

November 6, 2013



# HSN, Inc. Reports Third Quarter 2013 Results

## Highlights for the Third Quarter 2013:

- Adjusted EPS increased 19% to \$0.70 per share
- Net sales increased 3% with digital sales up 8%
- Adjusted EBITDA increased 4%
- Quarterly dividend increased 39% to \$0.25 per share

ST. PETERSBURG, Fla., Nov. 6, 2013 (GLOBE NEWSWIRE) -- HSN, Inc. (Nasdaq:HSNI) reported results for the third quarter ended September 30, 2013 for HSN, Inc. ("HSNi" or "Company") and its two operating segments, HSN and Cornerstone.

Table 1

### SUMMARY RESULTS AND KEY OPERATING METRICS (a)

(\$ in millions, except per share and average price point amounts)

|                                                         | Q3 2013  | Q3 2012  | Change   |
|---------------------------------------------------------|----------|----------|----------|
| Net Sales                                               | \$ 798.9 | \$ 778.8 | 3%       |
| Adjusted EBITDA (Non-GAAP)                              | \$ 74.6  | \$ 71.8  | 4%       |
| Operating Income (GAAP) (b)                             | \$ 61.1  | \$ 49.3  | 24%      |
| Adjusted Net Income (Non-GAAP)                          | \$ 38.3  | \$ 33.8  | 13%      |
| Income from continuing operations (GAAP) (b)(c)(d)      | \$ 42.1  | \$ 17.6  | 140%     |
| Adjusted EPS (Non-GAAP)                                 | \$ 0.70  | \$ 0.59  | 19%      |
| Diluted EPS from continuing operations (GAAP) (b)(c)(d) | \$ 0.77  | \$ 0.31  | 148%     |
| HSNi:                                                   |          |          |          |
| Average price point                                     | \$ 60.33 | \$ 60.53 | --       |
| Units shipped (millions)                                | 15.0     | 14.9     | 1%       |
| Gross margin                                            | 36.1%    | 36.7%    | (60 bps) |
| Return rate                                             | 17%      | 18.5%    | 150 bps  |
| Digital sales penetration                               | 46.5%    | 44.2%    | 230 bps  |

(a) HSNi's two operating segments, HSN and Cornerstone, are presented separately in Tables 2 and 3 of this release.

(b) Q3 2012 results include an unfavorable sales tax settlement of \$7.8 million, or \$4.8 million net of taxes, or \$0.08 per diluted share.

(c) Q3 2013 results include discrete tax benefits of \$3.7 million, or \$0.07 per diluted share.

(d) Q3 2012 results include costs associated with the redemption of Senior Notes of \$18.3 million, or \$11.4 million net of taxes, or \$0.20 per diluted share.

See reconciliation of Non-GAAP to GAAP measures in Table 4.

### Third Quarter 2013 Results vs Third Quarter 2012 Results

- HSNi's net sales grew 3% over the prior year to \$798.9 million. HSN's net sales were relatively unchanged at \$538.6 million, including 7% growth in digital sales. Cornerstone's net sales increased 8% to \$260.3 million, including 10% growth in digital sales.
- HSNi's Adjusted EBITDA increased 4% to \$74.6 million. These results were driven by a 3% increase in net sales, partially offset by a 60 basis point decline in gross margin. Operating expenses as a percentage of net sales decreased 60 basis points (excluding non-cash charges and a \$7.8 million sales tax settlement in the prior year). GAAP operating income increased 24% to \$61.1 million.
- Diluted EPS from continuing operations increased 148% to \$0.77 compared to \$0.31 in the prior year. Adjusted EPS (which excludes certain significant items identified in Table 4) increased 19% to \$0.70.
- Effective November 6, 2013, HSNi's board of directors approved a quarterly cash dividend of \$0.25 per share representing a 39% increase from the prior dividend of \$0.18 per share and is payable December 18, 2013 to shareholders of record as of December 4, 2013.

"HSNi has built a powerful and diverse portfolio of brands and products enabling us to capitalize on consumer trends, manage marketplace dynamics and position the company for long-term success," said Mindy Grossman, CEO of HSN, Inc. "During the third quarter, this strategy resulted in record customer levels at HSNi, an increase in digital penetration of 230 basis points—including strong growth in mobile, which now represents 12% of our total business—and Adjusted EPS growth of 19%."

