any such entity that the entity's activities are not licensed under the terms of this Agreement.

2.3 Licensor agrees to release Licensee (and its Subsidiaries) from any and all claims of infringement of the Licensed Patents for acts performed prior to the Effective Date within the licensed Field-Of-Use of this Agreement, subject to the following conditions:

(a) payment of the Advance Royalty pursuant to this Agreement; and,

(b) full and faithful performance of the term of the Agreement by Licensee or any assigns or successors permitted under the terms of this Agreement for a period of four (4) years after the Effective Date.

No suit may be brought against Licensee (or its Subsidiary) during such four (4) year period for infringement of the Licensed Patents in the Television Shopping Systems Field-Of-Use as long as Licensee continues to faithfully perform the terms of this Agreement. If this Agreement has not been terminated within the first four and one-half (4 1/2) years after the Effective Date, then Licensee's full and faith performance hereunder shall be presumed, However, nothing in this Section 2.3 alone. shall release or otherwise reduce the, liability of Customers of licensee or its Subsidiaries.

2.4 Neither this Agreement, nor the rights conveyed hereunder, may be assigned by Licensee except that the entire license may be assigned along with an assignment or transfer of Licensee's entire business relating to the subject matter of the Agreement, provided, however, that: (a) on or before the date of any such assignment or transfer the assignee executes and delivers to Licensor an undertaking to assume and perform all obligations of Licensee hereunder with respect to the business being assigned or transferred, including maintenance of the systems used by Licensee (or other effective systems) to determine Automated Minutes for purposes of this Agreement and distinguish them from unlicensed activities of the assignee, and; (b) the assignee shall derive no rights under this Agreement with respect to any other business or operations conducted by it prior to, or after, the date of assignment or transfer, and nothing contained in this Agreement shall preclude Licensor from making claims or asserting its rights with respect to such other business or operations either before or after the date of assignment or transfer.

2.5 Businesses acquired by Licensee (or its Subsidiaries) are licensed under this Agreement to the extent they satisfy the definition of "Subsidiaries" in Section 1.8, and accordingly shall bear the appropriate royalty; however, no covenant not to sue or release granted herein shall be applicable to the business acquired for activities prior to the acquisition. If Licensee (or its Subsidiary) merges, acquires or is acquired by another licensee under the Licensed Patents, the successor may elect as between redundant agreements. Furthermore, if Licensee contracts with another licensee that has a royalty bearing license under the Licensed Patents to perform all of the operations then performed by Licensee which fall within the claims of the Licensed Patents, Licensee shall be relieved of its obligation to make any further payments hereunder for the period during which such contract and such other licensee's royalty bearing license remain in effect, except for Running Royalties accrued to the date Licensee ceases performing such operations and any

amounts deferred under Section 3.3 or rolled over under Section 3.4. For purposes of Section 2.3(b) of this Agreement, payments made by such other licensee under the Licensed Patents shall be deemed full and faithful performance of the terms of this Agreement by Licensee.

2.6 Subject to the provisions of Section 2.7, if Licensor should in the future grant a royalty bearing license to QVC or Value Vision ("QV or VV") under the Licensed Patents for the Television Shopping Systems Field-Of-Use and QV or VV obtains Lower Running Royalty terms for such Field-Of-Use, or for any specific portion of such Field-Of-Use, Licensee (and its Subsidiaries) shall have the right to obtain such Lower Running Royalty rates for such Field-Of-Use or for the corresponding portion of such Field-Of-Use, provided that Licensee also accepts any less favorable terms of the other license, including but not limited to advance royalties, entry fees or guaranteed minimum royalties. For purposes of this Agreement, "Lower Running Royalty terms" means lower Running Royalty terms or other more favorable terms which could result in lower annual payments to Licensor than the terms of Section 3 of this Agreement. The date that Licensee shall be entitled to such Lower Running Royalty terms for such Field-Of-Use or any specific portion of such Field-Of-Use shall be the date of first accrual of Running Royalty by QV or VV. Licensor shall notify Licensee in writing within sixty (60) days of QV or VV obtaining a Lower Running Royalty rate, providing Licensee with a true and correct summary of the aforementioned Lower Running Royalty rates and any less favorable terms, but not identifying QV or VV by name. Licensee's (or its Subsidiaries) right to obtain a Lower Running Royalty rate must be exercised in writing by Licensee within sixty (60) days of the receipt of written notice from Licensor of the Lower Running Royalty being obtained by QV or VV. Should Licensor fail to timely notify Licensee of the Lower Running Royalty obtained by QV or VV, Licensee has the right to apply the Lower Running Royalty rate retroactively to the date of such other license. Licensee shall not be entitled, however, to any refund or credit based on other terms of such other license, and any entry fee or additional advance royalty due by Licensee shall be payable at the time the election is made.

3. CONSIDERATION

3.1 In consideration of the grants by Licensor, Licensee shall pay Licensor an Advance Royalty and a Running Royalty as specified below.

(a) Licensee shall pay to Licensor upon execution of this Agreement a non-refundable Advance Royalty of Two Hundred Fifty Thousand Dollars (\$250,000). This Advance Royalty shall be credited from January 1, 1996 through December 31, 1996, against Running Royalties accrued during such period for use by Licensee and its Subsidiaries in the Field-Of-Use licensed under this Agreement. If the total amount of Running Royalties accrued any time through December 31, 1996 exceeds the Advance Royalty, licensee shall

pay the excess to Licensor at the end of the then current Royalty Reporting Period. No credit shall be given, however, for any portion of the Advance Royalty greater than the amount of Running Royalties accrued through December 31, 1996.

(b) During the term of this Agreement, Licensee shall pay to Licensor Running Royalty, accrued from January 1, 1996, as follows (it being understood that while it is Licensee's obligation to pay Running Royalty to Licensor, the Running Royalty is computed on activities of Licensee and Licensee's Subsidiaries):

(1) For the period from January 1, 1996 through December 31, 1999, Running Royalties shall be \$.01 (1.0 cent) per Automated Minute of usage by Licensee and its Subsidiaries within the licensed Field-Of-Use;

(2) For the period from January 1, 2000 through December 31, 2002, Running Royalties shall be \$.0125 (1.25 cents) per Automated Minute of usage by Licensee and its Subsidiaries within the licensed Field-Of-Use;

(3) For the period from January 1, 2003 through December 31, 2005, Running Royalties shall be \$.015 (1.5 cents) per Automated Minute of usage by Licensee and its Subsidiaries within the licensed Field-Of-Use.

(c) Licensee shall incur Running Royalties only through December 31, 2005. If this Agreement remains in force beyond December 31, 2005, the license granted hereunder shall become a fully-paid license, subject only to Licensee paying any previously incurred Running Royalties which have been rolled over from prior years to the extent required under Section 3.3.

3.2 Advance Royalty shall be paid by Licensee and credited by Licensor as required in Section 3.1(a), above. In addition, during the term of this Agreement, Licensee shall pay Running Royalty as required under Section 3.1(b), above, as follows. At the end of each Royalty Reporting Period (as set forth in Section 4.1 below) through December 31, 2005, the total accrued Running Royalty from licensed activities of Licensee and its Subsidiaries shall be determined. For periods ending no later than December 31, 1996, this amount shall be reduced by any uncredited portion of the Advance Royalty. The remaining amount of accrued Running Royalty, if any, shall be paid to Licensor as set forth below.

3.3 During the first two years following July 1, 1996, in any Royalty Reporting Period when Earning Before Interest, Taxes, Depreciation and Amortization (EBITDA) is less than Two and One-Half Million Dollars (\$2,500,000), any payments due for such Royalty Reporting Period shall be deferred to the next Royalty Reporting Period when

EBITDA exceeds Two and One-Half Million Dollars (\$2,500,000); however, in no event shall a deferral of Running Royalties last longer than three Royalty Reporting Periods, nor shall any such deferred royalties be considered in determining maximum annual payments for any subsequent year as provided in

Section 3.4. For example, if One Hundred Fifty Thousand Dollars (\$150,000) in royalties are deferred under this Section 3.3 for the fourth quarter of 1998, that amount shall not be applied toward the Six Hundred Thousand Dollar (\$600,000) maximum annual payment for 1999.

3.4 There shall be no limit on Running Royalty payments for activities of Licensee and its Subsidiaries in foreign countries; however, Running Royalty payments due by Licensee to Licensor for activities in the United States and its Territories shall not exceed the following maximum annual payments in the years indicated:

1996-1997	1998	1999	2000-2002	2003-2005
-----	----	----	-----	-----
\$500,000	\$550,000	\$600,000	\$650,000	\$750,000
per year			per year	per year

Royalties earned in excess of the stated maximums shall be "rolled over" for payment after December 31, 2005 at a rate of Seven Hundred Fifty Thousand Dollars (\$750,000) per year to the extent set forth in this paragraph. The first One Million Dollars (\$1,000,000) of any rolled over amount shall be paid in full; of the second One Million Dollars (\$1,000,000) rolled over, only seventy-five percent (75%) of the face amount shall be payable by Licensee; and of any rolled over royalties in excess of Two Million Dollars (\$2,000,000), only fifty percent (50%) of the face amount shall be payable by Licensee. For example, if Two and One-Half Million Dollars (\$2,500,000) were rolled over under the provisions of this Section, the full amount of the first One Million Dollars (\$1,000,000) would be paid, Seven Hundred Fifty Thousand Dollars (\$750,000) of the second One Million Dollars would be paid and Two Hundred Fifty Thousand Dollars (\$250,000) of the last Five Hundred Thousand Dollars (\$500,000) would be paid, in full discharge of the Two Million Five Hundred Thousand Dollars (\$2,500,000) rolled over. Thus, a total of Two Million Dollars (\$2,000,000) would be paid after December 31, 2005 at a rate of Seven Hundred Fifty Thousand Dollars (\$750,000) per year until fully discharged. This amount represents a non-refundable, non-cancellable obligation of the Licensee in all circumstances.

3.5 All payments hereunder made by Licensee (except overpayments made in error and identified by Licensee within twenty-four (24) months of erroneous payment) are non-refundable.

4. REPORTS, PAYMENTS, RECORDS AND AUDITS

4.1 Licensees first report of its activities under this Agreement to Licensor shall be for the period from January 1, 1996 through June 30, 1996, and reports shall be made quarterly thereafter through December 31, 2005. Such periods shall be the "Royalty Reporting Periods" of this Agreement.

Licensee has advised Licensor that as of the date of execution of this Agreement it cannot determine the number of Automated Minutes precisely, but can make a reasonable estimate. Licensee is undertaking improvements to its technology which will allow it to accurately determine Automated Minutes by December 31, 1996. Accordingly, Royalty Reports for 1996, including the annual statement required under Section 4.2 below, will be based upon Automated Minutes as Determined under Licensee's available technology, with such good faith adjustments as Licensee can reasonably make after December 31, 1996 to give effect to Automated Minutes which may not have been fully reflected in earlier Royalty Reports.

4.2 The reports of Section 4.1 shall include a statement prepared by the Licensee stating, on a telephone number and name of activity basis, the total minutes and the total Automated Minutes utilized in the course of the activities of Licensee and its Subsidiaries in the Television Shopping Systems Field-Of-Use, and the EBITDA for the Royalty Reporting Period involved. The report shall also identify the Subsidiaries benefitting from the license granted herein and confirm that it is a complete and accurate accounting of all minutes (including Automated Minutes) and EBITDA for the specified Royalty Reporting Period. A carrier statement from each of the appropriate telecommunications carriers must be attached, showing net minutes, and indicating that these are complete statements for the Licensee and any appropriate Subsidiaries benefitting from the license granted herein. The reports must contain enough detail to allow Licensor to reconcile the carrier statements to the Licensee reports. In addition to reports for each Royalty Reporting Period, Licensee shall deliver to Licensor an annual statement confirmed by Licensee's chief information officer stating that the quarterly statements for the past year have been examined and they correctly and fairly indicate the amounts due. All annual statements shall contain an accounting of any royalties rolled over that year as well as the total amount of royalties rolled over to date.

4.3 Each report of Section 4.1 shall be made prior to the expiration of forty-five (45) days after the close of the Royalty Reporting Period to which it pertains, with the first one due within forty-five (45) days after June 30, 1996. The reports shall be accompanied by all amounts due. The annual statements referred to in Section 4.2 shall be provided, with payment due, if any, prior to the expiration of forty-five (45) days following December 31 of the year involved. After December 31, 2005, annual statements and accompanying payments shall continue to be made until all rolled over royalties have been paid to the extent required under Section 3.4 above, with the first such payment of rolled over royalties due prior to the expiration of forty-five days following December 31, 2005.

4.4 Licensee shall maintain regular and complete records for a period of three years after the expiration of the calendar quarter to which the records pertain, sufficient to enable verification of the accuracy of reports. The records shall be maintained at Licensee's regular place of business and, on thirty (30) days written notice, shall be available for inspection by Licensor's outside accountants, after executing an appropriate confidentiality agreement, during normal business hours, for three years immediately following each calendar quarter while the Agreement is in force. Licensor shall have the right, once a calendar year on thirty (30) days written notice to Licensee, to have its accountants audit relevant records, systems and any other documents or things underlying the calculation of amounts under this Agreement. However, such outside accountants shall maintain such information in confidence (executing an appropriate confidentiality agreement) and shall disclose to Licensor only the proper calculation of amounts. Should any such audit reveal a payment shortfall, the amount of the shortfall shall be paid by adding that amount to Licensee's next royalty payment remittance after the discovery thereof, together with pro rata interest calculated on a yearly basis at the prime rate, as it appears in the "Money Rates" (or like) section of the Wall Street Journal on the next business day after the shortfall is discovered. If any such shortfall is in excess of twelve and one-half (12.5) percent of the amount due, Licensor shall have the right to have its accountants audit such records, systems and other documents one additional time in the ensuing year. In the event an overpayment is detected from such audit, licensee shall be credited an amount equal to the overpayment in the next monthly royalty statement following the date of such detection. If licensee disagrees with an audit revealing a payment shortfall, a determination of whether there is a shortfall and the payment due hereunder shall be submitted to Arbitration in accordance with Section 10. In any event, each party shall bear its own costs, fees or expenses associated with any inspection or audit specified in this provision. Any audits beyond those specified in this provision shall be at Licensor's expense.

