

August 4, 2010



HSN, Inc. Reports Second Quarter 2010 Results

- HSNi net sales increased 8% with internet sales up 16%
- HSNi gross profit margin improved 130 basis points to 37.5%
- HSNi Adjusted EBITDA increased 47% to \$63.6 million
- Adjusted EPS increased 74% to \$0.47 compared to \$0.27 in the prior year

ST. PETERSBURG, Fla., Aug. 4, 2010 (GLOBE NEWSWIRE) -- HSN, Inc. (Nasdaq:HSNI) reported results for the second quarter ended June 30, 2010 for HSN, Inc. ("HSNi") 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)

| | Q2 2010 | Q2 2009 | Change |
|----------------------|----------|----------|----------|
| Net Sales | \$ 690.0 | \$ 640.1 | 8% |
| Non-GAAP: | | | |
| Adjusted EBITDA | \$ 63.6 | \$ 43.3 | 47% |
| Adjusted Net Income | \$ 27.9 | \$ 15.4 | 81% |
| Adjusted EPS | \$ 0.47 | \$ 0.27 | 74% |
| GAAP: | | | |
| Operating Income | \$ 48.4 | \$ 30.7 | 57% |
| Net Income | \$ 24.7 | \$ 13.6 | 82% |
| Diluted EPS | \$ 0.42 | \$ 0.24 | 75% |
| HSNi: | | | |
| Average price point | \$ 60.53 | \$ 60.60 | (0%) |
| Units shipped | | | |
| (millions) | 12.7 | 11.7 | 8% |
| Gross profit % | 37.5% | 36.2% | 130 bps |
| Return rate % | 18.2% | 18.0% | (20 bps) |
| Internet net sales % | | | |
| (b) | 38.5% | 35.8% | 270 bps |

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

(b) Internet net sales as a percent of total HSNi net sales.

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

Second Quarter 2010 Results vs Second Quarter 2009 Results

- HSNi's net sales grew 8% to \$690.0 million over the prior year. Internet net sales increased 16% and now represent 38.5% of HSNi net sales. Net sales for HSN increased 3% which included 10% sales growth at HSN.com. Cornerstone's net sales increased 20% to \$223.6 million which included 23% growth in internet sales.
- HSNi's Adjusted EBITDA increased 47% to \$63.6 million driven by the 8% increase in net sales and a 130 basis point increase in gross profit margin. Adjusted EBITDA margin improved to 9.2% compared to 6.8% in the prior year. Operating income increased 57% to \$48.4 million compared to \$30.7 million in the prior year.
- Adjusted EPS increased 74% to \$0.47 from \$0.27 in the prior year. GAAP diluted EPS increased 75% to \$0.42 from \$0.24 in the prior year.

-- HSNi ended the second quarter of 2010 with \$279.9 million in cash and cash equivalents.

"HSNi's positive performance continued in the second quarter with a net sales increase of 8% and an EBITDA increase of 47%. Our focus on creating multi-channel experiences for our customers resulted in e-commerce revenue growth of 16% and an increase in our internet penetration to 39% from 36% in the prior year," said HSNi CEO Mindy Grossman.

"At HSN, strong growth in fashion and wellness helped drive an increase in gross profit of 120 basis points and contributed to the 11% growth in the number of best customers. At Cornerstone, the recovery of the business accelerated with net sales increasing 20% led by renewed demand for the Frontgate, Ballard Designs and Garnet Hill brands, turnaround efforts at TravelSmith and e-commerce initiatives across the portfolio," continued Ms. Grossman. "We are focused on building our business for the long-term - intelligently, strategically and with a commitment to delivering sustainable results and value for our shareholders."