Table 2

#### SEGMENT RESULTS

(\$ in millions)

|              | Three Months Ended<br>September 30, |                 |           | Nine Months Ended<br>September 30, (a) (b) |                   |           |
|--------------|-------------------------------------|-----------------|-----------|--------------------------------------------|-------------------|-----------|
|              | 2013                                | 2012            | Change    | 2013                                       | 2012              | Change    |
| Net Sales    |                                     |                 |           |                                            |                   |           |
| HSN          | \$ 538.6                            | \$ 537.4        | 0%        | \$ 1,614.9                                 | \$ 1,581.3        | 2%        |
| Cornerstone  | 260.3                               | 241.4           | 8%        | 769.2                                      | 702.6             | 9%        |
| Total HSNi   | <u>\$ 798.9</u>                     | <u>\$ 778.8</u> | <u>3%</u> | <u>\$ 2,384.1</u>                          | <u>\$ 2,283.9</u> | <u>4%</u> |
| Gross Profit |                                     |                 |           |                                            |                   |           |
| HSN          | \$ 186.2                            | \$ 191.8        | (3%)      | \$ 566.1                                   | \$ 561.9          | 1%        |

|                                    |                 |                 |            |                 |                 |            |
|------------------------------------|-----------------|-----------------|------------|-----------------|-----------------|------------|
| Cornerstone                        | 102.4           | 93.7            | 9%         | 311.4           | 284.0           | 10%        |
| Total HSNi                         | <u>\$ 288.6</u> | <u>\$ 285.5</u> | <u>1%</u>  | <u>\$ 877.5</u> | <u>\$ 845.9</u> | <u>4%</u>  |
| Adjusted EBITDA (Non-GAAP measure) |                 |                 |            |                 |                 |            |
| HSN                                | \$ 57.1         | \$ 56.8         | 1%         | \$ 173.2        | \$ 166.8        | 4%         |
| Cornerstone                        | 17.4            | 15.0            | 16%        | 53.4            | 50.8            | 5%         |
| Total HSNi                         | <u>\$ 74.6</u>  | <u>\$ 71.8</u>  | <u>4%</u>  | <u>\$ 226.6</u> | <u>\$ 217.6</u> | <u>4%</u>  |
| Operating Income                   |                 |                 |            |                 |                 |            |
| HSN                                | \$ 47.6         | \$ 47.0         | 1%         | \$ 143.2        | \$ 137.8        | 4%         |
| Cornerstone (c)                    | 13.5            | 2.3             | 477%       | 41.7            | 28.2            | 48%        |
| Total HSNi                         | <u>\$ 61.1</u>  | <u>\$ 49.3</u>  | <u>24%</u> | <u>\$ 184.9</u> | <u>\$ 165.9</u> | <u>11%</u> |

(a) Chasing Fireflies was acquired on April 1, 2012; therefore, the acquisition impacts the comparability of periods for the nine months ended September 30.

(b) HSN's results for the nine months ended September 30, 2012 included one extra day versus the current period because of leap year.

(c) Q3 2012 results include an unfavorable sales tax settlement of \$7.8 million.

See reconciliation of Non-GAAP to GAAP measures in Table 4.

**Table 3**

**SEGMENT KEY OPERATING METRICS**

|                                | Three Months Ended<br>September 30, |          |           | Nine Months Ended<br>September 30, |          |          |
|--------------------------------|-------------------------------------|----------|-----------|------------------------------------|----------|----------|
|                                | 2013                                | 2012     | Change    | 2013                               | 2012     | Change   |
| HSN:                           |                                     |          |           |                                    |          |          |
| Average price point            | \$ 55.70                            | \$ 58.74 | (5%)      | \$ 56.68                           | \$ 60.17 | (6%)     |
| Units shipped (millions)       | 11.3                                | 11.0     | 3%        | 33.7                               | 31.4     | 7%       |
| Gross margin                   | 34.6%                               | 35.7%    | (110 bps) | 35.1%                              | 35.5%    | (40 bps) |
| Return rate                    | 18.7%                               | 20.5%    | 180 bps   | 19.3%                              | 19.9%    | 60 bps   |
| Digital sales penetration      | 36.8%                               | 34.6%    | 220 bps   | 36.0%                              | 34.4%    | 160 bps  |
| Cornerstone:                   |                                     |          |           |                                    |          |          |
| Average price point            | \$ 74.22                            | \$ 65.52 | 13%       | \$ 78.33                           | \$ 72.39 | 8%       |
| Units shipped (millions)       | 3.6                                 | 3.8      | (5%)      | 10.1                               | 10.1     | 0%       |
| Gross margin                   | 39.3%                               | 38.8%    | 50 bps    | 40.5%                              | 40.4%    | 10 bps   |
| Return rate                    | 13.2%                               | 13.6%    | 40 bps    | 13.1%                              | 13.7%    | 60 bps   |
| Digital sales penetration      | 66.5%                               | 65.5%    | 100 bps   | 65.3%                              | 63.6%    | 170 bps  |
| Catalog circulation (millions) | 82.0                                | 77.6     | 6%        | 236.7                              | 223.4    | 6%       |

