



## HSN, Inc. Reports Third Quarter 2010 Results

HSNi net sales increased 10% with sales growth of 6% at HSN and 23% at Cornerstone

HSNi internet net sales increased 15% with internet penetration reaching 39%

Cornerstone Adjusted EBITDA increased 237% continuing the trend of strong growth in EBITDA

ST. PETERSBURG, Fla., Nov. 3, 2010 (GLOBE NEWSWIRE) -- HSN, Inc. (Nasdaq:HSNI) reported results for the third quarter ended September 30, 2010 for HSN, Inc. ("HSNi") and its two operating segments, HSN and Cornerstone.

Table 1

SUMMARY RESULTS AND KEY OPERATING MET  
(\$ in millions, except per share and average price point)

|                          | Q3 2010  | Q3 2009  | Change |
|--------------------------|----------|----------|--------|
| Net Sales                | \$ 708.4 | \$ 641.2 |        |
| Non-GAAP:                |          |          |        |
| Adjusted EBITDA          | \$ 49.0  | \$ 48.8  |        |
| Adjusted Net Income      | \$ 18.7  | \$ 18.6  |        |
| Adjusted EPS             | \$ 0.31  | \$ 0.32  |        |
| GAAP:                    |          |          |        |
| Operating Income         | \$ 32.8  | \$ 36.1  |        |
| Net Income               | \$ 14.9  | \$ 16.6  | (1)    |
| Diluted EPS              | \$ 0.25  | \$ 0.29  | (1)    |
| HSNi:                    |          |          |        |
| Average price point      | \$ 60.25 | \$ 58.35 |        |
| Units shipped (millions) | 13.1     | 12.3     |        |
| Gross profit %           | 35.3%    | 37.0%    | (17)   |
| Return rate %            | 18.2%    | 18.1%    | (1)    |
| Internet net sales% (b)  | 38.8%    | 37.2%    |        |

(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

See reconciliation of GAAP to non-GAAP measures in

### Third Quarter 2010 Results vs Third Quarter 2009 Results

HSNi's net sales grew 10% to \$708.4 million over the prior year. Net sales for HSN increased 6% which included 10% sales growth

HSNi's Adjusted EBITDA was \$49.0 million compared to \$48.8 million in the prior year. These results were driven by a 10% increase

Adjusted EPS was \$0.31 compared to \$0.32 in the prior year. GAAP diluted EPS was \$0.25 compared to \$0.29 in the prior year. The

"HSNi's net sales growth of 10% reinforces the strength of the HSN and Cornerstone brands. Our efforts to reach customers across multiple channels continue to be successful and contributed to an e-commerce net sales gain of 15% in the quarter," said HSNi CEO Mindy Grossman. "At HSN, our strategy of utilizing content to create communities and drive commerce delivered a net sales increase of 6% and best customer growth of 9%, due primarily to strength in apparel, accessories and electronics as well as the addition of new brand partners and marketing initiatives. At Cornerstone, net sales increased 23%, the largest year-over-year growth rate of any quarter since 2005," added Ms. Grossman. "We undertook key strategic initiatives this quarter that were focused on customer engagement by creating content-immersive experiences and leveraging our unique multichannel platform."

Table 2

SEGMENT RESULTS  
(\$ in millions)

| September 30,<br>September 30,     | Three Months Ended |          |      |            |            |       |        |  |
|------------------------------------|--------------------|----------|------|------------|------------|-------|--------|--|
|                                    | Nine Months Ended  | 2010     | 2009 | Change     | 2010       | 2009  | Change |  |
| Net Sales                          |                    |          |      |            |            |       |        |  |
| HSN                                | \$ 493.7           | \$ 467.0 | 6%   | \$ 1,479.1 | \$ 1,396.1 | 6%    |        |  |
| Cornerstone                        | 214.7              | 174.2    | 23%  | 602.5      | 514.8      | 17%   |        |  |
| Total HSNi                         | \$ 708.4           | \$ 641.2 | 10%  | \$ 2,081.6 | \$ 1,910.9 | 9%    |        |  |
| Gross Profit                       |                    |          |      |            |            |       |        |  |
| HSN                                | \$ 169.9           | \$ 168.6 | 1%   | \$ 503.7   | \$ 473.4   | 6%    |        |  |
| Cornerstone                        | 79.8               | 68.5     | 17%  | 241.2      | 206.8      | 17%   |        |  |
| Total HSNi                         | \$ 249.7           | \$ 237.1 | 5%   | \$ 744.9   | \$ 680.2   | 10%   |        |  |
| Adjusted EBITDA (Non-GAAP measure) |                    |          |      |            |            |       |        |  |
| HSN                                | \$ 43.1            | \$ 47.1  | (8%) | \$ 138.5   | \$ 120.6   | 15%   |        |  |
| Cornerstone                        | 5.9                | 1.7      | 237% | 25.8       | (2.5)      | 1116% |        |  |