Table 2

SEGMENT RESULTS
(\$ in millions)

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--|--------------------------------|----------|--------|------------------------------|------------|--------|
| | 2010 | 2009 | Change | 2010 | 2009 | Change |
| Net Sales | | | | | | |
| HSN | \$ 466.4 | \$ 454.2 | 3% | \$ 985.3 | \$ 929.2 | 6% |
| Cornerstone | 223.6 | 185.9 | 20% | 387.9 | 340.5 | 14% |
| Total HSNi | \$ 690.0 | \$ 640.1 | 8% | \$ 1,373.2 | \$ 1,269.7 | 8% |
| Gross Profit | | | | | | |
| HSN | \$ 162.2 | \$ 152.8 | 6% | \$ 333.8 | \$ 304.7 | 10% |
| Cornerstone | 96.5 | 79.1 | 22% | 161.3 | 138.4 | 17% |
| Total HSNi | \$ 258.7 | \$ 231.9 | 12% | \$ 495.1 | \$ 443.1 | 12% |
| Adjusted EBITDA (Non-GAAP measure) | | | | | | |
| HSN | \$ 45.1 | \$ 38.4 | 17% | \$ 95.3 | \$ 73.6 | 29% |
| Cornerstone | 18.5 | 4.9 | 277% | 20.0 | (4.3) | 567% |
| Total HSNi | \$ 63.6 | \$ 43.3 | 47% | \$ 115.3 | \$ 69.3 | 66% |
| Operating Income (Loss) | | | | | | |
| HSN | \$ 34.5 | \$ 28.7 | 20% | \$ 73.7 | \$ 54.9 | 34% |
| Cornerstone | 13.9 | 2.0 | 598% | 12.1 | (10.3) | 218% |
| Total HSNi | \$ 48.4 | \$ 30.7 | 57% | \$ 85.8 | \$ 44.6 | 92% |

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

Table 3

SEGMENT KEY OPERATING METRICS

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--|--------------------------------|------|--------|------------------------------|------|--------|
| | 2010 | 2009 | Change | 2010 | 2009 | Change |

| | | | | | | |
|--------------------------------|----------|----------|----------|----------|----------|----------|
| HSN: | | | | | | |
| Average price point | \$ 56.64 | \$ 57.55 | (2%) | \$ 58.03 | \$ 57.41 | 1% |
| Units shipped (millions) | 9.4 | 8.9 | 6% | 19.3 | 18.2 | 6% |
| Gross profit % | 34.8% | 33.6% | 120 bps | 33.9% | 32.8% | 110 bps |
| Return rate % | 19.8% | 19.2% | (60 bps) | 19.0% | 18.5% | (50 bps) |
| Internet net sales % (a) | 30.4% | 28.4% | 200 bps | 31.0% | 29.2% | 180 bps |
| Cornerstone: | | | | | | |
| Average price point | \$ 71.81 | \$ 70.29 | 2% | \$ 66.92 | \$ 66.58 | 1% |
| Units shipped (millions) | 3.2 | 2.8 | 16% | 6.1 | 5.5 | 11% |
| Gross profit % | 43.1% | 42.6% | 50 bps | 41.6% | 40.6% | 100 bps |
| Return rate % | 14.5% | 14.8% | 30 bps | 14.6% | 15.5% | 90 bps |
| Internet net sales % (a) | 55.4% | 54.0% | 140 bps | 55.9% | 55.5% | 40 bps |
| Catalog circulation (millions) | 74.4 | 64.0 | 16% | 133.2 | 124.5 | 7% |

(a) Internet net sales as a percent of segment net sales.

HSN Segment Results for the Second Quarter 2010

HSN's net sales increased 3% to \$466.4 million and gross profit increased 6% to \$162.2 million. Gross profit margin improved 120 basis points to 34.8% from 33.6%. These results were primarily due to a strategic shift in product mix towards fashion and wellness. This mix shift also resulted in a 6% increase in units shipped and a 2% decrease in average price point. HSN.com sales increased 10% over the prior year and now represent 30.4% of HSN's net sales, up from 28.4% in the prior year.

Adjusted EBITDA increased 17% to \$45.1 million from \$38.4 million as a result of increased gross profit, partially offset by a 2% increase in operating expenses, excluding non-cash charges. Operating income increased 20% to \$34.5 million compared to \$28.7 million in the prior year.