**HSN Segment Results for the Third Quarter 2013**

HSN's net sales were \$538.6 million compared to \$537.4 million from the prior year. Digital sales grew 7% with penetration increasing 220 basis points to 36.8%. Sales grew in home design and household, offset by lower sales in jewelry, apparel & accessories and culinary. Net sales were favorably affected by the product mix shift to categories with historically lower return rates as well as experiencing overall lower return rates in many product categories. The average price point decreased 5% while units shipped increased 3%.

Gross profit decreased 3% to \$186.2 million. Gross margin decreased 110 basis points to 34.6% primarily due to the product mix shift and increased promotional activity. Operating expenses (excluding non-cash charges) decreased 4% to \$129.1 million primarily due to the timing of certain marketing programs and bad debt expenses.

Adjusted EBITDA increased 1% to \$57.1 million compared to \$56.8 million in the prior year primarily due to the decrease in operating expenses, partially offset by the decline in gross profit. Operating income increased 1% to \$47.6 million compared to \$47.0 million in the prior year.

### **Cornerstone Segment Results for the Third Quarter 2013**

Cornerstone's net sales were \$260.3 million, an increase of 8% from the prior year. The increase in net sales was driven by sales growth in the home brands. Digital sales grew 10% with penetration increasing 100 basis points to 66.5%.

Gross profit increased 9% to \$102.4 million. Gross margin increased 50 basis points to 39.3% primarily due to higher product margins. Operating expenses (excluding a decrease of \$0.9 million in non-cash charges and a \$7.8 million sales tax settlement in the prior year) increased 8% to \$84.9 million largely due to an increase in selling and marketing costs, including catalog costs.

Adjusted EBITDA increased 16% to \$17.4 million primarily due to the increases in net sales and gross margin, partially offset by the increase in operating expenses (excluding non-cash charges and the sales tax settlement). Operating income (which includes non-cash charges and the sales tax settlement) was \$13.5 million compared to \$2.3 million in the prior year.

### **Effective Tax Rate**

HSNi's effective tax rate for continuing operations was 29% for the third quarter of 2013 as compared to 36% in the prior year. The change in the effective tax rate was primarily due to discrete tax benefits of \$3.7 million realized in the current quarter. Excluding the impact of these items, the third quarter effective tax rate for continuing operations would have been 36%. The Company expects its annual 2013 effective tax rate to be approximately 36%.

### **Liquidity and Capital Resources**

As of September 30, 2013, HSNi had cash and cash equivalents of \$108.3 million compared to \$222.1 million at December 31, 2012 and \$129.9 million at September 30, 2012. Net cash provided by operating activities in the nine months ended September 30, 2013 was \$95.1 million compared to \$5.1 million in the prior year, an improvement of \$90.0 million, primarily due to improved operating performance and changes in working capital. Cash used to fund inventory decreased compared to prior year due to lower inventory receipts and an increase in sales. Working capital was also positively impacted by the cash collected from HSN's Flexpay program.

Effective November 6, 2013, HSNi's board of directors approved a quarterly cash dividend of \$0.25 per share payable December 18, 2013 to shareholders of record as of December 4, 2013. This dividend represents a 39% increase in the prior dividend of \$0.18 per share and demonstrates HSNi's continued confidence in its long-term growth potential. HSNi initiated its cash dividend in September 2011 as part of a balanced and disciplined approach to return value to shareholders, while preserving liquidity and flexibility to invest in its business.

During the third quarter, HSNi repurchased approximately 0.4 million shares of its common stock at a cost of \$21.9 million, or an average cost of \$55.79 per share. From inception of the share repurchase program in September 2011 through November 5, 2013, HSNi repurchased a total of 9.0 million shares at an aggregate cost of \$395.3 million, representing an average cost of \$44.00 per share. HSNi is authorized to purchase up to 10 million shares under the repurchase program authorized in September 2011.