4.5 If Licensee fails to make timely payments of payments of amounts due or provide timely statements, Licensor may notify Licensee in writing of such failure within thirty (30) days after such failure occurs. Licensee shall have sixty (60) days from receipt of Licensor's written notice to cure such failure; otherwise, such failure shall constitute a material breach of this Agreement,

4.6 Licensor agrees to hold in strict confidence all information obtained from Licensee, including or relating to the reports, records, payments and audits described herein.

5. REPRESENTATIONS AND WARRANTIES

5.1 Licensor represents and warrants that it is the sole owner of all rights, title and interest (legal and equitable) of the Licensed Patents, that it has the right to license the Licensed Patents, that it has the right to enter into this Agreement and that it is not a party to any agreements or obligations inconsistent with this Agreement. Furthermore, Licensor

represents and warrants that there are no previously granted exclusive licenses granted to any third parties in any of the Fields-Of-Use as defined in Exhibit B. It is understood that any such license granted by Licensor is subject to the rights granted by this Agreement to the Licensee and its Subsidiaries.

5.2 This license does not and shall not be interpreted or construed to include: (1) any warranty or representation as to the validity, enforceability or scope of any Licensed Patent, (2) any warranty or representation that any specific apparatus or method used by Licensee in connection with any Licensed Patent is or will be free from infringement of patents of others or other intangible rights of third parties, (3) any requirement to file any patent application, secure or maintain any patent, (4) any obligation to bring or prosecute any action for infringement of any Licensed Patent, (5) any obligation to furnish any technical or support information, (6) any license or right by implication or estoppel, or (7) any warranty regarding implementations of Licensed Patents as with respect to merchantability, use or fitness for any particular purpose.

5.3 Licensee represents and warrants that the number of Automated Minutes it utilized in 1995 in the course of its activities in the Television Shopping Systems Field-Of-Use is Thirty-Nine Million, Five Hundred Fifty-Seven Thousand, Two Hundred Fifty-Eight minutes (39,557,258). These activities include, but are not limited to, order calls ("Tootie") and customer service calls ("Tooter").

6. DEFAULT

6.1 Upon the occurrence of a default, Licensor may give written notice of the default to Licensee, identifying the nature of the default, within sixty (60) days of Licensor having notice of the default. Licensee shall have sixty (60) days following receipt of such notice to cure the default. Thereafter, if the default is not cured by Licensee within the time provided, Licensor may immediately terminate this Agreement by giving written notice of termination to Licensee.

7. TERMINATION

7.1 Licensee shall have the right after January 1, 1997 to terminate this entire Agreement at any time by a written notice to Licensor at km thirty (30) days in advance. Such termination shall be effective on December 31 of the calendar year in which such notice is provided.

7.2 The termination of the license granted herein shall not relieve the duty and obligation to pay in full all amounts due as of the effective date of such termination.

7.3 If this Agreement is terminated any time Prior to the end of year 10, all royalties "rolled over" under the terms of Section 3.4 shall, be paid in full and represent non-refundable, non-cancellable obligations of Licensee in all circumstances.

7.4 Unless sooner terminated as provided herein, this Agreement shall continue until the expiration of the last to expire of the Licensed Patents.

8. CONFIDENTIALITY

8.1 Except as stated in Section 10, PRESS RELEASE, the parties hereto agree to maintain the details of this Agreement in confidence and not to reveal the same to third parties, except officers, directors, employees, agents, attorneys and partners of Licensee, and except as required by law subject to the other provisions of this Agreement.

8.2 Notwithstanding the provisions of Section 8.1, Licensor may disclose a summary of the terms and conditions of this Agreement to existing or potential licensees, providing such existing or potential licensees agree in writing to maintain the disclosed summary of terms and conditions confidential. In addition, Licensor may disclose the names of Licensee and its Subsidiaries in the normal course of its business.

9. ARBITRATION

9.1 No dispute between the Parties concerning validity of any of the Licensed Patents, enforceability of any of the Licensed Patents, infringement of any of the Licensed Patents or the scope of any of the claims of the Licensed Patents may be Submitted to arbitration unless otherwise agreed by the parties in writing.

9.2 Except for a dispute concerning the subjects of Section 10.1, any dispute between the Parties concerning the interpretation, construction or application of any terms, covenants or conditions of this Agreement shall be resolved by arbitration.

9.3 Arbitration shall be in accordance with the Commercial Arbitration Rules of the American Arbitration Association (AAA) by a sole Arbitrator who shall be appointed by the parties; if the parties do not agree on an arbitrator within sixty (60) days of notice, the arbitrator shall be appointed by the president of the AAA. Any other choice of law clause to the contrary in this Agreement notwithstanding, the arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. Section 1-16 and insofar as the proceeding relates to patents, it shall also be governed by 35 U.S.C. Section 294, to the extent applicable. The parties shall have the right to conduct reasonable discovery in any such arbitration, as determined by the arbitrator.

9.4 Any award made (i) shall be a bare award limited to a holding for or against a party and affording such remedy as is deemed equitable, just and within the scope of the Agreement, (ii) shall be with a brief statement (not to exceed ten (10) pages) of the reasoning on which the award rests; (iii) shall be made within four (4) months of the appointment of the arbitrator; (iv) may be entered in any court of competent jurisdiction; and (v) any award pertaining to a patent which is subsequently determined to be invalid or unenforceable or otherwise precluded from being enforced in a judgment rendered by a court of competent jurisdiction from which an appeal can or has been taken may be modified by any court of competent jurisdiction upon application by any party to the arbitration,

9.5 The requirement for arbitration shall not be deemed a waiver of any right of termination under this Agreement and the arbitrator is not empowered to act or make any award other than based solely on the rights and obligations of the parties prior to any such termination.

9.6 Each party shall bear its own expenses incurred in connection with any attempt to resolve disputes hereunder, but those related to the compensation and expenses of the arbitrator shall be borne equally.

9.7 The arbitrator shall not have authority to award punitive or other damages in excess of compensatory damages and each party irrevocably waives any claim thereto.

10. PRESS RELEASE

10.1 A mutually approved press release in the form attached hereto as Exhibit C may be released by Licensor on a date mutually agreed upon. Both the Licensee, its officers and principals, and the Licensor, its officers and principals, agree and undertake that any and all future statements by them, or any of them, to the public, the media or to business associates shall be entirely consistent with the Press Release as mutually approved. Nothing in this Agreement shall be construed to preclude Licensee, its officers or principals from making any disclosures required by law, regulation or judicial process.

11. PATENT MARKING

11.1 If Licensee or its Subsidiaries at any time during the term of this Agreement distribute printed materials regarding their automated systems, such materials shall contain a notice of the Licensed Patents as indicated in Exhibit D.

12. NOTICES

12.1 All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by Federal Express or other nationally recognized overnight carrier, registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, with written indication of delivery or tender, when applicable, addressed to the addressee first set forth above or at such other address as either party may substitute by written notice provided to the other party in such manner. Such notices shall be deemed to have been served when delivered, or if delivery is not accomplished by reason of some fault of the addressee, when tendered.

13. INVALIDITY

13.1 If any paragraph, provision, clause of this Agreement or claim of any Licensed Patent shall be found or held to be invalid or unenforceable by a court or other decision-making body of competent jurisdiction, the remainder of the Agreement or Licensed Patents shall remain valid and enforceable, and to the extent required in the pursuit of this Agreement, the Parties shall negotiate in good faith a substitute, valid and enforceable provision which reflects the Parties, intent in entering the Agreement.

14. ENTIRE AGREEMENT

14.1 The terms and conditions herein constitute the entire Agreement between the Parties and supersede all previous agreements and understandings, whether oral or written, between the Parties hereto with respect to the subject matter hereof, and no prior agreement or understanding varying or extending the same shall be binding upon either Party hereto.

15. SECTION HEADINGS

15.1 The section headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

16. GOVERNING LAW

16.1 This Agreement shall be governed and interpreted in accordance with the laws of the state of California U.S.A., without reference to conflicts of laws and principles. Any

litigation between the Parties concerning the subjects of Section 9.1 shall take place in the United States District Court for the Central District of California and the Parties agree that the Court has jurisdiction over them. However, in the case of arbitration requested specifically by one of the Parties under Section 9, the arbitration shall be held in the state of domicile of the other Party. For these purposes, any arbitration in Florida shall be held in St. Petersburg or Tampa, at Licensee's election, and any arbitration in California shall be held in Los Angeles.

17. NO AGENCY

17.1 Nothing herein contained shall be deemed to create or give rise to an agency, joint venture or partnership relationship, or any confidential or fiduciary relationship between the Parties.

IN WITNESS WHEREOF, the parties have caused their duly authorized officers to execute this Agreement on the dates indicated below.

LICENSOR

RONALD A. KATZ TECHNOLOGY LICENSING, L.P.,
a California limited partnership,

By: A2D, L.P., a California limited partnership, its general partner,

By: A2D Corporation, a California corporation,

its general partner,

By: /s/ Ronald A. Katz DATE: 6/21 , 1996

 RONALD A. KATZ
Its Chief Executive

LICENSEE

Home Shopping Network, Inc.

By: /s/ James G. Held DATE: 6/20 , 1996

Name: James G. Held

Its President & CEO

EXHIBIT A

RONALD A. KATZ TECHNOLOGY LICENSING, L.P.

UNITED STATES PATENTS

EXPIRED PATENTS

Patent No. -----	Title -----
4,071,698	Telephone System for Audio Demonstration and Marketing of Goods or Services

UNEXPIRED PATENTS

	Patent No. -----	Title -----	Issue Date -----
1.	4,792,968	Statistical Analysis System for Use With Public Communication Facility	12/20/1988
2.	4,845,739	Telephonic-Interface Statistical Analysis System	7/4/1989
3.	4,930,150	Telephonic Interface Control System	5/29/1990
4.	4,932,046	Telephone Programming System for Automated Calling	6/5/1990
5.	4,939,773	Multiple Party Telephone Control System	7/3/1990
6.	4,975,945	Universal Telephone Call Relay System	12/4/1990

RONALD A. KATZ TECHNOLOGY LICENSING, L.P.**UNEXPIRED PATENTS**

	Patent-No. -----	Title -----	Issue Date -----
7.	4,987,590	Multiple Party Telephone control System	1/22/1991
8.	5,014,298	Voice-Data Telephonic Control system	5/7/1991
9.	5,016,270	Expanded Telephone Data Organization System	5/14/1991
10.	5,048,075	Telephonic-Interface Statistical Analysis System	9/10/1991
11.	5,073,929	Voice-Data Telephonic Control System	12/17/1991
12.	5,091,933	Multiple Party Telephone Control System	2/25/1992
13.	5,109,404	Telephone Call Processor With Select Call Routing	4/28/1992
14.	5,128,984	Telephone Interface Call Processing System With Call Selectivity	7/7/1992
15.	5,185,787	Multiple Party Telephone Control System With Random Dialing For Polling	2/9/1993
16.	5,218,631	Telephonic-Interface Game Control System	6/8/1993

RONALD A. KATZ TECHNOLOGY LICENSING, L.P.**UNEXPIRED PATENTS**

	Patent No. -----	Title -----	Issue Date -----
17.	5,224,153	Voice-Data Telephonic Interface Control system	6/29/1993
18.	5,251,252	Telephone Interface Call Processing System with Call Selectivity	10/5/1993
19.	5,255,309	Telephonic-Interface Statistical Analysis System	10/19/1993
20.	5,259,023	Telephonic-Interface Statistical Analysis System	11/2/1993
21.	5,297,197	Multiple Party Telephone Control System	3/22/1994
22.	5,349,633	Telephonic-Interface Game Control System	9/20/1994
23.	5,351,285	Multiple Format Telephonic Interface Control System	9/27/1994
24.	5,359,645	Voice-Data Telephonic Interface Control System	10/25/1994
25.	5,365,575	Telephonic-Interface Lottery System	11/15/1994
26.	5,442,688	Multiple Party Telephone Control System	8/15/1995

EXHIBIT A - CONTINUED

RONALD A. KATZ TECHNOLOGY LICENSING, L.P.

UNEXPIRED PATENTS

FOREIGN PATENTS

	PATENT NO. -----	COUNTRY -----	TITLE -----	COUNTRIES EFFECTED IN -----
1.	0 229 170	EPC	Statistical Analysis system For Use with Public Communication Facility (corresponds to U.S. Pat. No. 4,792,968)	Germany France U.K. Netherlands Sweden
2.	0 342 295	EPC	Telephonic-Interface Statistical Analysis System (corresponds to U.S. Pat. No. 4,845,739)	Germany France U.K. Netherlands Sweden
3.	0 230 403	UK	Voice-Data Telephonic Control System (corresponds to U.S. Pate No. 5,073,929)	

EXHIBIT B

RONALD A. KATZ TECHNOLOGY LICENSING, L.P. FIELDS OF USE

1. **GROUP CONFERENCING** (including "broadcast services) One Example: Automated bridging of more than two callers utilizing some form of "listen only" (unilateral) communication which may be combined with some form of interactive communication.
2. **GOVERNMENT LICENSING REGISTRATION** (i.e., automotive registration) The use of interactive voice services operated by a Government entity or its designee to handle the process of a caller renewing a license.
3. **STATE LOTTERY PREPAID TICKETS OR CARDS** The use of interactive voice services by a State or its designee for the purpose of allowing a caller to enter a state lottery utilizing interactive call processing technology.
4. **PAY-PER-VIEW** Automated ordering of pay-per-view movies. Typically involves automated ordering of a movie or event from a cable company utilizing automatic identification capabilities and/or voice processing capabilities to capture the number from which the subscriber is calling or the callers account number, to speed the order and increase security.
5. **PRODUCT/SERVICE SUPPORT** The interactive processing of calls operated by the manufacturer of the product or the provider of the service, for the purpose of offering customer advice or support. Typically the automated services are used at the beginning of the call, often to greet callers, collect information from them via touch tone and queue callers for subsequent connection to some form of consultant.
6. **TELEVISION SHOPPING SYSTEMS** (automated ordering) The use of interactive voice services operated by a television shopping network, to handle ongoing orders for products or services in an automated fashion. Typically, this involves the processing of credit card information for payment. In such cases, the mere utilization and authorization of credit cards by Licensee, whether with respect to cards of a third party credit card issuer or cards issued by Licensee itself in the conduct of its television shopping system business(es), fall within the Television Shopping Systems Field-Of-Use of this Agreement and shall not require a separate license for any other Field-Of-Use. Any time such a third party is involved, however, Licensee shall notify the third party in writing that it does not receive any

license or other right, either express or implied, under the Licensed Patents by virtue of its participation in Licensee's activities.