Cornerstone Segment Results for the Second Quarter 2010

Net sales for Cornerstone increased 20% to \$223.6 million compared to the prior year. Internet sales penetration increased 140 basis points and now represents 55.4% of Cornerstone's net sales. The sales growth is attributable to an increase in demand for luxury and outdoor products, the execution of strategic merchandising and marketing initiatives and an investment in catalog circulation in Cornerstone's three largest brands, Frontgate, Ballard Designs and Garnet Hill.

Gross profit increased 22% to \$96.5 million and gross profit margin improved 50 basis points to 43.1% from 42.6% in the prior year. The margin improvement was attributable to reduced promotional activity and leverage over warehousing costs.

Adjusted EBITDA increased 277% to \$18.5 million from \$4.9 million in the prior year as a result of the 20% growth in net sales and the increase in gross profit margin, partially offset by the investment in catalog circulation. Adjusted EBITDA as a percent of net sales improved 570 basis points to 8.3% from 2.6% in the prior year. Operating income in the current quarter was \$13.9 million compared \$2.0 million in the prior year.

Liquidity and Capital Resources

As of June 30, 2010, HSNi had cash and cash equivalents of \$279.9 million. Net cash provided by operating activities in the six months ended June 30, 2010 was \$18.9 million compared to \$74.0 million generated in the same period last year. This variance is principally due to an increase in inventories to support sales growth and increased payments of trade payables and income taxes. Total debt was approximately \$334.1 million as of June 30, 2010, resulting in a ratio of total debt to EBITDA, as defined in HSNi's credit agreement, of approximately 1.33x, as compared to a maximum allowable leverage ratio of 2.75x.

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 of HSNi, its operating segments and its consolidated subsidiaries that are based on current expectations, forecasts and assumptions. These statements relate to expectations concerning matters that are not historical fact. These forward-looking statements are based largely on information currently available to our management and on our current expectations, assumptions, plans, estimates, judgments and projections about our business and our industry, and such statements involve inherent risks and uncertainties. Although we believe our expectations are based on reasonable estimates and assumptions, they 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. HSNi's actual results could differ materially from those predicted. Factors that could cause or contribute to such differences include but are not limited to: the continued impact of the macroeconomic environment on consumer confidence and spending levels; whether national economic stimulus initiatives and measures to stabilize financial institutions and the economy will be successful in achieving their objectives within the expected timeframes; other changes in political, business and economic conditions, particularly those that affect consumer confidence, consumer spending or e-commerce growth; any technological or regulatory developments that could negatively impact the way we do business; changes in the interest rate environment and developments in the overall credit markets; HSNi's business prospects and strategy, including whether HSNi's initiatives will be effective; changes in our relationships with pay television operators, vendors, manufacturers and other third parties; the loss of any key member of our senior management team; our ability to offer new or alternative products and services in a cost effective manner and consumer acceptance of these products and services; and changes in product delivery costs. 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 ("SEC"). 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, Executive Vice President and Chief Financial Officer, will hold a conference call on August 4, 2010 at 11:00 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, August 18, 2010, by dialing 800-642-1687 or 706-645-9291, plus the passcode 87229018 and will also be hosted on HSNi's website for a limited time.

About HSN, Inc.

HSN, Inc. (Nasdaq:HSNI) is a \$3 billion interactive multi-channel 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 multi-channel retailer which offers a curated assortment of exclusive products combined with top brand names, now reaches approximately 95 million homes (24 hours a day, seven days a week, live 364 days a year). HSN.com is a top 10 trafficked e-commerce site that offers a differentiated e-commerce 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(R), the only service of its kind in the U.S., the HSN Shopping App for mobile handheld devices and HSN on Demand(R). Cornerstone comprises leading home and apparel lifestyle brands including Ballard Designs(R), Frontgate(R), Garnet Hill(R), Improvements(R), Smith + Noble(R), The Territory Ahead(R) and TravelSmith(R). Cornerstone distributes more than 200 million catalogs annually, operates seven separate e-commerce sites and operates 23 retail and outlet stores.