## **OTHER INFORMATION**

### **Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995**

This press release may contain forward-looking statements relating to the future performance and financial condition of HSNi, its operating segments and its consolidated subsidiaries. Forward-looking statements are based on management's current expectations and assumptions which may not prove to be accurate. Forward-looking statements are not guarantees of performance and there are a number of known and unknown risks, uncertainties, contingencies and other factors (many of which are outside our control) that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include but are not limited to: changes in political, business and economic conditions, particularly those that affect consumer confidence, consumer spending or digital sales growth; changes in our relationships with pay television operators, vendors, manufacturers and other third parties; changes in shipping and handling costs, particularly if we are unable to offset them; any technological or regulatory developments that could negatively impact the way we do business, including regulations regarding state and local sales and use taxes; risks associated with possible systems failures and/or security breaches, including any breach that results in the theft, transfer or unauthorized disclosure of customer, employee or company information, or the failure to comply with various laws applicable to HSNi in the event of such a breach; HSNi's business prospects and strategy, including whether HSNi's initiatives and investments will be effective; our ability to offer new or innovative products and services through various platforms in a cost effective manner and consumer acceptance of these products and services; and the loss of any key member of our senior management team. More information about potential factors that could affect HSNi's business and financial results is included in our filings with the U.S. Securities and Exchange Commission. Other unknown or unpredictable factors that could also adversely affect HSNi's business, financial condition and results of operations may arise from time to time. In light of these risks and uncertainties, any forward-looking statements may not prove to be accurate. All written or oral forward-looking statements that are made or attributable to us are expressly qualified in their entirety by this cautionary notice. Accordingly, you should not place undue reliance on any forward-looking statements, which only reflect the views of HSNi management as of the date of this press release. Such statements speak only to the date such statements are made and HSNi does not undertake to update any forward-looking statements. Historical results should not be considered as an indication of future performance.

### **Conference Call**

Mindy Grossman, Chief Executive Officer, and Judy Schmeling, Chief Operating Officer and Chief Financial Officer, will hold a conference call on Wednesday, November 6, 2013 at 9:00 a.m., Eastern Time, to discuss these results. Those interested in participating in the conference call should dial 877-307-0246 or 224-357-2394 at least five minutes prior to the

call. There will also be a simultaneous audio webcast available via HSNi's website at <http://www.hsn.com>.

A replay of the conference call can be accessed until Wednesday, November 20, 2013 by dialing 855-859-2056 or 404-537-3406, plus the pass code 76016146 and will also be hosted on the company's website for a limited time.

## About HSN, Inc.

HSN, Inc. (Nasdaq:HSNI) is a \$3.3 billion interactive multichannel retailer with strong direct-to-consumer expertise among its two operating segments, HSN and Cornerstone. HSNi offers innovative, differentiated retail experiences on TV, online, via mobile devices, in catalogs, and in brick and mortar stores. HSN, a leading interactive multichannel retailer which offers a curated assortment of exclusive products combined with top brand names, now reaches 95 million homes (24 hours a day, seven days a week, live 364 days a year). HSN.com offers a differentiated digital experience by leveraging content, community and commerce. In addition to its existing media platforms, HSN is the industry leader in transactional innovation, including services such as HSN Shop by Remote<sup>®</sup>, the only service of its kind in the U.S., the HSN Shopping App for mobile handheld devices and HSN on Demand<sup>®</sup>. Cornerstone comprises leading home and apparel lifestyle brands including Ballard Designs<sup>®</sup>, Chasing Fireflies<sup>®</sup>, Frontgate<sup>®</sup>, Garnet Hill<sup>®</sup>, Grandin Road<sup>®</sup>, Improvements<sup>®</sup> and TravelSmith<sup>®</sup>. Cornerstone distributes more than 300 million catalogs annually, operates eight separate digital sales sites and operates 11 retail and outlet stores.

## GAAP FINANCIAL STATEMENTS

### HSN, INC. CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited; in thousands except per share amounts)

|                                                              | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |              |
|--------------------------------------------------------------|-------------------------------------|------------|------------------------------------|--------------|
|                                                              | 2013                                | 2012       | 2013                               | 2012         |
| Net sales                                                    | \$ 798,890                          | \$ 778,769 | \$ 2,384,147                       | \$ 2,283,864 |
| Cost of sales                                                | 510,300                             | 493,253    | 1,506,633                          | 1,437,986    |
| Gross profit                                                 | 288,590                             | 285,516    | 877,514                            | 845,878      |
| Operating expenses:                                          |                                     |            |                                    |              |
| Selling and marketing                                        | 165,395                             | 163,169    | 504,812                            | 481,351      |
| General and administrative                                   | 51,708                              | 63,341     | 157,495                            | 170,364      |
| Depreciation and amortization                                | 10,402                              | 9,694      | 30,305                             | 28,250       |
| Total operating expenses                                     | 227,505                             | 236,204    | 692,612                            | 679,965      |
| Operating income                                             | 61,085                              | 49,312     | 184,902                            | 165,913      |
| Other income (expense):                                      |                                     |            |                                    |              |
| Interest expense, net                                        | (1,625)                             | (3,679)    | (4,928)                            | (18,545)     |
| Loss on debt extinguishment                                  | --                                  | (18,309)   | --                                 | (18,627)     |
| Total other expense, net                                     | (1,625)                             | (21,988)   | (4,928)                            | (37,172)     |
| <b>Income from continuing operations before income taxes</b> | 59,460                              | 27,324     | 179,974                            | 128,741      |
| Income tax provision                                         | (17,408)                            | (9,766)    | (63,098)                           | (48,284)     |
| <b>Income from continuing operations</b>                     | 42,052                              | 17,558     | 116,876                            | 80,457       |