In addition, automated promotions (i.e., games, contests, lotteries and polls) associated with the offering of products over television, and utilizing Licensee's television shopping system(s), fall within the Television Shopping Systems Field-Of-Use of this Agreement and shall not require a separate license for any other Field-Of-Use.

7. TELEVISION SHOPPING SYSTEMS VIA CABLE FACILITIES (automated ordering, The automated processing of orders (over cable distribution media) for products or services based on television programming, where the order processing is offered directly by the licensee without an interactive voice component.

8. ELECTRONIC PERSONAL CLASSIFIEDS The use of interactive voice services to allow advertisers and interested respondents to contact each other. Typically, advertisers create and store voice messages which can be heard by potential respondents who can, in turn, leave recorded voice messages for the advertisers. Finally, advertisers have the ability to retrieve stored responses. Advertisers may also have the ability to store attributes of that which is being advertised via touch tone entry, for the purpose of automatically matching similar attributes or requirements of the respondents.

9. AUTOMATED SECURITIES TRANSACTIONS (buy/sell) Interactive call processing on an ongoing basis, operated by the broker or dealer of the securities, which allows callers to purchase, sell, or trade securities such as stock and mutual funds, or transfer funds between such securities. May include automated customer service functions such as automated order status information and cancellation.

10. AUTOMATED CREDIT & CALLING CARD AUTHORIZATION SERVICES (excluding prepaid cards) The provision of credit card authorization service by the credit card firm or designee using interactive voice response as a stand alone offering. (Note: This is as opposed to the obtaining of an authorization as a part of processing a call for another purpose, i.e., an automated order, which is included in the Service Bureau Field-Of-Use.)

11. INTERACTIVE TRANSACTIONS THROUGH CABLE COMMUNICATIONS FACILITIES Automated interactive transactions of various types (e.g., games, contests, lotteries and polls) conducted over a cable distribution media (e.g., coaxial or fiber media).

**FIELDS OF USE
CONTINUED**

12. AUTOMATED SERVICE BUREAU

All forms of fully automated call processing or combined automated and live call processing [except as described in each of the other Fields-of-Use defined herein] using interactive voice services, where an independent bureau offers call termination services, often including transport and call handling, to a sponsoring organization or an internal group.

This Field-Of-Use includes prepaid card use and automated ordering, which in turn include the obtaining of a credit card authorization as part of such an order or other interactive process, at the regular per minute rates. Ongoing automated ordering on behalf of a television shopping network would be excluded as it represents another Field-Of-Use.

13. ENHANCED CABLE CUSTOMER SERVICE:

Cable related customer service (not including Pay-Per-View or Interactive Transactions Through Cable Communications Facilities) typically involving communications with customers concerning cable accounting, billing, ordering of service and cable service related equipment, coordination of installation, repairs or other cable services. These communications are all related to the provision and support of cable services only. Communications related to any other area such as telephony or wireless service would be embraced in another Field-Of-Use.

14. ENHANCED TELEPHONY CUSTOMER SERVICE:

Telephony-related customer service typically involving communications with customers concerning local, long distance or other telephony accounting, billing, ordering of service and service-related equipment, coordination of installation, repairs, or other services only. Communications related to any other area such as cable service would be embraced in another Field-Of-Use.

DRAFT

HOME SHOPPING NETWORK LICENSES KATZ PATENT PORTFOLIO

Ronald A. Katz Technology Licensing, L.P. (RAK) announced today that it has entered into a non-exclusive agreement with Home Shopping Network, Inc. (NYSE-HSN) to license the extensive Katz patent portfolio of interactive telecommunications technology. Home Shopping Network is one of many major companies that have licensed these patents including American Express, First Data Corp. and MCI Communications Corporation.

The RAK portfolio consists of 26 U.S. patents and 18 patent applications resulting from Ronald A. Katz's pioneering work in the interactive field during the 1980's. Katz is the named inventor on more than 30 patents primarily in telecommunications and computing. He formed Telecredit, Inc., the nation's first on-line real time credit and check cashing authorization system, and was awarded a patent at co-inventor of that technology.

"We are Pleased to welcome Home Shopping Network as a licensee and appreciate their recognition of the importance of our patent portfolio to their business," said Ronald Katz.

James Held, President and chief executive officer of HSN said, "The Katz patent license agreement will allow us to continue our leadership in the use of interactive voice response communications to effectively serve our customers."

Home Shopping Network pioneered the television shopping industry in 1982. Its 24-hour programming reaches approximately 69 million households via cable and broadcast station affiliates and satellite dish receivers.

EXHIBIT D

PATENT NOTICE

Home Shopping Network, Inc. is licensed under the following, and related Ronald A, Katz Technology Licensing, L.P. United States Patents: 4,845,739; 5,255,309; 5,259,023; 5,347,633; 5,351,285; 5,365,575; 5,251,252; 5,359,645; 5,297,197; and others.

EXHIBIT 10.40

SHAREHOLDER AGREEMENT

This SHAREHOLDER AGREEMENT (the "Agreement") is entered into as of April 26, 1996, by and among CHANNEL 66 OF VALLEJO, CALIFORNIA, INC., a Delaware corporation (the "Corporation"), WHITEHEAD MEDIA OF CALIFORNIA, INC., a Delaware corporation ("Whitehead"), and SILVER KING CAPITAL CORPORATION, INC., a Delaware corporation ("Silver King"; collectively with Whitehead, the "Shareholders", and individually, a "Shareholder").

WITNESSETH

WHEREAS, the aggregate number of shares which the Corporation has authority to issue pursuant to the Corporation's Certificate of Incorporation, as amended as of the date hereof, is One Thousand Shares of Class A Common Stock and Four Hundred Ninety Shares of Class B Common Stock, all \$1.00 par value (collectively, the "Common Stock");

WHEREAS, the Shareholders are subscribing to such shares of Common Stock as are set forth on Exhibit A hereto; and

WHEREAS, the parties hereto wish to set forth in writing certain understandings and agreements relating to the issuance and transfer of the Common Stock.

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises hereinafter set forth, the parties agree as follows:

ARTICLE I

RESTRICTIONS ON STOCK TRANSFER

1.1 Scope of Agreement. This Agreement to the extent permitted by law shall apply to (i) any transfer of shares of Common Stock (now owned or hereafter acquired) by any of the Shareholders, whether by sale, exchange, assignment, disposition, bequest, gift, pledge, mortgage, hypothecation, or otherwise, whether voluntary, involuntary or by operation of law, whether resulting from death, bankruptcy, insolvency or otherwise (any and all such transfers referred to herein as a "Transfer"), and (ii) any issuance or transfer by the Corporation of any shares of Common Stock or any options, warrants or any form of debt or equity convertible into shares of Common Stock.

1.2 Restrictions on Transfer.

A. Except as otherwise provided in this Agreement, or as agreed upon by the prior written consent of the Shareholders, no Shareholder shall agree to, cause or permit any Transfer of any or all of the shares of Common Stock now owned or hereafter acquired by such Shareholder.

B. Prior to the third (3rd) anniversary hereof, no Shareholder may agree to, cause or permit any Transfer of any or all of its Common Stock, except that a Transfer of Common Stock shall be permitted in accordance with the terms of Sections 1.3, 1.4 and 1.5.

1.3 Silver King Transfers. Except as restricted by Sections 1.6, 1.7, and 1.8, Articles II and IV hereof, Silver King may freely agree to cause or permit the Transfer of any or all of its shares of Common Stock, subject to the provisions of Section 3.1.D hereof.

Notwithstanding anything else to the contrary herein, Silver King may freely agree to cause or permit the transfer of any or all of its shares of Common Stock to Silver King Communications, Inc. ("SKCI") or any of its wholly owned subsidiaries, without triggering the rights of first refusal or co-sale set forth in Article II hereof.

1.4 Qualified Transferee. Except as restricted by Sections 1.6, 1.7 and 1.8 and Articles II, III and IV hereof, Whitehead may freely agree to cause or permit the Transfer of any or all of its shares of Common Stock to (a) during the period from the date hereof and until the date of the third anniversary hereof, persons who are "qualified racial and ethnic minorities" as defined by applicable regulations of the Federal Communications Commission ("FCC"), or to a corporation, partnership or other entity which is considered by the FCC to be controlled by "qualified racial and ethnic minorities" ("Qualified Transferee") and (b) from and after the date of the third anniversary hereof, to any person, corporation, partnership or other entity.

1.5 Pledging of Shares. If required by a lender as a condition to the securing of financing for the Corporation's acquisition of a television station, or construction thereof or working capital therefor, Whitehead shall, at the request of the Corporation, pledge the Common Stock owned by Whitehead as security for such financing. The parties hereby acknowledge that the Common Stock owned by Silver King may be pledged to Chemical Bank as security for loans made to affiliates of Silver King.

1.6 Agreement Binding Upon Transferees. In the event that, at any time or from time to time, any shares of Common Stock are, as a result of a Transfer, transferred by a Shareholder to any party (other than the Corporation) pursuant to any provision hereof, the

transferee shall take such shares of Common Stock pursuant to all provisions, conditions and covenants of this Agreement, and, as a condition precedent to the transfer of such shares of Common Stock, the transferee shall agree (for and on behalf of himself, his legal representative and his transferee and assigns) in writing to be bound by all provisions of this Agreement as a party hereto and in the capacity of a Shareholder; provided, however, that any Shareholder who is a signatory hereto and is a transferee of additional shares of Common Stock shall not be required to execute such agreement, but shall nevertheless be bound with respect to such transferred shares. In the event that there shall be a Transfer to any person or entity pursuant to any provision of this Agreement and in compliance with the provisions of this Section 1.6, all references herein to the Shareholders or to any Shareholder, shall thereafter be deemed to include such transferee or transferees.

1.7 Stock Transfer Record. The Corporation shall keep a stock transfer book in which shall be recorded the name and address of each Shareholder. No transfer or issuance of any shares of Common Stock shall be effective or valid unless and until recorded in such stock transfer book. The Corporation agrees not to record any transfer or issuance of shares of Common Stock in such stock transfer book unless the transfer or issuance is in strict compliance with all provisions of this Agreement. Each Shareholder agrees that, in the event it desires to make a Transfer within the provisions hereof, it shall furnish to the Corporation such evidence of its compliance with this Agreement as may be reasonably required by the Board of Directors of, or legal counsel for, the Corporation. Any Transfer in violation of the provisions of this Agreement shall be null and void.

1.8 Investment Representation. Each Shareholder represents and warrants that, except as set forth in such Shareholder's stock subscription agreement accepted by the Corporation, (i) it has acquired its Common Stock for its own account for investment and not with a present view to, or for resale in connection with, the distribution thereof or the grant of any participation therein, and that it has no present intention of distributing or reselling the same; (ii) it fully understands the restrictions on the resale of its Common Stock, specifically including the restrictions contained in the legend set forth in Section 1.9; (iii) it fully understands that such a legend may limit or eliminate the value of its Common Stock, including its value as collateral security; (iv) it has been afforded the opportunity to ask questions of the Corporation and persons acting on its behalf concerning the Corporation, and that it has received all the information and documents concerning its Common Stock and the operations and financial structure of the Corporation that it has requested; (v) it is knowledgeable and experienced in finance and business matters and is capable of evaluating the merits and risks of this investment in Common Stock; and (vi) it will not transfer its Common Stock except in compliance with the Securities Act of 1933 and applicable State Securities laws.

1.9 Legend on Stock Certificate. Until registered under the Securities Act, or until such time as such registration may not be necessary for the lawful sale or other disposition thereof, all certificates evidencing shares of Common Stock of the Corporation shall contain an appropriate legend notifying the holder or any potential transferee of such securities of the provisions of this Agreement, such legend to be substantially in the following form:

This Common Stock has not been registered under the Securities Act of 1933, as amended. This Common Stock has been acquired for investment and may not be sold or transferred in the absence of an effective registration statement for this Common Stock under the Securities Act of 1933, as amended, or an opinion of counsel satisfactory to the Corporation that registration is not required under said act.

The voluntary or involuntary encumbering, transfer or other disposition (including without limitation any disposition pursuant to the laws of bankruptcy, intestacy, descent and distribution or succession) to the extent permitted by law, of the shares of stock evidenced by this Certificate is restricted under the terms of a Shareholder Agreement, dated April 26, 1996, by and among the Corporation and all holders of Common Stock of the Corporation, a copy of which agreement is on file at the principal office of the Corporation. Upon written request of any Shareholder of the Corporation, the Corporation shall furnish, without charge to such Shareholder, a copy of such Agreement.

ARTICLE II

RIGHTS OF FIRST REFUSAL AND CO-SALE

2.1 Receipt of Bona Fide Offer. If any Shareholder (the "Selling Shareholder") receives a bona fide written offer which such Shareholder desires to accept (the "Offer") from a prospective purchaser (an "Offeror") for any or all of its Common Stock (the "Offer Stock"), before accepting the Offer, the Selling Shareholder shall, in accordance with the procedures set forth in Sections 2.2 through 2.7 here below, offer the Offer Stock in writing to the other Shareholders (the "Non-Selling Shareholders"), at the price per share and upon materially the same terms set forth in the Offer (except that the closing date shall be set in accordance with Section 2.3 hereunder).