GAAP FINANCIAL STATEMENTS

HSN, INC. CONSOLIDATED
STATEMENTS OF OPERATIONS
(unaudited; in thousands
except per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------|--------------------------------|------------|------------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$ 689,992 | \$ 640,083 | \$ 1,373,205 | \$ 1,269,703 |
| Cost of sales | 431,331 | 408,212 | 878,060 | 826,608 |
| Gross profit | 258,661 | 231,871 | 495,145 | 443,095 |
| Operating expenses: | | | | |
| Selling and marketing | 129,997 | 124,396 | 250,496 | 246,912 |
| General and administrative | 56,131 | 53,009 | 110,570 | 104,719 |

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Production and programming | 14,432 | 13,957 | 28,532 | 27,461 |
| Amortization of intangible assets | 141 | 140 | 282 | 281 |
| Depreciation | 9,610 | 9,629 | 19,420 | 19,080 |
| | ----- | ----- | ----- | ----- |
| Total operating expenses | 210,311 | 201,131 | 409,300 | 398,453 |
| | ----- | ----- | ----- | ----- |
| Operating income | 48,350 | 30,740 | 85,845 | 44,642 |
| | ----- | ----- | ----- | ----- |
| Other (expense) income: | | | | |
| Interest income | 165 | 54 | 247 | 88 |
| Interest expense | (8,226) | (8,799) | (16,602) | (17,749) |
| | ----- | ----- | ----- | ----- |
| Total other expense, net | (8,061) | (8,745) | (16,355) | (17,661) |
| | ----- | ----- | ----- | ----- |
| Income from continuing operations before income taxes | 40,289 | 21,995 | 69,490 | 26,981 |
| Income tax provision | (15,583) | (8,357) | (27,116) | (10,361) |
| | ----- | ----- | ----- | ----- |
| Income from continuing operations | 24,706 | 13,638 | 42,374 | 16,620 |
| Loss from discontinued operations, net of tax | -- | (28) | (15) | (56) |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 24,706 | \$ 13,610 | \$ 42,359 | \$ 16,564 |
| | ===== | ===== | ===== | ===== |
| Income from continuing operations per share: | | | | |
| Basic | \$ 0.43 | \$ 0.24 | \$ 0.74 | \$ 0.29 |
| Diluted | \$ 0.42 | \$ 0.24 | \$ 0.72 | \$ 0.29 |
| Net income per share: | | | | |
| Basic | \$ 0.43 | \$ 0.24 | \$ 0.74 | \$ 0.29 |
| Diluted | \$ 0.42 | \$ 0.24 | \$ 0.72 | \$ 0.29 |
| Shares used in computing earnings per share: | | | | |
| Basic | 57,420 | 56,355 | 57,112 | 56,347 |
| Diluted | 59,430 | 57,171 | 59,239 | 56,976 |

HSN, INC. CONSOLIDATED BALANCE SHEETS
(unaudited; in thousands)

| | June 30, 2010 | December 31, 2009 |
|---|------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 279,934 | \$ 269,921 |
| Accounts receivable | 118,929 | 182,746 |
| Inventories | 293,679 | 261,473 |
| Deferred income taxes | 21,055 | 21,960 |
| Prepaid expenses and other current assets | 57,650 | 47,152 |
| | ----- | ----- |
| Total current assets | 771,247 | 783,252 |
| Property and equipment, net | 153,068 | 157,051 |
| Intangible assets, net | 260,904 | 261,185 |
| Other non-current assets | 15,483 | 17,162 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 1,200,702 | \$ 1,218,650 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |

| | | |
|--|--------------|--------------|
| Current liabilities: | | |
| Accounts payable, trade | \$195,293 | \$222,787 |
| Current maturities of long-term debt | 12,698 | 4,762 |
| Accrued expenses and other current liabilities | 174,497 | 222,739 |
| | ----- | ----- |
| Total current liabilities | 382,488 | 450,288 |
| Long-term debt, net of current maturities | 321,359 | 333,960 |
| Deferred income taxes | 75,077 | 76,413 |
| Other long-term liabilities | 17,127 | 13,959 |
| | ----- | ----- |
| Total liabilities | 796,051 | 874,620 |
| TOTAL SHAREHOLDERS' EQUITY | 404,651 | 344,030 |
| | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,200,702 | \$ 1,218,650 |
| | ===== | ===== |