|                                                        |                  |                  |                   |                  |
|--------------------------------------------------------|------------------|------------------|-------------------|------------------|
| Income (loss) from discontinued operations, net of tax | --               | 128              | --                | (5,854)          |
| <b>Net income</b>                                      | <u>\$ 42,052</u> | <u>\$ 17,686</u> | <u>\$ 116,876</u> | <u>\$ 74,603</u> |

**Income from continuing operations per share**

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 0.79 | \$ 0.32 | \$ 2.17 | \$ 1.41 |
| Diluted | \$ 0.77 | \$ 0.31 | \$ 2.12 | \$ 1.37 |

**Net income per share**

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 0.79 | \$ 0.32 | \$ 2.17 | \$ 1.31 |
| Diluted | \$ 0.77 | \$ 0.31 | \$ 2.12 | \$ 1.27 |

**Shares used in computing earnings per share**

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 53,234 | 55,476 | 53,849 | 56,913 |
| Diluted | 54,379 | 57,085 | 55,123 | 58,524 |

**HSN, INC. CONSOLIDATED BALANCE SHEETS**

(unaudited; in thousands)

|                                                   | <b>September 30,<br/>2013</b> | <b>December 31,<br/>2012</b> | <b>September 30,<br/>2012</b> |
|---------------------------------------------------|-------------------------------|------------------------------|-------------------------------|
| <b>ASSETS</b>                                     |                               |                              |                               |
| <b>Current assets:</b>                            |                               |                              |                               |
| Cash and cash equivalents                         | \$ 108,251                    | \$ 222,092                   | \$ 129,938                    |
| Accounts receivable, net                          | 192,931                       | 249,890                      | 178,144                       |
| Inventories                                       | 383,144                       | 330,936                      | 391,316                       |
| Deferred income taxes                             | 29,560                        | 27,603                       | 22,640                        |
| Prepaid expenses and other current assets         | 59,216                        | 46,172                       | 54,022                        |
| Total current assets                              | 773,102                       | 876,693                      | 776,060                       |
| Property and equipment, net                       | 170,903                       | 171,303                      | 159,026                       |
| Intangible assets, net                            | 265,761                       | 266,876                      | 267,466                       |
| Goodwill                                          | 9,858                         | 9,858                        | 9,858                         |
| Other non-current assets                          | 6,692                         | 7,222                        | 6,753                         |
| <b>TOTAL ASSETS</b>                               | <u>\$ 1,226,316</u>           | <u>\$ 1,331,952</u>          | <u>\$ 1,219,163</u>           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                               |                              |                               |
| <b>Current liabilities:</b>                       |                               |                              |                               |
| Accounts payable, trade                           | \$ 228,296                    | \$ 267,061                   | \$ 233,904                    |
| Current maturities of long-term debt              | 12,500                        | 9,375                        | 6,250                         |
| Accrued expenses and other current liabilities    | 171,114                       | 215,389                      | 170,951                       |
| Total current liabilities                         | 411,910                       | 491,825                      | 411,105                       |
| Long-term debt, less current maturities           | 231,250                       | 240,625                      | 243,750                       |
| Deferred income taxes                             | 89,893                        | 79,002                       | 76,051                        |
| Other long-term liabilities                       | 11,619                        | 15,986                       | 15,716                        |
| Total liabilities                                 | 744,672                       | 827,438                      | 746,622                       |
| Total shareholders' equity                        | 481,644                       | 504,514                      | 472,541                       |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <u>\$ 1,226,316</u>           | <u>\$ 1,331,952</u>          | <u>\$ 1,219,163</u>           |