2.2 Right of First Refusal of Non-Selling Shareholders.

(a) The Selling Shareholder shall give the Corporation notice which shall set forth the substantive terms of the Offer and the price per share (the "Offer Notice"). Within ten (10) days of the date of the Offer Notice (the "Notice Date"), the Corporation shall deliver a copy of the Offer Notice to each Non-Selling Shareholder. Within twenty-five (25) days of the Notice Date, each Non-Selling Shareholder shall notify the Corporation whether it desires to purchase all, but not less than all, of that amount of Offer Stock which equals the proportion which the number of shares of Common Stock owned by such Non-Selling Shareholder bears to the total number of shares of Common Stock owned by all Non-Selling Shareholders.

(b) In the event that any Non-Selling Shareholder elects not to purchase its proportionate share of the Offer Stock ("Rejected Stock"), the Corporation shall promptly so inform the Non-Selling Shareholders who wish to buy the Offer Stock. Within thirty-five (35) days of the Notice Date, each Non-Selling Shareholder shall notify the Corporation whether it also desires to purchase all, but not less than all, of that amount of the Rejected Stock which equals the proportion which the number of shares of Common Stock owned by such Non-Selling Shareholder bears to the total number of shares of Common Stock owned by all Non-Selling Shareholders wishing to purchase the Offer Stock, or such other methods, as the Non-Selling Shareholder or Shareholders agree.

(c) Within forty-five (45) days after the Notice Date, the Corporation shall determine whether it has received requests to purchase all the shares of Offer Stock, as provided in paragraphs (a) and (b) above. If the Corporation determines that it has received requests to purchase all the shares of Offer Stock, it shall determine how many shares each Non-Selling Shareholder shall be entitled to buy, determined by the procedure set forth above. The Corporation shall thereupon give written notice of this determination to the Shareholders.

(d) In the event that less than all of the Offer Stock is subscribed by the Non-Selling Shareholders pursuant to this Section 2.2, the Selling Shareholder may sell its stock to the Offeror pursuant to Section 2.4.

2.3 Closing Date. If any Non-Selling Shareholder determines to purchase all or a portion of the Offer Stock in accordance with Section 2.2, the closing date for its purchase of the Offer Stock shall be the ninetieth (90th) day after the Notice Date subject to the provisions of Article IV hereof.

2.4 Sale to Offeror. If the Non-Selling Shareholders do not exercise their options in accordance with Sections 2.2 to 2.3, the Selling Shareholder may, on the closing date set forth in Section 2.3 and during the thirty (30) day period thereafter, sell its Offer Stock, or any remaining portion thereof, to the Offeror; provided, however, the selling price per share shall be not less than, and the other terms of sale shall not be materially different than, those set forth in the Offer Notice, and the Offeror must, prior to the purchase, execute such documents as the Corporation may reasonably require to evidence that the Common Stock to be sold remains subject to this Agreement in the same manner and to the same extent as it had been in the hands

of the Selling Shareholder. If the Selling Shareholder does not sell its Offer Stock to the Offeror prior to the one hundred and twentieth (120th) day after the Offer Notice Date, the rights of first refusal in this Article II shall again apply to its Common Stock.

2.5 Right of Co-Sale. If any Non-Selling Shareholder shall decline to exercise its right of first refusal provided by this Article II and if the Offeror is not affiliated with the Selling Shareholder, then any such Non-Selling Shareholder shall have the option to sell to the Offeror at the same price per share and on the same additional terms and conditions as set forth in the Offer Notice that number of shares of Common Stock that bears the same ratio to the total number of shares owned by such Non-Selling Shareholder as the number of Shares to be purchased by the Offeror from the Selling Shareholder bears to the total number of shares of Common Stock owned by the Selling Shareholder. Any Non-Selling Shareholder shall exercise such option by notifying the Selling Shareholder within thirty (30) days of the Notice Date and thereafter the Selling Shareholder shall ensure that the Offeror shall purchase the Offer Stock from the respective parties in the respective amounts.

ARTICLE III

PUT AND CALL AGREEMENTS

3.1 Put Option.

A. Commencing on the third anniversary of the date of consummation of the Asset Purchase Agreement between the Corporation and Pan Pacific Television, Inc., and continuing to, but not including the fifth anniversary of such date, Whitehead may, by sending

written notice to Silver King (the "Put Notice"), require Silver King to purchase from Whitehead (the "Put") all of Whitehead's shares of Common Stock. Prior to the expiration of the period specified above, the Put shall be deemed constructively exercised by Whitehead in the event of the death or legal disability of Eddie Whitehead, the sole shareholder of Whitehead, at any time even if prior to the third anniversary of the date hereof. In addition to the foregoing, Whitehead shall also have the right to exercise the Put within one hundred and eighty (180) days of the termination of that certain Affiliation Agreement dated the date hereof between Home Shopping Club, Inc., a subsidiary of Home Shopping Network, Inc. ("HSN"), and the Corporation, as it may hereafter be renewed or modified, regardless of when such termination occurs.

B. Upon receipt by Silver King of written notice of the Put (the date of which receipt shall be the "Put Notice Date"), Silver King shall be obligated to purchase from Whitehead, and Whitehead shall be obligated to sell to Silver King, all of Whitehead's shares of Common Stock, as specified in the Put Notice, at the price (the "Option Price") and in the manner described below. The Option Price shall be determined in accordance with the procedure set forth in Section 3.3 below.

C. In the event Silver King or any affiliate of it obtains the right, directly or indirectly, to operate KPST-TV, Vallejo, California (the "Station") in connection with a transfer of the Corporation's stock or assets arising out of a bankruptcy or insolvency action, a creditor's sale or other similar proceeding or through the exercise of creditor's rights under any pledge or security agreement, Silver King shall pay to Whitehead an amount equal to the Option Price to which Whitehead would have been entitled upon exercise of the Put (the "Substitute

Payment"). The amount of the Substitute Payment shall be determined as of the date Silver King or its affiliate obtained the right to operate the Station. The Substitute Payment shall be made on or before the sixtieth (60th) day following such date. For purposes of this section, the term "affiliate" includes SKCI, HSN and any partnership or corporation, twenty-five percent (25%) or more of whose capital, equity or other ownership interests are owned by (or are subject to an option in favor of) SKCI, HSN or any company controlling, controlled by or under common control with either of them (collectively referred to as "SK/HSN Affiliate") and also includes any person who is an Officer, Director, employee or greater than 1% shareholder of Silver King or an SK/HSN Affiliate.

D. In the event of the assignment of this Agreement, this provision shall be binding on the assignee and, if Silver King or an affiliate obtains the right to operate the Station this provision shall continue to be binding on Silver King and Silver King's performance in this respect shall continue to be guaranteed by SKCI.

3.2 Call Option.

A. Commencing on the fifth anniversary of the date hereof and continuing to, but not including, the sixth anniversary of the date hereof, Silver King may, by sending written notice to Whitehead (the "Call Notice"), require Whitehead to sell to Silver King (the "Call") all but not less than all of Whitehead's shares of Common Stock.

B. Upon receipt by Whitehead of written notice of the Call (the date of which receipt shall be the "Call Notice Date"), Whitehead shall be obligated to sell to Silver King, and Silver King shall be obligated to purchase from Whitehead, all of Whitehead's shares

of Common Stock, as specified in the Call Notice, at the Option Price and in the manner described below. The Option Price shall be determined in accordance with the procedure set forth in Section 3.3 below.

3.3 Option Price.

A. The Option Price shall be Fifty-one percent (51%) of the difference between (a) the appraised value of the Station assuming an asset sale, and (b) the liabilities of the Corporation, each determined as of the Put Notice Date or the Call Notice Date, as the case may be.

B. The appraisal referred to in Section 3.3A shall be conducted as follows:

(1) Silver King and Whitehead shall each select a qualified, independent appraiser with experience in the broadcasting industry within ten (10) days of the Put Notice Date or the Call Notice Date, as the case may be, and these two appraisers shall select a third appraiser.

(2) The appraised value of the Station shall be the average of the appraisals determined by the three appraisers selected pursuant to subsection (1) above.

(3) The Corporation shall, promptly upon request, provide to the appraiser(s) all information on itself and its operations reasonably required by such appraiser(s) to complete the appraisal(s). All such information shall be true and accurate, and not, because of a failure to disclose, misleading.

(4) The expenses of the appraisal process will be shared equally between Silver King and Whitehead.

3.4 Closing of Put and Call Options. The closing of Silver King's purchase of the Common Stock of Whitehead pursuant to the Put or the Call will take place at a time and place selected by Silver King, but not later than one hundred and twenty days (120) after the Put Notice Date or the Call Notice Date, as the case may be subject to the provisions of Article IV hereof. At the closing, Silver King will pay Whitehead the Option Price by wire transfer of U.S. dollars to a bank and account number specified by Whitehead, and Whitehead will surrender to Silver King the certificates for its shares of Common Stock, duly endorsed for transfer to Silver King, and free and clear of any encumbrances except any pledge agreement or any other financing document pertaining to those shares requested in connection with the financing of the Corporation or the Station.

ARTICLE IV

FCC CONSENT

If in connection with or as a condition to the Transfer of any shares of Common Stock pursuant to the terms of this Agreement, the consent of the FCC ("FCC Consent") or any other governmental authority is required under applicable law, then the Corporation shall forthwith take all steps required to obtain and shall use its best efforts to duly obtain at the earliest possible date such consent or approval. Any time period limitation upon or requirement for such Transfer or conversion, such as the closing dates specified in Sections 2.3 and 3.4

hereof, shall, if necessary for the Transfer or conversion, be extended by such period of time as is reasonably necessary to obtain such consent or approval. All costs and expenses in obtaining such consent or approval shall be paid or reimbursed by the Corporation. The Shareholders shall cooperate with the Corporation to the extent required to obtain such consent or approval. FCC Consent shall mean action by the FCC granting its consent which has not been reversed, stayed, enjoined, set aside, annulled or suspended and with respect to which no requests have been filed for administrative or judicial review, reconsideration, appeal or stay and the time for filing any such requests and for the FCC to set aside the consent on its own motion has expired, or, in the event of review, reconsideration or appeal, the time for further review, reconsideration or appeal has expired. The Closing shall take place within ten (10) days of FCC Consent.

ARTICLE V

TERMINATION

This Agreement shall terminate and all rights and obligations hereunder shall cease upon the occurrence of any of the following events:

- (a) The agreement in writing to terminate by all of the Shareholders;
- (b) The voluntary or involuntary dissolution of the Corporation; or
- (c) The Corporation shall have only one Shareholder as a result of actions taken under the provisions of Article III hereof.

This Agreement shall terminate with respect to any Shareholder upon the disposition by such Shareholder of his Common Stock and all rights relating thereto, in accordance with the terms of

this Agreement. Notwithstanding the foregoing, Sections 3.1.D and 7.12 hereof will survive any such disposition by Silver King.

ARTICLE VI

DESIGNATION OF DIRECTORS

6.1 Members of the Board. The parties hereby agree that the Board of Directors of the Corporation shall consist of up to four members. Upon conversion of Silver King's Class B Common Stock into Class A Common Stock and for so long as such Shareholder owns its shares of Class A Common Stock,

(a) Whitehead shall have the right to designate three nominees to serve as directors of the Corporation and (b) Silver King shall have the right to designate one nominee to serve as director of the Corporation.

6.2 Election of Directors. The Corporation agrees to cause the persons designated in accordance with Section 6.1 to be nominated for election to the Board of Directors of the Corporation at the time and in the manner proper for such nomination. Each Shareholder agrees to vote all Shares owned by it (or as to which it shall otherwise have voting rights) in favor of the election of directors designated in accordance with this Article VI.

6.3 Limitation. The provisions of this Article VI shall be effective for a period of ten (10) years from the date of this Agreement (or such longer period as shall be permitted by applicable law), unless extended by agreement of the Shareholders in accordance with applicable law.

ARTICLE VII

MISCELLANEOUS

7.1 Special Transactions. The Corporation shall not, without the consent of the holders of at least sixty-six percent (66%) of the outstanding Common Stock and the approval of eighty percent (80%) of the Board of Directors, engage in any of the following activities:

- (a) Purchase all or substantially all of the assets or stock of another business entity;
- (b) Sell all or substantially all of the assets of the Corporation;
- (c) Create, incur, assume or suffer to exist, or permit any subsidiary to create, incur, assume, guaranty or suffer to exist, any indebtedness other than in the ordinary course of business or to acquire personal property in connection with the operation of the Corporation;
- (d) Make any increase of five percent (5%) or more in the annual operating budget of the Corporation, provided, however, that the foregoing restriction shall not apply for the two years following the termination of the Affiliation Agreement by Home Shopping Club, Inc. or its termination by the Corporation as a result of a reduction in the hourly rate payable pursuant to the Affiliation Agreement if the Corporation is not then in material default or material noncompliance with the Affiliation Agreement;
- (e) Make any amendment to the Certificate of Incorporation or By-Laws of the Corporation; or

(f) Issue, whether in a single transaction or a series of transactions, shares of capital stock of the Corporation (except for any conversion of class B Common Stock into Class A Common Stock in accordance with Section 4.B.5 of the Corporation's Certificate of Incorporation, as amended).

7.2 Legal Fees and Expenses. In any court action brought by any party hereto to enforce its rights hereunder or to seek any legal or equitable remedies due to a claimed breach hereof by any other party hereto, the prevailing party shall be entitled to recover its legal fees and other expenses from the nonprevailing party as additional damages to be awarded in such court action.

7.3 Notices. Any and all notices, requests or other communications hereunder provided for herein shall be given in writing and sent by hand delivery, registered or certified mail with return receipt requested, or commercial delivery service; and such notices shall be addressed: (i) if to the Corporation, to the principal office of the Corporation; and (ii) if to any Shareholder, to the address of such Shareholder as reflected in the stock records of the Corporation.

7.4 The Date of Notices and Actions. All notices required to be given hereunder shall be effective as of the date of delivery. If the date of any notice required to be given hereunder or action required to be taken hereunder falls on a weekend or holiday, such notice or action may be delivered or taken at any time through the next occurring business day.