HSN, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited; in thousands)

| | Six Months Ended June 30, | |
|--|------------------------------|-----------|
| | ----- | ----- |
| | 2010 | 2009 |
| | ----- | ----- |
| Cash flows from operating activities attributable to continuing operations: | | |
| Net income | \$ 42,359 | \$ 16,564 |
| Less: Loss from discontinued operations, net of tax | (15) | (56) |
| | ----- | ----- |
| Income from continuing operations | 42,374 | 16,620 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities attributable to continuing operations: | | |
| Depreciation | 19,420 | 19,080 |
| Amortization of intangible assets | 282 | 281 |
| Stock-based compensation expense | 9,310 | 5,027 |
| Amortization of cable and satellite distribution fees | 1,679 | 1,680 |
| Amortization of debt issuance costs | 1,285 | 1,271 |
| Loss on disposition of fixed assets | 488 | 305 |
| Deferred income taxes | (431) | (31) |
| Bad debt expense | 8,265 | 8,540 |
| Excess tax benefits from stock-based awards | (965) | -- |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 55,587 | 36,700 |
| Inventories | (32,206) | 36,321 |
| Prepaid expenses and other current assets | (11,686) | (14,591) |
| Accounts payable, accrued expenses and other current liabilities | (74,472) | (37,160) |
| | ----- | ----- |
| Net cash provided by operating activities attributable to continuing operations | 18,930 | 74,043 |
| | ----- | ----- |
| Cash flows from investing activities attributable to continuing operations: | | |
| Capital expenditures | (15,854) | (19,121) |
| | ----- | ----- |
| Net cash used in investing activities attributable to continuing operations | (15,854) | (19,121) |
| | ----- | ----- |
| Cash flows from financing activities attributable to continuing operations: | | |
| Repayment under revolving credit facility | -- | (20,000) |
| Repayment of long-term debt | (4,762) | (7,500) |
| Proceeds from issuance of common stock, net of withholding taxes | 10,719 | -- |

| | | |
|---|------------|------------|
| Excess tax benefits from stock-based awards | 965 | -- |
| Net cash provided by (used in) financing activities attributable to continuing operations | 6,922 | (27,500) |
| Total cash provided by continuing operations | 9,998 | 27,422 |
| Total cash provided by operating activities attributable to discontinued operations | 15 | 1,034 |
| Net increase in cash and cash equivalents | 10,013 | 28,456 |
| Cash and cash equivalents at beginning of period | 269,921 | 177,463 |
| Cash and cash equivalents at end of period | \$ 279,934 | \$ 205,919 |

Table 4

RECONCILIATIONS OF GAAP TO NON-GAAP MEASURES

HSN, INC. RECONCILIATION OF GAAP EPS
TO ADJUSTED EPS
(unaudited; in thousands except per
share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Diluted earnings per share | \$ 0.42 | \$ 0.24 | \$ 0.72 | \$ 0.29 |
| Net income | \$ 24,706 | \$ 13,610 | \$ 42,359 | \$ 16,564 |
| Stock-based compensation expense | 4,967 | 2,480 | 9,310 | 5,027 |
| Amortization of intangible assets | 141 | 140 | 282 | 281 |
| Loss on disposition of fixed assets | 485 | 266 | 488 | 305 |
| Loss from discontinued operations, net of tax | -- | 28 | 15 | 56 |
| Impact of income taxes | (2,437) | (1,097) | (3,079) | (2,155) |
| Adjusted Net Income | \$ 27,862 | \$ 15,427 | \$ 49,375 | \$ 20,078 |
| GAAP diluted weighted average shares outstanding | 59,430 | 57,171 | 59,239 | 56,976 |
| Adjusted EPS | \$ 0.47 | \$ 0.27 | \$ 0.83 | \$ 0.35 |