**HSN, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited; in thousands)

|                                                                                                                                                | <b>Nine Months Ended<br/>September 30,</b> |                  |
|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|------------------|
|                                                                                                                                                | <b>2013</b>                                | <b>2012</b>      |
| <b>Cash flows from operating activities attributable to continuing operations:</b>                                                             |                                            |                  |
| Net income                                                                                                                                     | \$ 116,876                                 | \$ 74,603        |
| Loss from discontinued operations, net of tax                                                                                                  | --                                         | (5,854)          |
| <b>Income from continuing operations</b>                                                                                                       | <b>116,876</b>                             | <b>80,457</b>    |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities attributable to continuing operations: |                                            |                  |
| Depreciation and amortization                                                                                                                  | 30,305                                     | 28,250           |
| Stock-based compensation expense                                                                                                               | 10,279                                     | 15,278           |
| Loss on debt extinguishment                                                                                                                    | --                                         | 18,627           |
| Amortization of debt issuance costs                                                                                                            | 847                                        | 1,491            |
| Loss on disposition of fixed assets                                                                                                            | 1,069                                      | 449              |
| Deferred income taxes                                                                                                                          | 8,412                                      | (418)            |
| Bad debt expense                                                                                                                               | 15,001                                     | 16,547           |
| Excess tax benefits from stock-based awards                                                                                                    | (7,754)                                    | (16,162)         |
| Other                                                                                                                                          | --                                         | 42               |
| Changes in current assets and liabilities:                                                                                                     |                                            |                  |
| Accounts receivable                                                                                                                            | 41,745                                     | 27,182           |
| Inventories                                                                                                                                    | (52,208)                                   | (96,497)         |
| Prepaid expenses and other assets                                                                                                              | (12,725)                                   | (10,819)         |
| Accounts payable, accrued expenses and other current liabilities                                                                               | (56,698)                                   | (59,322)         |
| <b>Net cash provided by operating activities attributable to continuing operations</b>                                                         | <b>95,149</b>                              | <b>5,105</b>     |
| <b>Cash flows from investing activities attributable to continuing operations:</b>                                                             |                                            |                  |
| Capital expenditures                                                                                                                           | (34,088)                                   | (28,230)         |
| Acquisition of business, net of cash received                                                                                                  | --                                         | (22,875)         |
| Proceeds received on sale of subsidiary                                                                                                        | --                                         | 6,580            |
| <b>Net cash used in investing activities attributable to continuing operations</b>                                                             | <b>(34,088)</b>                            | <b>(44,525)</b>  |
| <b>Cash flows from financing activities attributable to continuing operations:</b>                                                             |                                            |                  |
| Redemption of Senior Notes                                                                                                                     | --                                         | (253,500)        |
| Borrowing under term loan                                                                                                                      | --                                         | 250,000          |
| Repayments of long-term debt                                                                                                                   | (6,250)                                    | --               |
| Payments of debt issuance costs                                                                                                                | --                                         | (4,607)          |
| Repurchase of common stock                                                                                                                     | (137,025)                                  | (184,652)        |
| Cash dividends paid                                                                                                                            | (29,046)                                   | (21,272)         |
| Proceeds from issuance of common stock                                                                                                         | 5,886                                      | 6,357            |
| Tax withholdings related to stock-based awards                                                                                                 | (13,897)                                   | (15,482)         |
| Excess tax benefits from stock-based awards                                                                                                    | 7,754                                      | 16,162           |
| Payment of contingent consideration obligation                                                                                                 | (2,172)                                    | --               |
| <b>Net cash used in financing activities attributable to continuing operations</b>                                                             | <b>(174,750)</b>                           | <b>(206,994)</b> |
| <b>Total cash used in continuing operations</b>                                                                                                | <b>(113,689)</b>                           | <b>(246,414)</b> |
| <b>Cash flows from discontinued operations:</b>                                                                                                |                                            |                  |

|                                                                               |                          |                          |
|-------------------------------------------------------------------------------|--------------------------|--------------------------|
| Net cash used in operating activities attributable to discontinued operations | (152)                    | (5,294)                  |
| Net cash used in investing activities attributable to discontinued operations | --                       | (162)                    |
| <b>Total cash used in discontinued operations</b>                             | <u>(152)</u>             | <u>(5,456)</u>           |
| <b>Net decrease in cash and cash equivalents</b>                              | (113,841)                | (251,870)                |
| Cash and cash equivalents at beginning of period                              | <u>222,092</u>           | <u>381,808</u>           |
| <b>Cash and cash equivalents at end of period</b>                             | <u><u>\$ 108,251</u></u> | <u><u>\$ 129,938</u></u> |