7.5 Invalid or Unenforceable Provisions. The invalidity or unenforceability of any particular provision of this Agreement under any particular set of circumstances shall not

affect the validity or enforceability of the other provisions hereof, nor the validity or enforceability of that particular provision under other circumstances, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted in that particular set of circumstances.

7.6 Entire Agreement. This instrument contains the entire agreement between the parties and supersedes all prior oral or written agreements, commitments or understandings with respect to the matters proved for herein. No modification may be made hereto unless in writing and consented to by all parties hereto.

7.7 Benefit and Burden. All covenants and agreements in this Agreement by or on behalf of any of the parties shall bind and inure to the benefit of their respective successors, assigns, legal representatives and heirs.

7.8 Gender. The use of any gender herein shall be deemed to be or include the other genders and the use of the singular herein shall be deemed to be or include the plural (and vice versa), wherever appropriate.

7.9 Governing Law. This Agreement shall be construed and enforced in accordance with, and the right of the parties shall be governed by, the laws of the State of Delaware.

7.10 Headings. The descriptive headings, subheadings and other captions on this Agreement are for convenience and reference only and do not constitute a part of this Agreement.

7.11 Counterparts. This Agreement may be executed in a number of counterparts, all of which together shall constitute one instrument.

7.12 Guarantee. SKCI shall guarantee the performance of Silver King and any transferee or assignee of Silver King under the terms of this Agreement.

IN WITNESS HEREOF, the parties have hereunto set their hands and acknowledged this Shareholder Agreement from the date first above written.

SILVER KING CAPITAL CORPORATION, INC.

By:

Steven H. Grant Secretary/Treasurer

WHITEHEAD MEDIA OF CALIFORNIA, INC.

By:

Eddie L. Whitehead President

CHANNEL 66 OF VALLEJO, CALIFORNIA, INC.

By:

Eddie L. Whitehead President

For the sole purpose of the Silver King Communications, Inc. guarantee in Section 3.1D and Section 7.12.

SILVER KING COMMUNICATIONS, INC.

By:

Steven H. Grant Executive Vice President

EXHIBIT A

SUBSCRIPTIONS FOR COMMON STOCK

CHANNEL 66 OF VALLEJO, CALIFORNIA, INC.

STOCK SUBSCRIPTION AGREEMENT FOR CLASS A COMMON STOCK

The undersigned Whitehead Media of California, Inc., a California corporation, hereby subscribes for Five Hundred and Ten (510) shares of the Class A Voting Common Stock of Channel 66 of Vallejo, California, Inc., a Delaware corporation (the "Corporation"). For the above-specified number of shares of Common Stock, the undersigned agrees to pay Ten Dollars (\$10.00) per share for an aggregate purchase price of Five Thousand One Hundred Dollars (\$5,100.00), which amount shall be paid in full upon demand of the President of the Corporation.

The undersigned understands that the Corporation shall have an authorized capital stock comprised of One Thousand (1,000) shares of Class A Voting Common Stock, with a par value of One Dollar (\$1.00) per share, and Four Hundred Ninety (490) shares of Class B Non-Voting Common Stock, with a par value of One Dollar (\$1.00) per share, convertible into Class A Voting Common Stock upon written notice by the holder(s) of such stock to the Corporation, subject to receipt by the Corporation of any necessary governmental approvals.

The undersigned agrees that its subscription to and ownership of the above-specified number of shares is contingent upon its agreement to become a signatory to a Shareholder Agreement among the Corporation and its prospective shareholders, and that its shares may be redeemed by the Corporation at the purchase price paid by the undersigned upon its failure to become a signatory to the Shareholder Agreement subsequent to its approval by the Corporation's President.

The undersigned represents and warrants that (i) it has acquired its Common Stock for its own account for investment and not with a present view to, or for resale in connection with,

the distribution thereof or the grant of any participation therein, and that it has no present intention of distributing or reselling the same; (ii) it fully understands the restrictions on the resale of its Common Stock, specifically including the restrictions contained in the following legend which shall be set forth on each stock certificate:

This Common Stock has not been registered under the Securities Act of 1933, as amended. This Common Stock has been acquired for investment and may not be sold or transferred in the absence of an effective registration statement for this Common Stock under the Securities Act of 1933, as amended, or an opinion of counsel satisfactory to the Corporation that registration is not required under said Act.

The voluntary or involuntary encumbering, transfer or other disposition (including without limitation, any disposition pursuant to the laws of bankruptcy, intestacy, descent and distribution or succession) to the extent permitted by law of the shares of stock evidenced by this Certificate is restricted under the terms of a Shareholder Agreement, dated April 26 1996, by and among the Corporation and all holders of Common Stock of the Corporation, a copy of which Agreement is on file at the principal office of the Corporation. Upon written request of any shareholder of the Corporation, the Corporation shall furnish, without charge to such shareholder, a copy of such Agreement.

(iii) it fully understands that such a legend may limit or eliminate the value of its Common Stock, including its value as collateral security; (iv) its representatives have been afforded the opportunity to ask questions of the Corporation and persons acting on its behalf, concerning the Corporation, and that it has received all of the information and documents concerning its Common Stock and the operations and financial structure of the Corporation that its representatives have requested; (v) it is knowledgeable and experienced in finance and business matters and is capable of evaluating the merits and risks of this investment in Common Stock;

and (vi) it will not transfer its Common Stock except in compliance with the Securities Act of 1933 and applicable State Securities laws.

IN WITNESS WHEREOF, this Subscription Agreement has been executed by the undersigned.

WHITEHEAD MEDIA OF CALIFORNIA, INC.

By:

Eddie L. Whitehead President

Dated: , 1996

ACCEPTED BY:

CHANNEL 66 OF VALLEJO, CALIFORNIA, INC.

By:

Eddie L. Whitehead
President

CHANNEL 66 OF VALLEJO, CALIFORNIA, INC.

STOCK SUBSCRIPTION AGREEMENT FOR CLASS B COMMON STOCK

The undersigned, Silver King Capital Corporation, Inc., a Delaware corporation, hereby subscribes for Four Hundred and Ninety (490) shares of the Class B Non-Voting Common Stock of Channel 66 of Vallejo, California, Inc., a Delaware corporation (the "Corporation"). For the above-specified number of shares of Class B Non-Voting Common Stock, the undersigned agrees to pay Ten Dollars (\$10.00) per share for an aggregate purchase price of Four Thousand Nine Hundred Dollars (\$4,900.00), which amount shall be paid in full upon demand of the President of the Corporation.

The undersigned understands that the Corporation shall have an authorized capital stock comprised of One Thousand (1,000) shares of Class A Voting Common Stock, with a par value of One Dollar (\$1.00) per share, and Four Hundred Ninety (490) shares of Class B Non-Voting Common Stock, with a par value of One Dollar (\$1.00) per share, convertible into Class A Voting Common Stock upon written notice by the holder(s) of such stock to the Corporation, subject to receipt of any necessary governmental approvals.

The undersigned agrees that its subscription to and ownership of the above-specified number of shares is contingent upon its agreement to become a signatory to a Shareholder Agreement among the Corporation and its prospective shareholders, and that its shares may be redeemed by the Corporation at the purchase price paid by the undersigned upon its failure to become a signatory to the Shareholder Agreement subsequent to its approval by the Corporation's President.

The undersigned represents and warrants that (i) it has acquired its Common Stock for its own account for investment and not with a present view to, or for resale in connection with, the distribution thereof or the grant of any participation therein, and that it has no present intention of distributing or reselling the same; (ii) it fully understands the restrictions on the resale of its Common Stock, specifically including the restrictions contained in the following legend which shall be set forth on each stock certificate:

This Common Stock has not been registered under the Securities Act of 1933, as amended. This Common Stock has been acquired for investment and may not be sold or transferred in the absence of an effective registration statement for this Common Stock under the Securities Act of 1933, as amended, or an opinion of counsel satisfactory to the Corporation that registration is not required under said Act.

The voluntary or involuntary encumbering, transfer or other disposition (including without limitation, any disposition pursuant to the laws of bankruptcy, intestacy, descent and distribution or succession) to the extent permitted by law of the shares of stock evidenced by this Certificate is restricted under the terms of a Shareholder Agreement, dated April 26, 1996, by and among the Corporation and all holders of Common Stock of the Corporation, a copy of which Agreement is on file at the principal office of the Corporation. Upon written request of any shareholder of the Corporation, the Corporation shall furnish, without charge to such shareholder, a copy of such Agreement.

(iii) it fully understands that such a legend may limit or eliminate the value of its Common Stock, including its value as collateral security; (iv) its representatives have been afforded the opportunity to ask questions of the Corporation and persons acting on its behalf, concerning the Corporation, and that it has received all of the information and documents concerning its Common Stock and the operations and financial structure of the Corporation that its

representatives have requested; (v) it is knowledgeable and experienced in finance and business matters and is capable of evaluating the merits and risks of this investment in Common Stock; and (vi) it will not transfer its Common Stock except in compliance with the Securities Act of 1933 and applicable State Securities laws.

IN WITNESS WHEREOF, this Subscription Agreement has been executed by the undersigned.

SILVER KING CAPITAL CORPORATION, INC.

By:

Steven H. Grant Secretary/Treasurer

Dated: , 1996

ACCEPTED BY:

CHANNEL 66 OF VALLEJO, CALIFORNIA, INC.

By:

Eddie L. Whitehead
President

LOAN AGREEMENT

BETWEEN

SKC INVESTMENTS, INC.

AND

CHANNEL 66 OF VALLEJO, CALIFORNIA, INC.

DATED

APRIL 26, 1996

LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of this 26th day of April, 1996, is by and between SKC INVESTMENTS, INC., a Delaware corporation having its principal offices at 100 South Sangamon Street, Suite 300, Chicago, Illinois 60607 (the "Lender"), and CHANNEL 66 OF VALLEJO, CALIFORNIA, INC., a Delaware corporation having its principal offices at 12144 Classic Drive, Coral Springs, Florida 33071 (the "Borrower");

WITNESSETH:

WHEREAS, the Borrower intends to purchase and operate Television Station KPST-TV, Channel 66, Vallejo, California (the "Station"); and

WHEREAS, the Borrower desires to borrow funds from the Lender to finance the purchase of the Station from Pan Pacific Television, Inc. and to make other improvements in the operation of the Station;

NOW, THEREFORE, in consideration of the mutual promises and agreements herein contained, the Lender and the Borrower agree as follows:

ARTICLE I. AMOUNT AND TERMS OF THE LOANS

SECTION 1.1 THE LOAN. The Lender agrees, upon the terms and conditions hereinafter set forth, to make a loan or loans to the Borrower in an aggregate principal amount not to exceed at any one time outstanding Eight Million Nine Hundred Thousand Dollars (\$8,900,000.00) (the "Loan").

SECTION 1.2 THE PROMISSORY NOTE. The outstanding principal amount of the Loan shall be evidenced by and subject to the terms of a promissory note, dated of even date herewith, substantially in the form set forth as Exhibit 1 hereto (the "Note") payable to the order of the Lender and representing the obligation of the Borrower to pay the Lender the amount of the Loan, with interest thereon, as prescribed in Section 1.4. The Lender is authorized to endorse the date and amount of the Loan and each repayment of principal and/or interest with respect thereto on the Schedule A annexed to and constituting a part of the Note, which endorsement shall constitute prima facie evidence of the information endorsed.

SECTION 1.3 INTEREST. The Loan shall bear interest on the unpaid principal amount thereof at a rate per annum at all times equal to eleven and five-tenths percent (11.5%). Interest shall be calculated on the basis of a year of three hundred sixty (360) days and actual number of days elapsed during the period for which such interest is payable. Interest shall begin to accrue on the outstanding principal amount of the Loan on the date of commencement of broadcast operations by the Borrower of the Station pursuant to Federal Communications

Commission ("FCC") authorization and the first payment of interest to the Lender shall be due sixty (60) days thereafter at which time all interest accrued shall become due and payable; thereafter, accrued interest shall be paid monthly, on the same date as the principal payments are due pursuant to

Section 1.4 hereof. If any installment of principal or interest is not paid when due, that installment shall bear interest at a rate per annum equal to the lower of the highest rate permitted by law or eighteen percent (18%) from the due date thereof until paid in full.

SECTION 1.4 REPAYMENT OF THE LOAN. Ninety (90) days after the commencement of broadcast operations of the Station by the Borrower pursuant to FCC authority, the Borrower shall begin repayment to the Lender of the Loan in eighty-four (84) consecutive equal the principal and interest payments commencing on the next payment date thereafter.

SECTION 1.5 USE OF PROCEEDS AND ADVANCEMENT OF FUNDS.

(a) The proceeds of the Loans are to be used by Borrower exclusively for the purpose of financing the acquisition of the Station and any necessary construction and operation of the Station as follows:

(1) Up to Seven Million Eight Hundred Thirteen Thousand Nine Hundred Sixty and 86/100ths Dollars (\$7,813,960.86) shall be used to: (i) purchase the Station from Pan Pacific Television, Inc., pursuant to the Asset Purchase Agreement dated February 27, 1989 (the "Purchase Agreement"); and

(ii) reimburse parties for legitimate and prudent expenses which opposed the acquisition pursuant to a global settlement approved by the FCC;

(2) Two Hundred Thousand Dollars (\$200,000) shall be used for working capital and for purposes of operation of the Station;

(3) Construction and capital improvement costs pertaining to the building of a new studio which, in the aggregate, shall not exceed Eight Hundred Eighty-Six Thousand Thirty-Nine and 14/100ths Dollars (866,039.14), shall be paid pursuant to an operating and construction draw schedule to be prepared by Borrower following receipt of documentary evidence reasonably acceptable to Lender of a binding commitment for such capital improvement. Each such payment shall constitute an additional Loan to Borrower which shall be amortized over the remaining term of existing loans pursuant to Sections 1.5(a)(1) and (2) above upon the same terms as such existing loans with the first additional Loan payment of interest to Lender payable on the next payment date pursuant to the existing loans between thirty (30) and sixty (60) days from disbursement of such additional loans, and the principal and interest payments commencing on the next payment date thereafter.