HSN, INC. RECONCILIATION OF NON-GAAP DETAILED SEGMENT RESULTS TO GAAP
(unaudited; in thousands)

| | Three Months Ended June 30, 2010 | | | Three Months Ended June 30, 2009 | | |
|-------------------------------------|-------------------------------------|-------------|-----------|-------------------------------------|-------------|-----------|
| | HSN | Cornerstone | Total | HSN | Cornerstone | Total |
| Adjusted EBITDA | \$ 45,064 | \$ 18,489 | \$ 63,553 | \$ 38,355 | \$ 4,900 | \$ 43,255 |
| Stock-based compensation expense | (2,771) | (2,196) | (4,967) | (2,044) | (436) | (2,480) |
| Amortization of intangible assets | (141) | -- | (141) | (140) | -- | (140) |
| Depreciation | (7,262) | (2,348) | (9,610) | (7,160) | (2,469) | (9,629) |
| Loss on disposition of fixed assets | (426) | (59) | (485) | (261) | (5) | (266) |
| Operating income | \$ 34,464 | \$ 13,886 | 48,350 | \$ 28,750 | \$ 1,990 | 30,740 |
| Other expense, net | | | (8,061) | | | (8,745) |
| Income from continuing operations | | | | | | |

| | | |
|--|-----------|-----------|
| before income taxes | 40,289 | 21,995 |
| Income tax provision | (15,583) | (8,357) |
| Income from continuing operations | 24,706 | 13,638 |
| Loss from discontinued operations, net of tax | -- | (28) |
| Net income | \$ 24,706 | \$ 13,610 |

| | Six Months Ended June 30, 2010 | | | Six Months Ended June 30, 2009 | | |
|---|-----------------------------------|-------------|------------|-----------------------------------|-------------|-----------|
| | HSN | Cornerstone | Total | HSN | Cornerstone | Total |
| Adjusted EBITDA | \$ 95,378 | \$ 19,967 | \$ 115,345 | \$ 73,614 | \$ (4,279) | \$ 69,335 |
| Stock-based compensation expense | (6,042) | (3,268) | (9,310) | (3,999) | (1,028) | (5,027) |
| Amortization of intangible assets | (282) | -- | (282) | (281) | -- | (281) |
| Depreciation | (14,867) | (4,553) | (19,420) | (14,134) | (4,946) | (19,080) |
| Loss on disposition of fixed assets | (428) | (60) | (488) | (299) | (6) | (305) |
| Operating income (loss) | \$ 73,759 | \$ 12,086 | 85,845 | \$ 54,901 | \$ (10,259) | 44,642 |
| Other expense, net | | | (16,355) | | | (17,661) |
| Income from continuing operations before income taxes | | | 69,490 | | | 26,981 |
| Income tax provision | | | (27,116) | | | (10,361) |
| Income from continuing operations Loss from discontinued operations, net of tax | | | 42,374 | | | 16,620 |
| | | | (15) | | | (56) |
| Net income | | | \$ 42,359 | | | \$ 16,564 |

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) stock-based compensation expense and amortization of non-cash marketing, (2) amortization of intangibles, (3) depreciation and gains and losses on asset dispositions, (4) goodwill, long-lived asset and intangible asset impairments, (5) pro forma adjustments for significant acquisitions, and (6) one-time items. 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 measures the amount of income generated each period that could be used to service debt, pay taxes and fund

capital expenditures. 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, including stock-based compensation, amortization of non-cash marketing, amortization of intangibles, depreciation, gains and losses on asset dispositions, asset impairment charges, acquisition-related accounting and one-time items.

Adjusted Net Income generally captures all items on the statement of operations that have been, or ultimately will be, settled in cash and is defined as net income available to common shareholders excluding, net of tax effects, if applicable: (1) stock-based compensation expense and amortization of non-cash marketing, (2) amortization of intangible assets, (3) gains and losses on asset dispositions, (4) goodwill, long-lived asset and intangible asset impairments, (5) pro forma adjustments for significant acquisitions, (6) one-time items, and (7) discontinued operations. 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 identified non-cash expenses or one-time items.

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 identified non-cash expenses or one-time items. Adjusted Net Income and Adjusted EPS have the same limitations as Adjusted EBITDA. Therefore, we think it is important to evaluate these measures along with our consolidated statement of operations.

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