**Table 4**

**RECONCILIATIONS OF NON-GAAP TO GAAP MEASURES**

**HSN, INC. RECONCILIATION OF NON-GAAP TO GAAP DETAILED SEGMENT RESULTS**

(unaudited; in thousands)

|                                                       | Three Months Ended<br>September 30, 2013 |                  |                  | Three Months Ended<br>September 30, 2012 |                 |                  |
|-------------------------------------------------------|------------------------------------------|------------------|------------------|------------------------------------------|-----------------|------------------|
|                                                       | HSN                                      | Cornerstone      | Total            | HSN                                      | Cornerstone     | Total            |
| <b>Adjusted EBITDA</b>                                | \$ 57,136                                | \$ 17,426        | \$ 74,562        | \$ 56,790                                | \$ 14,969       | \$ 71,759        |
| Stock-based compensation expense                      | (2,128)                                  | (896)            | (3,024)          | (2,771)                                  | (1,857)         | (4,628)          |
| Depreciation and amortization                         | (7,368)                                  | (3,034)          | (10,402)         | (6,665)                                  | (3,029)         | (9,694)          |
| Sales tax settlement                                  | --                                       | --               | --               | --                                       | (7,750)         | (7,750)          |
| Loss on disposition of fixed assets                   | (10)                                     | (41)             | (51)             | (374)                                    | (1)             | (375)            |
| <b>Operating income</b>                               | <u>\$ 47,630</u>                         | <u>\$ 13,455</u> | 61,085           | <u>\$ 46,980</u>                         | <u>\$ 2,332</u> | 49,312           |
| Total other expense, net                              |                                          |                  | (1,625)          |                                          |                 | (21,988)         |
| Income from continuing operations before income taxes |                                          |                  | 59,460           |                                          |                 | 27,324           |
| Income tax provision                                  |                                          |                  | (17,408)         |                                          |                 | (9,766)          |
| Income from continuing operations                     |                                          |                  | 42,052           |                                          |                 | 17,558           |
| Income from discontinued operations, net of tax       |                                          |                  | --               |                                          |                 | 128              |
| <b>Net income</b>                                     |                                          |                  | <u>\$ 42,052</u> |                                          |                 | <u>\$ 17,686</u> |

|                                                       | Nine Months Ended<br>September 30, 2013 |                  |            | Nine Months Ended<br>September 30, 2012 |                  |            |
|-------------------------------------------------------|-----------------------------------------|------------------|------------|-----------------------------------------|------------------|------------|
|                                                       | HSN                                     | Cornerstone      | Total      | HSN                                     | Cornerstone      | Total      |
| <b>Adjusted EBITDA</b>                                | \$ 173,205                              | \$ 53,350        | \$ 226,555 | \$ 166,821                              | \$ 50,819        | \$ 217,640 |
| Stock-based compensation expense                      | (7,712)                                 | (2,567)          | (10,279)   | (8,810)                                 | (6,468)          | (15,278)   |
| Depreciation and amortization                         | (21,226)                                | (9,079)          | (30,305)   | (19,839)                                | (8,411)          | (28,250)   |
| Sales tax settlement                                  | --                                      | --               | --         | --                                      | (7,750)          | (7,750)    |
| Loss on disposition of fixed assets                   | (1,028)                                 | (41)             | (1,069)    | (418)                                   | (31)             | (449)      |
| <b>Operating income</b>                               | <u>\$ 143,239</u>                       | <u>\$ 41,663</u> | 184,902    | <u>\$ 137,754</u>                       | <u>\$ 28,159</u> | 165,913    |
| Total other expense, net                              |                                         |                  | (4,928)    |                                         |                  | (37,172)   |
| Income from continuing operations before income taxes |                                         |                  | 179,974    |                                         |                  | 128,741    |

|                                                           |                   |                  |
|-----------------------------------------------------------|-------------------|------------------|
| Income tax provision                                      | (63,098)          | (48,284)         |
| Income from continuing operations                         | 116,876           | 80,457           |
| Income (loss) from discontinued operations,<br>net of tax | --                | (5,854)          |
| <b>Net income</b>                                         | <b>\$ 116,876</b> | <b>\$ 74,603</b> |

#### HSN, INC. RECONCILIATION OF ADJUSTED NET INCOME AND ADJUSTED EPS TO GAAP NET INCOME AND GAAP DILUTED EPS

(unaudited; in thousands except per share amounts)