(b) The Borrower agrees to furnish to the Lender such information as the Lender may reasonably request in connection with the loans including the submission of additional documentation involving invoices and other requests for payment submitted to the Borrower.

SECTION 1.6 INFORMATION. The Borrower agrees to furnish to the Lender such information as the Lender may reasonably request in connection with the Loan or the Station.

SECTION 1.7 PREPAYMENT. The Borrower may prepay the Note in whole at any time, or from time to time in part, with accrued interest to the date of prepayment on the amount prepaid, without penalty, provided that each payment, other than for the full amount of the outstanding balance, shall be in the amount of Twenty Five Thousand Dollars (\$25,000.00) or an integral multiple thereof. Each prepayment on the Note shall be applied to installments of principal payable on the Note in the inverse order of maturity.

SECTION 1.8 PAYMENT ON NON-BUSINESS DAYS. Whenever any payment to be made hereunder or under the Note shall become due on a Saturday, Sunday or public holiday, such payment may be made on the next succeeding business day, and such extension of time in such case shall be included in the computation of interest hereunder and under the Note.

SECTION 1.9 REDUCTION OR DEFERRAL OF PAYMENT. In the event that the television station affiliation agreement between Borrower and Home Shopping Club, Inc. ("HSC") dated as of April 26, 1996 is terminated by HSC or Borrower, and at the time of such termination Borrower is not in material default or material noncompliance with the affiliation agreement, then except as provided for in the Excess Cash Flow Test in Section 1.10 below, payment on the Note shall be deferred for a period of One (1) year from the date payments under the affiliation agreement between HSC and Borrower are terminated. At the expiration of the One (1) year period, the payments of interest and principal shall resume as provided herein with the date for each payment being extended by One (1) year; provided, however, that to the extent interest is not paid during this One (1) year period, such unpaid interest shall be added to the remaining principal balance of the Note.

SECTION 1.10 EXCESS CASH FLOW TEST PAYMENTS. In the event that the television station affiliation agreement between Borrower and HSC is terminated as described in Section 1.9 above, during the One (1) year deferral period Borrower shall be required to make monthly payments of Total Excess Cash Flow, as defined below, in lieu of interest and principal payments as otherwise provided for in this Agreement with said Total Excess Cash Flow payments being applied first to interest on a monthly basis:

Total Excess Cash Flow = Operating Profit/(Loss) + Depreciation/Amortization + Payments to Owners or Affiliates (Other Than Salaries In Effect Prior to Affiliation

Agreement Termination) + Proceeds from the Sale/Disposition of Assets - Capital Expenditures Subject to Reasonable Approval of Lender - Federal and State Income Taxes Paid in Cash - Fifty Thousand Dollar (\$50,000) Cash Contingency Fund

Salaries of Owners and Affiliates in effect prior to termination of the affiliation agreement shall be on terms similar to those that a third party would receive; provided, however, that the salary of Eddie L. Whitehead for serving as General Manager of the Station shall be no less than that provided in the 1989 Memorandum of Understanding executed by Whitehead Communications, Inc., Silver King Broadcasting of Northern California, Inc. and Home Shopping Network, Inc.

ARTICLE II. CLOSING

SECTION 2.1 CLOSING DATE. Closing of this transaction shall occur on a date set by Lender upon five (5) days written notice to Borrower, or such other date agreed upon by the parties hereto (the "Closing Date").

ARTICLE III. SECURITY

SECTION 3.1 SECURITY INTEREST. As security for the Loan, the Borrower shall execute and deliver to the Lender, on or before the Closing Date, a security agreement in the form of Exhibit 2 hereto (the "Security Agreement").

SECTION 3.2 PLEDGE AGREEMENTS. As further security for the Loan, on or before the Closing Date, the Borrower shall deliver to the Lender a pledge agreement in the form of Exhibit 3, duly executed by Whitehead Media of California, Inc. ("WMC") and Lender (the "Pledge Agreement"). WMC and Silver King Capital Corporation, Inc., the shareholders of the Borrower, are hereinafter referred to as the "Shareholders."

SECTION 3.3 MORTGAGES. The Borrower shall execute a first mortgage or deed of trust in favor of the Lender covering the real estate, if any, acquired by Borrower pursuant to the Purchase Agreement, in form and substance reasonably satisfactory to the Lender. If requested by the Lender, the Borrower shall also deliver to the Lender, at Lender's expense, an ALTA mortgagee's policy of title insurance in customary form with respect to such parcel.

ARTICLE IV. CONDITIONS OF LENDING

SECTION 4.1 CONDITIONS PRECEDENT TO LOAN FUNDS. The obligation of the Lender to Loan the funds pursuant to Section 1.5(a)(1) and the initial One Hundred Thousand Dollars (\$100,000.00) pursuant to Section 1.5(a)(2) hereunder is subject to the condition precedent that the Lender shall have received all of the following, on or before the Closing Date, in form and substance reasonably satisfactory to the Lender:

- (a) the Note, duly executed and delivered by the Borrower;
- (b) the Security Agreement, together with appropriate UCC-1 forms, duly executed and delivered by the Borrower;
- (c) the Pledge Agreement, duly executed and delivered by WMC;
- (d) a certified copy of the resolutions of the Board of Directors of the Borrower evidencing approval of the execution, delivery and performance of this Agreement, the Note and the Security Agreement and other matters contemplated hereby;
- (e) Certificates of Good Standing for the Borrower as of a recent date prior to the Closing Date from the States of Delaware and California;
- (f) Copies of the certificates evidencing the insurance required to be maintained by the Borrower pursuant to Section 6.1(e);
- (g) A copy of an executed television station affiliation agreement between the Borrower and HSC that provides for hourly compensation to the Borrower sufficient to permit the Borrower to repay the Loan as determined by the Lender in its sole discretion and a copy of an executed Escrow Agreement by and among HSC, Borrower and Lender in the form of Exhibit 4;
- (h) A copy of the executed Purchase Agreement;
- (i) Such documentation, as required by Sections 1.5(a) and (b); and
- (j) The written approval of the FCC for Borrower to acquire the Station, including the FCC-issued licenses, and such Order is final and no longer subject to administrative or judicial review or reconsideration.
- (k) The remaining One Hundred Thousand Dollars (\$100,000.00) pursuant to Section 1.5(a)(2) hereunder shall be made available to Borrower upon the presentation of financial information reasonably acceptable to Lender showing that Borrower has insufficient cash to cover expenses.

SECTION 4.2 CONDITIONS PRECEDENT TO ADDITIONAL LOANS. The obligation of the Lender to make any additional loans pursuant to Section 1.5(a)(3) hereunder shall be subject to the fulfillment of the following conditions precedent:

- (a) No Event of Default (as defined in Section 7.1) shall have occurred and be continuing hereunder on the date of such advance and no such Event of Default would result from the making of such advance.
- (b) Neither the business nor assets, nor the condition, financial or otherwise, of the Borrower shall have materially adversely changed since the Closing Date, excluding, however, any changes occurring as a result of this Agreement and related Agreements; provided, however, that this Section 4.2(a) shall not apply to any changes resulting from termination of the affiliation agreement between Borrower and HSC as described in Sections 1.9 and 1.10 hereof.
- (c) The representations and warranties contained in Article V hereof shall be true and correct in all material respects on and as of the date of making such advance.
- (d) At the time assets are acquired by Borrower, copies of the certificates evidencing the insurance required to be maintained by the Borrower pursuant to Section 6.1(e) shall have been received by Lender.
- (e) Such documentation as required by Sections 1.5(a) and (b).
- (f) Lender shall have received the working drawings and specifications for the modification of the Station specifying the broadcast equipment to be utilized by Borrower ("Plans and Specifications") in a form and substance reasonably satisfactory to Lender.

Each borrowing by the Borrower hereunder shall constitute a representation and warranty to the effect of the foregoing paragraphs (a), (b) and (c).

SECTION 4.3 COMPLIANCE. All of the representations and warranties of the Borrower in this Agreement shall be true and accurate in all material respects on and as of the Closing Date and the date of any subsequent disbursement of any portion of the Loan, as if made on and as of such date and time. The Borrower shall be in compliance with all of the applicable terms and provisions of this Agreement and no Event of Default or any event which with the lapse of any applicable grace period or the giving of notice or both would constitute an Event of Default shall have occurred and be continuing. The Borrower shall have performed all obligations and taken all actions to be performed or taken by it hereunder on or prior to such date. On the Closing Date, the Borrower shall deliver to the Lender a certificate, dated as of such date and signed by an executive officer of the Borrower, certifying compliance with the conditions of this Section 4.3. Each disbursement of all or a portion of the Loan to the Borrower shall in and of itself, constitute a representation and warranty that the Borrower as of the date of such Loan, is in compliance with this Section and if the Borrower is not in

compliance with this Section, the Lender shall not be required to disburse such Loan to the Borrower.

ARTICLE V. REPRESENTATIONS AND WARRANTIES

SECTION 5.1 REPRESENTATIONS AND WARRANTIES OF THE BORROWER. In order to induce the Lender to enter into this Agreement and make the Loan, the Borrower represents and warrants as follows:

(a) **Existence and Standing.** The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and is qualified to do business and in good standing under the laws of the State of California and any other jurisdiction in which it conducts its business, and has all requisite power and authority, corporate or otherwise, to conduct its business, to own its properties and to execute and deliver, and to perform all of its obligations under this Agreement, the Note, the Security Agreement and all other documents that have been or will be executed and delivered by the Borrower pursuant to this Agreement.

(b) **Authorizations, Compliance with Laws.** The execution, delivery and performance by the Borrower of this Agreement, the Note, the Security Agreement and all other documents required to be executed and delivered by the Borrower pursuant to this Agreement have been duly authorized by all necessary corporate action and do not and will not (i) violate (A) any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to the Borrower or (B) any provision of the charter or by-laws of the Borrower; or

(ii) result in a breach of or constitute a default under any agreement or instrument to which the Borrower is a party or by which its properties may be affected; or (iii) result in the creation of a lien, charge or encumbrance of any nature upon the Borrower's properties or assets other than as contemplated by this Agreement.

(c) **No Consent.** No authorization, consent, approval, license, exemption of or filing or registration with any court or governmental department or agency, except for filing with the FCC, is or will be necessary to the valid execution, delivery and performance by the Borrower of this Agreement, the Note, the Security Agreement or any other document required to be executed and delivered by the Borrower pursuant to this Agreement.

(d) **Binding Obligations.** This Agreement, the Note, the Security Agreement and all other documents required to be executed and delivered by the Borrower pursuant to this Agreement have been or will be executed and delivered by duly authorized officers of the Borrower and constitute or will constitute, legal, valid and binding obligations of the Borrower enforceable in accordance with their respective terms.

(e) **Litigation.** There are no actions, suits or proceedings pending, or, to the knowledge of the Borrower, threatened against or affecting the Borrower or its properties before any court or governmental department or agency which materially adversely affects the transactions contemplated by this Agreement or which would have a material adverse effect on the business, properties, operation or condition of the Borrower.

(f) **No Default.** The Borrower is not in default in the performance, observance or fulfillment of any of the obligations or conditions contained in any material agreement or instrument to which it is a party, nor with respect to any order, judgment, writ, injunction or decree of any court, governmental authority or arbitration board.

(g) **Compliance with Laws.** The Borrower has complied with all applicable federal, state and local laws. All necessary licenses and permits related to the Station have either been obtained and are currently valid or have been applied for and are now being diligently pursued.

(h) **Taxes.** The Borrower has filed all tax returns and reports (federal, state and local) required to be filed by it, and has paid all taxes shown thereon, including interest and penalties, and all assessments received by it (except to the extent that the same are being contested in good faith by appropriate proceedings diligently prosecuted and as to which adequate reserves have been set aside on the books of the Borrower in conformity with generally accepted accounting principles).

(i) **Title to Properties.** The Borrower has good and marketable title to all of its property and assets and valid and enforceable leasehold interests in the property which it holds under lease, all such property, assets and leasehold interests being free and clear of any and all mortgages, deeds of trust, assignments, liens, security interests, charges or encumbrances of any nature whatsoever, except for those created hereby, and no mortgages, deeds of trust, financing statements or other evidences of security interests covering all or any of the aforesaid property are on file among the records of any public office, except those evidencing a security interest in favor of the Lender.

(j) **Material Misstatement.** No statement made herein or information, exhibit or report furnished by the Borrower to the Lender in connection with this Agreement or its negotiation, contains any material misstatement of fact or omits to state a material fact or any fact necessary to make the foregoing not misleading.

ARTICLE VI. COVENANTS OF THE BORROWER

SECTION 6.1 AFFIRMATIVE COVENANTS. So long as the Note shall remain unpaid, the Borrower hereby covenants and agrees that it will, unless the Lender shall otherwise consent in writing:

(a) **Payment of Obligations.** Pay punctually and discharge when due: (i) all indebtedness heretofore or hereafter incurred; (ii) all taxes, assessments and governmental charges or levies imposed upon it or its income or profits, or upon any properties belonging to it; (iii) claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like persons which, if unpaid might become a lien or charge upon the property of the Borrower; provided that this covenant shall not require the payment of any of the matters set forth in (i), (ii) and (iii) above if the same shall be contested in good faith and by proper proceedings diligently pursued and as to which adequate reserves have been set aside on the books of the Borrower in accordance with generally accepted accounting principles.

(b) **Preservation of Corporate Existence.** Preserve and maintain its corporate existence, rights, franchises and privileges in the jurisdiction of its incorporation.

(c) **Maintenance of Properties.** Maintain and preserve all of its properties necessary or useful in the proper conduct of its business in good working order and condition, ordinary wear and tear excepted.

(d) **Compliance with Laws.** Comply in all material respects with the requirements of all applicable laws, rules, regulations and orders of any governmental authority.