|                                                         | Three Months Ended<br>September 30, |                |                  |                | Nine Months Ended<br>September 30, |                |                  |                |
|---------------------------------------------------------|-------------------------------------|----------------|------------------|----------------|------------------------------------|----------------|------------------|----------------|
|                                                         | 2013                                |                | 2012             |                | 2013                               |                | 2012             |                |
|                                                         | Net<br>Income                       | EPS            | Net<br>Income    | EPS            | Net<br>Income                      | EPS            | Net<br>Income    | EPS            |
| <b>Non-GAAP Adjusted</b>                                | \$ 38,330                           | \$ 0.70        | \$ 33,831        | \$ 0.59        | \$ 113,154                         | \$ 2.05        | \$ 96,927        | \$ 1.66        |
| Loss on debt extinguishment, net of tax                 | --                                  | --             | (11,434)         | (0.20)         | --                                 | --             | (11,631)         | (0.20)         |
| Sales tax settlement, net of tax                        | --                                  | --             | (4,839)          | (0.08)         | --                                 | --             | (4,839)          | (0.08)         |
| Discrete income tax benefit                             | 3,722                               | 0.07           | --               | --             | 3,722                              | 0.07           | --               | --             |
| <b>GAAP results from continuing operations</b>          | 42,052                              | 0.77           | 17,558           | 0.31           | 116,876                            | 2.12           | 80,457           | 1.37           |
| Income (loss) from discontinued operations, net of tax  | --                                  | --             | 128              | 0.00           | --                                 | --             | (5,854)          | (0.10)         |
| <b>GAAP</b>                                             | <b>\$ 42,052</b>                    | <b>\$ 0.77</b> | <b>\$ 17,686</b> | <b>\$ 0.31</b> | <b>\$ 116,876</b>                  | <b>\$ 2.12</b> | <b>\$ 74,603</b> | <b>\$ 1.27</b> |
| <b>GAAP diluted weighted average shares outstanding</b> | 54,379                              |                | 57,085           |                | 55,123                             |                | 58,524           |                |

SEE IMPORTANT NOTES AT END OF THIS DOCUMENT

#### HSN, INC.'S PRINCIPLES OF FINANCIAL REPORTING

HSNi reports Adjusted EBITDA, Adjusted Net Income and Adjusted EPS, all of which are supplemental measures to GAAP. These measures are among the primary metrics by which we evaluate the performance of our businesses, on which our internal budgets are based and by which management is compensated. We believe that investors should have access to, and we are obligated to provide, the same set of tools that we use in analyzing our results. These non-GAAP measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. HSNi endeavors to compensate for the limitations of the non-GAAP measures presented by providing the comparable GAAP measures with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the non-GAAP measures. We encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measures contained in this release and which we discuss below.

#### Definitions of Non-GAAP Measures

Adjusted EBITDA is defined as operating income excluding, if applicable: (1) non-cash charges including: (a) stock-based compensation expense, (b) amortization of intangibles, (c) depreciation and gains and losses on asset dispositions, and (d) goodwill, long-lived asset and intangible asset impairments; (2) pro forma adjustments for significant

acquisitions; and (3) other significant items. Significant items, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, thereby affecting the comparability of results. Adjusted EBITDA is not a measure determined in accordance with GAAP, and should not be considered a substitute for operating income, net income or any other measure determined in accordance with GAAP. Adjusted EBITDA is used as a measurement of operating efficiency and overall financial performance and HSNi believes it to be a helpful measure for those evaluating companies in the retail and media industries. Adjusted EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Adjusted EBITDA has certain limitations in that it does not take into account the impact to HSNi's statement of operations of certain expenses, gains and losses that are excluded from the company's definition of Adjusted EBITDA.

Adjusted Net Income is defined as net income available to common shareholders excluding, net of tax effects, if applicable: (1) goodwill, long-lived asset and intangible asset impairments, (2) pro forma adjustments for significant acquisitions, (3) discontinued operations and (4) other significant items. Significant items, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, thereby affecting the comparability of results. We believe Adjusted Net Income is useful to investors because it represents HSNi's consolidated results taking into account charges which are not allocated to the operating businesses such as interest expense and taxes, but excluding the effects of goodwill and asset impairments, significant acquisition-related adjustments, discontinued operations and certain other significant items. Effective with the fourth quarter of 2012, HSNi modified its definition of Adjusted Net Income; therefore, previously reported amounts were modified to conform with the current definition.

Adjusted EPS is defined as Adjusted Net Income divided by diluted weighted average shares outstanding for Adjusted EPS purposes. We believe Adjusted EPS is useful to investors because it represents, on a per share basis, HSNi's consolidated results, taking into account charges which are not allocated to the operating businesses such as interest expense and taxes, but excluding the effects of goodwill and asset impairments, significant acquisition-related adjustments, discontinued operations and certain other significant items. Adjusted Net Income and Adjusted EPS have certain limitations in that they do not take into account the impact of goodwill and asset impairments, significant acquisition-related adjustments, discontinued operations and certain other significant items. Therefore, we think it is important to evaluate these measures along with our consolidated statement of operations.

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Source: HSN, Inc.