(e) **Maintenance of Insurance.** Maintain with responsible and reputable insurance companies policies on all of its properties and covering such risks, including public liability and workers' compensation, in such amounts as are usually carried by companies engaged in similar businesses and owning similar properties as the Borrower, and promptly upon execution thereof provide to the Lender copies of all such policies and any riders or amendments thereto. The policies of insurance required hereunder shall name the Lender as an additional loss payee or additional insured, as applicable, and shall provide that the Lender shall receive at least thirty (30) days' written notice prior to the cancellation, termination or alteration of any such policy.

(f) **Operations in Ordinary Course.** Continue to operate its business in the ordinary course.

(g) Perfection of Liens. Do all things requested by the Lender to preserve and perfect the liens and security interests of the Lender arising pursuant to the Security Agreement, the Pledge Agreement or any other agreement required hereunder as first liens and security interests.

(h) FCC Approval. If counsel to the Lender reasonably determines that the consent of the FCC is required in connection with the execution, delivery and performance of this Agreement, the Pledge Agreement, the Security Agreement or any other document delivered to the Lender in connection herewith or therewith or as a result of any action which may be taken pursuant hereto or thereto, then the Borrower, at its sole cost and expense, agrees to use its best efforts to secure such consent and to cooperate with the Lender in any action commenced by the Lender to secure such consent.

SECTION 6.2 NEGATIVE COVENANTS. So long as the Note shall remain unpaid and the Agreement shall not have been terminated, the Borrower hereby covenants that it will not, without the Lender's prior written approval:

(a) Indebtedness/Contracts. Create or incur, assume or suffer to exist any indebtedness, obligation or liability, whether matured or unmatured, liquidated or unliquidated, direct or contingent, joint or several, whether by contract or otherwise, except for: (i) indebtedness to Lender pursuant to this Agreement; and (ii) indebtedness (other than for borrowed money) incurred in the ordinary course of business not to exceed One Hundred Thousand Dollars (\$100,000.00) in the aggregate at any one time; provided, however, that this restriction shall not apply to indebtedness for salaries of Station's employees or to indebtedness incurred in the ordinary course of business prior to or as of the Closing Date and Lender's prior written approval shall not be unreasonably withheld with respect to any other such indebtedness incurred in the ordinary course of business in excess of One Hundred Thousand Dollars (\$100,000.00) in the aggregate at any one time.

(b) Liens. Create, assume or suffer to exist, directly or indirectly, any security interest, mortgage, deed of trust, pledge, lien, charge or other encumbrance, of any nature whatsoever upon any of its properties or assets, now owned or hereafter as acquired, excluding, however, from the operation of this covenant:

(i) any security interest or lien created pursuant to this Agreement;

(ii) liens for taxes or assessments either not delinquent or the validity of which are being contested in good faith by appropriate legal or administrative proceedings and as to which adequate reserves shall have been set aside on its books, in conformity with generally accepted accounting principles;

- (iii) materialmen's, mechanics', carriers', workmen's, repairmen's, warehousemen's or other like liens arising in the ordinary course of business and either not yet due and payable or being contested in good faith by appropriate legal proceedings and as to which adequate reserves shall have been set aside on its books, in conformity with generally accepted accounting principles;
 - (iv) deposits or pledges to secure payment of workers' compensation, unemployment insurance or other social security benefits or obligations;
 - (v) any judgment lien, unless the judgment it secures shall not, within thirty (30) days after the entry thereof, have been discharged, vacated, reversed, or execution thereof stayed pending appeal, or shall not have been discharged, vacated or reversed within thirty (30) days after the expiration of any such stay; or
 - (vi) liens or other encumbrances arising out of indebtedness incurred pursuant to Section 6.2(a) hereof.
- (c) Disposition of Assets. Sell, transfer, lease or otherwise dispose of all or any material part of its assets other than in the ordinary course of business and in exchange for collateral of like value in which the Lender shall have a security interest.
- (d) Merger. Enter into any consolidation or merger with, or into any acquisition of all or substantially all of the properties or assets of any person or entity.
- (e) Transfer or Issuance of Shares. Permit the issuance or transfer of any shares of the capital stock of the Borrower, or any options, warrants, convertible securities or other rights to purchase the Borrower's stock . The preceding sentence shall not apply to (i) transfers to the Lender; (ii) transfers resulting from the death of the Shareholders; and (iii) transfers effected by the Shareholders of the Borrower with the prior written consent of the Lender (which shall not be unreasonably withheld), solely for estate planning purposes of such Shareholders.
- (f) Change of Business. Change, in any material respect, the nature or character of its business as intended, or engage in any activity not reasonably related to such business, as set forth in the executed television station affiliation agreement with HSC; provided, however, that this Section 6.2(f) shall not apply to a change in programming of Station resulting from termination of the affiliation agreement between Borrower and HSC so long as Borrower is not in material default or material noncompliance with the affiliation agreement.

- (g) **Remove Assets.** Remove any of the assets procured with the proceeds of the borrowings provided for herein, or any replacements for such assets, to a county in which no financing statement on Form UCC-1 has been filed by the Lender with respect to such assets.
- (h) **Distributions or Dividends.** Declare or make, directly or indirectly, any payment or distribution, or incur any liability for the purchase, acquisition, redemption or retirement of any capital stock of the Borrower or as a dividend, return of capital or other payment or distribution of any kind to a shareholder of the Borrower or any affiliate of the Borrower (other than any stock dividend or stock split or similar distribution payable only in capital stock of the Borrower) in respect of the Borrower's capital stock, except that the Borrower may declare one annual dividend per year on all classes of its capital stock with the prior written consent of the Lender.
- (i) **Transactions with Affiliates.** Enter into any transaction or agreement with any affiliate of the Borrower (other than the Lender).
- (j) **Adverse Change.** Suffer any material adverse change in the business, assets, properties, prospects or condition (financial or otherwise) of the Borrower or the Station, or any damage, destruction or loss affecting any assets used or useful in the conduct of the business of the Borrower; provided, however, that so long as Borrower is not in default under this Agreement or the television station affiliation agreement between the Borrower and HSC, the termination, amendment or waiver of any provision of said affiliation agreement shall not constitute a material adverse change pursuant to this Section 6.2(j).
- (k) **Employee Compensation.** Suffer any material increase in excess of the reasonable range in the broadcast industry in the same or similar markets in compensation payable or to become payable to any employees, or any bonus payment made or promised to any employee, or any material change in personnel policies, insurance benefits or other compensation arrangements affecting any employees, provided that nothing in this clause shall be construed to limit or restrict the commission compensation of employees who may be selling brokered time for the Borrower.
- (l) **Cancellation of Debts.** Cancel any debts owed or claims held by the Borrower.
- (m) **Write-Down.** Suffer any significant write-down of the value of any assets or any significant write-off as uncollectible of any accounts receivable without the prior written consent of the Lender.

(n) Rights. Transfer or grant any right under, or enter into any settlement regarding the breach or infringement of, any license, patent, copyright, trademark, service mark, trade name, franchise, or similar right, or modify any existing right relating to the Borrower.

(o) Plans and Specifications. Make any material changes in or departures from the Plans and Specifications or make any change in the Station's transmission or antenna system as contained in the Plans and Specifications.

SECTION 6.3 REPORTING REQUIREMENTS. So long as the Note shall remain unpaid and the Agreement shall not have been terminated, the Borrower shall, unless the Lender shall otherwise consent in writing, furnish to the Lender:

(a) Default Certificate. As soon as possible and in any event within seven (7) business days after the occurrence of each Event of Default (as defined in Section 7.1) of which the Borrower has knowledge, the statement of the chief financial officer of the Borrower setting forth details of such Event of Default and the action which the Borrower proposes to take with respect thereto.

(b) Financial Statements. Beginning with the making of the initial Loan disbursement, quarterly financial statements within thirty (30) days after the end of each fiscal quarter; within ninety (90) days after the end of each fiscal year of the Borrower, a copy of the audited financial statements for such year for the Borrower, including therein a balance sheet of the Borrower as of the end of such fiscal year, statements of income and expense of the Borrower for such fiscal year, and a statement of cash flow of the Borrower for such fiscal year, in each case prepared by an independent public accountant of recognized standing acceptable to the Lender, except that the Lender may waive the audit requirement and accept a review of the Borrower's financial records.

(c) Notice of Litigation. Promptly give written notice of all actions, suits and proceedings before any court or governmental agency, domestic or foreign, which may be commenced or threatened against the Borrower in which the claim involved is Five Thousand Dollars (\$5,000.00) or more and of any other matter of the type described in Section 5.1(e).

(d) Budget. An annual budget to the Lender within the first thirty (30) days of each fiscal year of the Borrower. Such budget shall be satisfactory in form to the Lender.

(e) Other Information. Such other information respecting the business, properties, operations or the condition, financial or otherwise, of the Borrower as the Lender may from time to time reasonably request.

ARTICLE VII. EVENTS OF DEFAULT

SECTION 7.1 EVENTS OF DEFAULT. Under this Agreement, an Event of Default shall be any of the following which have not been cured within thirty (30) days of written notice to Borrower by Lender except where they have occurred due to the breach by Lender (or any entity controlled by or under common control of it) of any agreement between it and Borrower or due to breach by HSC of the affiliation agreement between it and Borrower:

- (a) The Borrower shall fail to pay any installment of principal or interest on the Note, or any other obligation to the Lender when due whether at the due date thereof or by acceleration or otherwise, and such default shall remain unremedied for a period of five (5) days after the due date thereof; or
- (b) The security interest or lien of the Lender in any material portion of the collateral covered by the Security Agreement, Pledge Agreements or any Leasehold Mortgage shall at any time not constitute a legal, valid and enforceable security interest or lien; or
- (c) Any representation or warranty made by the Borrower (or any of its officers) herein, in the Security Agreement or in any certificate, agreement, instrument or statement contemplated by or made or delivered pursuant to or in connection with this Agreement, the Note or the Security Agreement, or by WMC in the Pledge Agreement shall prove to have been incorrect in any material respect when made; or
- (d) The Borrower shall fail to perform or observe any other material term, covenant or agreement contained in this Agreement, the Note, the Security Agreement or the Escrow Agreement, or the Shareholders (other than a Shareholder affiliated with Lender) shall fail to perform or observe any material term, covenant or agreement contained in the Pledge Agreement; or
- (e) The Borrower or its shareholders shall fail to pay any indebtedness for borrowed money owing by the Borrower or its shareholders or any interest or premium thereon, when due, whether such indebtedness shall become due by scheduled maturity, by required prepayment, by acceleration, by demand or otherwise, or the Borrower or its shareholders shall fail to perform any term, covenant or agreement under any agreement or instrument evidencing or securing or relating to any such indebtedness owing by the Borrower or its shareholders if the effect of such failure is to accelerate, or to permit the holder of such indebtedness to accelerate the maturity of such indebtedness; or
- (f) The Borrower shall expend the proceeds of the Loan for any purpose other than the purchase and operation of the Station without the prior written consent of the Lender, which may be withheld in the Lender's sole discretion; or

(g) The Borrower shall (i) fail to pay its debts as they mature in the ordinary course of business; (ii) file a petition commencing a voluntary case concerning it under any Chapter of Title 11 of the United States Code entitled "Bankruptcy"; or (iii) the Borrower shall apply for or consent to the appointment of any receiver, trustee, custodian or similar officer for it or for all or any substantial part of its property; or (iv) such receiver, trustee, custodian or similar officer shall be appointed without the application or consent of the Borrower; or (v) an involuntary case is commenced against the Borrower under any Chapter of the aforementioned Title 11 and an order for relief under such Title 11 is entered or the petition commencing the case is controverted; or (vi) the Borrower shall institute (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or (vii) any such proceeding shall be instituted against the Borrower; or (viii) the Borrower shall take any action for the purpose of effectuating the foregoing; or

(h) Any court, government, or government agency shall condemn, seize or otherwise appropriate or take custody or control of all or a substantial portion of the property or assets of the Borrower; or

(i) There shall be an irrevocable and unappealable denial or revocation of the broadcast license for the Station.

SECTION 7.2 EFFECT OF EVENT OF DEFAULT. Should any Event of Default occur, the Lender may at its option by written notice to the Borrower declare the entire unpaid principal amount of the Note, together with all unpaid interest and all other amounts payable under this Agreement and every other obligation of the Borrower to the Lender, immediately due and payable, whereupon the Note and all such obligations shall become and be forthwith due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in the Note or in such other note or evidence of indebtedness to the contrary notwithstanding; provided, however, that in case of an Event of Default under Section 7.1(g), all the obligations of the Borrower under this Agreement and the Note shall become immediately due and payable as of the date of any such Event of Default regardless of the cause of such Event of Default and without any notice to the Borrower required from the Lender. The Lender shall have, in addition to all other rights and remedies allowed by law, the rights and remedies of a secured party under the Uniform Commercial Code as in effect in the State of California and, without limiting the generality of the foregoing, the rights and remedies provided for in the Security Agreement and Pledge Agreement, which provisions are hereby incorporated by reference.

ARTICLE VIII. MISCELLANEOUS

SECTION 8.1 NO WAIVER; CUMULATIVE REMEDIES. No failure or delay on the part of the Lender in exercising any right, power or remedy hereunder shall operate as a waiver, nor shall any single or partial exercise of any such right, power or remedy hereunder. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.2 AMENDMENTS. No amendment, modification, termination or waiver of any provision of this Agreement, the Note, the Security Agreement or the Escrow Agreement, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless in writing, signed by the Lender and then only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrower in any case shall entitle it to any other or further notice or demand in similar or other circumstances.

SECTION 8.3 CONFLICTS. In the event of any conflict or inconsistency between any provision of this Agreement and a provision of the Note or the Security Agreement, the provisions of this Agreement shall control.

SECTION 8.4 ADDRESS FOR NOTICES. All notices and other communications under this Agreement shall be in writing and shall be deemed sufficiently given if delivered personally or by nationally recognized overnight courier service to the applicable party at the addresses indicated below:

If to the Borrower:

Eddie L. Whitehead, President

Channel 66 of Vallejo, California, Inc. 12144 Classic Drive
Coral Springs, Florida 33071

with a copy (which shall not constitute notice) to:

James J. Freeman
Reed Smith Shaw & McClay 1301 K Street
Suite 1100 - East Tower Washington, DC 20005

If to the Lender:

SKC Investments, Inc.

c/o Steven H. Grant
12425 28th Street North Suite 300
St. Petersburg, FL 33716

with a copy (which shall not constitute notice) to:

Michael Drayer
General Counsel
12425 28th Street North Suite 300
St. Petersburg, FL 33716

or at such other address as may be designated by either party in a written notice to the other complying as to delivery with the terms of this Section. All such notices and other communications shall be effective upon delivery.

SECTION 8.5 EXPENSES. The Borrower agrees to pay on demand all costs and expenses incurred by the Lender directly in connection with the enforcement of this Agreement, the Note, the Security Agreement, the Pledge Agreement and other instruments and documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of any attorney to whom the Note is referred for collection (whether or not litigation is commenced) or for representation in proceedings under any bankruptcy or insolvency law. In addition, the Borrower shall pay any and all taxes and fees payable or determined to be payable in connection with the execution, delivery and recordation of any instruments and documents to be delivered hereunder.

SECTION 8.6 BINDING EFFECT; ASSIGNMENT. This Agreement shall become effective when executed and thereafter shall be binding upon and inure to the benefit of the Borrower, the Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign any rights or obligations hereunder without the prior written consent of the Lender. The Lender shall be permitted to assign any of its rights, interest and obligations hereunder and as to all related agreements, whereupon the Lender shall be released from performing all obligations so assigned which arise after the effective date of such assignment.

SECTION 8.7 GOVERNING LAW. This Agreement, the Note, the Security Agreement and related documents shall be governed by, and construed in accordance with, the laws of the

State of Illinois with the exception of its conflicts of laws provisions; provided that the effect of any recordation shall be determined by the State thereof. The Borrower and Lender hereby irrevocably submit to the jurisdiction of the state and federal district courts for the district including Chicago, Illinois for the purposes of any action or proceeding arising out of or relating to this Agreement or the subject matter hereof or thereof; waive and agree not to assert, by way of motion, as a defense or otherwise, in any such action or proceeding, any claim that (A) they are not personally subject to the jurisdiction of such courts, (B) the action or proceeding is brought in an inconvenient forum or (C) the venue of the action or proceeding is improper; and agree that, notwithstanding any right or privilege they may possess at any time, the Borrower and Lender and their property are and shall be generally subject to suit on account of the obligations they have assumed hereunder.

The Borrower and Lender agree that service in person or by certified or registered U.S. mail to its address set forth in Section 8.4, or as subsequently changed as provided therein, shall constitute valid in personam service upon the Borrower and Lender and their successors and assigns in any action or proceeding with respect to any matter as to which they have submitted to jurisdiction hereunder.

Notwithstanding the foregoing, the Lender or Borrower may at their option bring any action or other proceeding arising out of or relating to this Agreement or the subject matter hereof or thereof against the other party or any of its assets in the courts of any jurisdiction or place where such party or such assets may be found or where the such party may be subject to personal jurisdiction, and may effect service of process as provided under any applicable Governmental Rule.

The obligations of the Borrower and Lender under this Section shall survive any termination of this Agreement.

SECTION 8.8 SEVERABILITY OF PROVISIONS. Any provision of this Agreement, the Note or the Security Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions or affecting the validity or enforceability of any provisions in any other jurisdiction.

SECTION 8.9 HEADINGS. Article and Section headings in this Agreement are including for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

SECTION 8.10 RIGHTS AFFECTED BY EXTENSIONS. The rights of the Lender and its assigns shall not be impaired by any indulgence, release, renewal, extension or modification which the Lender may grant with respect to the indebtedness or any part thereof, or with respect to the collateral or with respect to any endorser, guarantor, or surety without notice or consent of the Borrower or any endorser, guarantee, or surety.

SECTION 8.11 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations and warranties made in this Agreement and in any documents or certificates delivered pursuant hereto or thereto shall survive the execution and delivery of this Agreement and the Note and the making of the Loan hereunder and continue in full force and effect, as of the respective dates as of which they were made, until all of the obligations of the Borrower to the Lender hereunder have been paid in full.

SECTION 8.12 ATTORNEYS' FEES. If any litigation arises between the parties in connection with the transactions contemplated by this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees in addition to all other damages and remedies.

SECTION 8.13 FURTHER ASSURANCES. From time to time, the Borrower shall execute and deliver to the Lender such additional documents as the Lender may reasonably require to carry out the purposes of this Agreement or any of the documents entered into in connection herewith, or to preserve and protect the rights of the Lender hereunder or thereunder.

SECTION 8.14 INDEMNIFICATION. The Borrower hereby indemnifies and holds harmless the Lender and its directors, officers, shareholders, employees, agents, counsel, subsidiaries and affiliates (the "Indemnified Persons") from and against any and all losses, liabilities, obligations, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against any Indemnified Person in any way relating to or arising out of this Agreement, the documents entered into in connection herewith, or any of them or any of the transactions contemplated hereby or thereby; provided, however, that the Borrower shall not be liable to any Indemnified Person, if there is a judicial determination that such losses, liabilities, obligations, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the gross negligence or willful misconduct of such Indemnified Person.

SECTION 8.15 COUNTERPARTS. This agreement may be executed in any number of counterparts, and by each of the parties on separate counterparts, each of which, when so executed, shall be deemed an original, but all of which shall constitute but one and the same instrument.

SECTION 8.16 SEVERABILITY. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of

such prohibition or unenforceability without invalidating the remaining portions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 8.17 WAIVER OF JURY TRIAL. The parties hereby waive the right to a trial by jury in any action or proceeding arising out of or relating to this Agreement or the other Credit Documents or the subject matter hereof or thereof and brought by the other party.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective duly authorized officers, as of the date first above written.

WITNESS: CHANNEL 66 OF VALLEJO,

CALIFORNIA, INC.

By: -----

Name: -----

Title: -----

WITNESS:

SKC INVESTMENTS, INC.

By: -----

Name: -----

Title: -----

EXHIBIT 21

LIST OF SUBSIDIARIES OF

HSN, INC.

**A DELAWARE CORPORATION
AS OF MARCH 10, 1997**

SUBSIDIARY -----	PLACE OF INCORPORATION -----
Home Shopping Network, Inc.....	Delaware
d/b/a The Home Shopping Network	
Home Shopping Network	
Home Shopping Club, Inc.....	Delaware
d/b/a Home Shopping Club	
Telemation	
Spree	
Home Shopping Spree	
HSN Spree	
HSC Spree	
Home Shopping Network	
Home Shopping Network GmbH.....	Germany
Home Shopping Network Outlets, Inc.....	Delaware
d/b/a HSC Outlet	
Home Shopping Network Outlet	
HSN Liquidation Center	
HSN Wholesale Liquidation	
HSN Capital Corporation.....	Nevada
HSN Corporation of Nevada, Inc.....	Nevada
HSN Credit Corporation.....	Delaware
HSN Direct, Inc.....	Delaware
d/b/a Innovations in Living	
HSN Direct Joint Venture	
Home Shopping Showcase	
HSN Fulfillment, Inc.....	Delaware
HSN Lifeway Health Products, Inc.....	Delaware
HSN Mail Order, Inc.....	Delaware
d/b/a HSC By Mail	
HSN By Mail	
Home Shopping By Mail	
Designer Direct	
Home Shopping Values	
Private Showing -- Jewelry Values by Mail	
HSN Media Merchandise	
HSN Realty, Inc.....	Delaware
d/b/a HSN Realty of Delaware, Inc.	
HSN Transportation, Inc.....	Delaware
HSN Travel, Inc.....	Delaware
Internet Shopping Network, Inc.....	California
MarkeTech Services, Inc.....	Delaware
National Call Center, Inc.....	Delaware
Vela Research, Inc.....	Delaware

SUBSIDIARY -----	PLACE OF INCORPORATION -----
World Rez, Inc.....	Delaware

North Central LTPV, Inc.....	Delaware
Northeast LTPV, Inc.....	Delaware
Silver King Broadcasting of Dallas, Inc.....	Delaware
Silver King Broadcasting of Hollywood, Florida, Inc.....	Delaware
Silver King Broadcasting of Houston, Inc.....	Delaware
Silver King Broadcasting of Illinois, Inc.....	Delaware
Silver King Broadcasting of Maryland, Inc.....	Delaware
Silver King Broadcasting of Massachusetts, Inc.....	Delaware
Silver King Broadcasting of New Jersey, Inc.....	Delaware
Silver King Broadcasting of Northern California, Inc.....	Delaware
Silver King Broadcasting of Ohio, Inc.....	Delaware
Silver King Broadcasting of Southern California, Inc.....	Delaware
Silver King Broadcasting of Tampa, Inc.....	Delaware
Silver King Broadcasting of Vineland, Inc.....	Delaware
Silver King Broadcasting of Virginia, Inc.....	Delaware
Silver King Broadcasting -- LPTV, Inc.....	Delaware
Silver King Capital Corporation, Inc.....	Delaware
Silver King Investment Holdings, Inc.....	Delaware
South Central LPTV, Inc.....	Delaware
Southeast LPTV, Inc.....	Delaware
SKC Holdings, Inc.....	Delaware
SKC Investments, Inc.....	Delaware
SKTV, Inc.....	Delaware
Telemation, Inc.....	Delaware
UHF Investments, Inc.....	Delaware
West LPTV, Inc.....	Delaware

Savoy Pictures Entertainment, Inc.....	Delaware
Savoy Pictures, Inc.....	Delaware
Savoy Pictures, Inc.....	Massachusetts
Savoy Pictures Print Services, Inc.....	Delaware
Bayou Productions, Inc.....	Delaware
Bison Pictures, Inc.....	Delaware
Buffalo Development Corporation.....	Delaware
Getting Away Productions, Inc.....	Ontario
Getting Away With Murder Productions, Inc.....	California
Getting Away With Murder Productions, Inc.....	Delaware
J&H Productions, Inc.....	Quebec
Jekyll Productions, Inc.....	Delaware
Laramie Productions, Inc.....	Delaware
Mariette Productions, Inc.....	Delaware
Mariette Productions Canada, Inc.....	Ontario
Simple Plan Productions, Inc.....	Delaware
The Stupids Family Productions, Inc.....	Delaware
	British
The Stupids Productions (Canada), Inc.....	Columbia
Thin Line Productions, Inc.....	Delaware
Without Remorse Productions, Inc.....	Delaware
Zeus Productions, Inc.....	Delaware

SUBSIDIARY -----	PLACE OF INCORPORATION -----
Savoy Television Holdings, Inc.....	Delaware
Savoy Pictures Television, Inc.....	Delaware
Savoy Pictures Television Productions, Inc.....	Delaware
Savoy Pictures Television Development, Inc.....	Delaware
Inflammable Productions, Inc.....	Delaware
Savoy Pictures Television Programming, Inc.....	Delaware
Savoy Stations, Inc.....	Delaware
SF Honolulu License Subsidiary, Inc.....	Delaware
SF Multistations, Inc.....	Delaware
SF Broadcasting of New Orleans, Inc.....	Delaware
SF New Orleans License Subsidiary, Inc.....	Delaware
SF Broadcasting of Mobile, Inc.....	Delaware
SF Mobile License Subsidiary, Inc.....	Delaware
SF Broadcasting of Honolulu, Inc.....	Delaware
SF Broadcasting of Wisconsin, Inc.....	Delaware
SF Broadcasting of Green Bay, Inc.....	Delaware
SF Green Bay License Subsidiary, Inc.....	Delaware

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-18763) of HSN, Inc., formerly known as Silver King Communications, Inc., pertaining to the Amended and Restated Savoy Pictures Entertainment, Inc. Stock Option Plan, the Savoy Pictures Entertainment, Inc. 1995 Stock Option Plan, the Home Shopping Network, Inc. 1996 Stock Option Plan for Outside Directors, the Home Shopping Network, Inc. 1986 Stock Option Plan for Employees and the Home Shopping Network, Inc. 1986 Stock Option Plan for Outside Directors, of our report dated February 26, 1997, with respect to the consolidated financial statements and schedule of HSN, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1996, filed with the Securities and Exchange Commission.

ERNST & YOUNG LLP

New York, New York

April 10, 1997

EXHIBIT 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statement of HSN, Inc. (formerly Silver King Communications, Inc.) on Form S-8 (No. 333-18763) pertaining to the Amended and Restated Savoy Pictures Entertainment, Inc. Stock Option Plan, the Savoy Pictures Entertainment, Inc. 1995 Stock Option Plan, the Home Shopping Network, Inc. 1996 Stock Option Plan for Employees, the Home Shopping Network, Inc. 1996 Stock Option Plan for Outside Directors, the Home Shopping Network, Inc. 1986 Stock Option Plan for Employees and the Home Shopping Network, Inc. 1986 Stock Option Plan for Outside Directors, of our report dated July 2, 1996, included in the Annual Report on Form 10-K of HSN, Inc. for the year ended December 31, 1996.

DELOITTE & TOUCHE LLP

Tampa, Florida

April 10, 1997

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S FINANCIAL STATEMENTS ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	DEC 31 1996
EXCHANGE RATE	1
CASH	42,606
SECURITIES	0
RECEIVABLES	56,832
ALLOWANCES	0
INVENTORY	100,527
CURRENT ASSETS	248,598
PP&E	195,934
DEPRECIATION	73,959
TOTAL ASSETS	2,116,232
CURRENT LIABILITIES	273,042
BONDS	271,430
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	360
OTHER SE	1,158,389
TOTAL LIABILITY AND EQUITY	2,116,232
SALES	75,172
TOTAL REVENUES	75,172
CGS	20,974
TOTAL COSTS	20,974
OTHER EXPENSES	50,586
LOSS PROVISION	0
INTEREST EXPENSE	11,841
INCOME PRETAX	(4,947)
INCOME TAX	1,872
INCOME CONTINUING	(6,539)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(6,539)
EPS PRIMARY	(.61)
EPS DILUTED	(.61)

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