|                         |         |         |       |          |          |      |
|-------------------------|---------|---------|-------|----------|----------|------|
| Total HSNi              | \$ 49.0 | \$ 48.8 | 0%    | \$ 164.3 | \$ 118.1 | 39%  |
| Operating Income (Loss) |         |         |       |          |          |      |
| HSN                     | \$ 30.7 | \$ 37.1 | (17%) | \$ 104.5 | \$ 92.0  | 14%  |
| Cornerstone             | 2.1     | (1.0)   | 293%  | 14.1     | (11.3)   | 225% |
| Total HSNi              | \$ 32.8 | \$ 36.1 | (9%)  | \$ 118.6 | \$ 80.7  | 47%  |

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

Table 3

|                                |               | Three Months Ended |          |           | SEGMENT KEY OPERATING METRICS |          |          |
|--------------------------------|---------------|--------------------|----------|-----------|-------------------------------|----------|----------|
| September 30,                  | September 30, | Nine Months Ended  |          |           |                               |          |          |
|                                |               | 2010               | 2009     | Change    | 2010                          | 2009     | Change   |
| HSN:                           |               |                    |          |           |                               |          |          |
| Average price point            |               | \$ 57.82           | \$ 56.63 | 2%        | \$ 57.96                      | \$ 57.14 | 1%       |
| Units shipped (millions)       |               | 9.7                | 9.5      | 3%        | 29.0                          | 27.6     | 5%       |
| Gross profit %                 |               | 34.4%              | 36.1%    | (170 bps) | 34.1%                         | 33.9%    | 20 bps   |
| Return rate %                  |               | 19.2%              | 19.5%    | 30 bps    | 19.0%                         | 18.8%    | (20 bps) |
| Internet net sales % (a)       |               | 30.9%              | 29.8%    | 110 bps   | 31.0%                         | 29.4%    | 160 bps  |
| Cornerstone:                   |               |                    |          |           |                               |          |          |
| Average price point            |               | \$ 67.22           | \$ 64.03 | 5%        | \$ 67.03                      | \$ 65.70 | 2%       |
| Units shipped (millions)       |               | 3.4                | 2.9      | 18%       | 9.5                           | 8.4      | 13%      |
| Gross profit %                 |               | 37.2%              | 39.3%    | (210 bps) | 40.0%                         | 40.2%    | (20 bps) |
| Return rate %                  |               | 15.9%              | 14.2%    | (170 bps) | 15.0%                         | 15.1%    | 10 bps   |
| Internet net sales % (a)       |               | 56.9%              | 56.9%    | 0 bps     | 56.3%                         | 56.0%    | 30 bps   |
| Catalog circulation (millions) |               | 63.3               | 55.5     | 14%       | 196.5                         | 180.0    | 9%       |

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

#### HSN Segment Results for the Third Quarter 2010

HSN's net sales increased 6% to \$493.7 million. The sales growth was driven by strong performances in apparel, accessories and electronics. HSN.com sales increased 10% over the prior year and represented 30.9% of HSN's net sales, up from 29.8% in the prior year. Units shipped and average price point increased 3% and 2%, respectively.

Gross profit increased 1% to \$169.9 million. Gross profit margin declined 170 basis points to 34.4% primarily driven by increased product costs, retail price reductions and inventory reserve provisions. During the third quarter of 2009, HSN benefited from a reduction in inventories and the related reserves.

Operating expenses, excluding non-cash charges, increased 4%. The increase was primarily attributable to the costs associated with HSN2, HSN's second television shopping channel that debuted in August, costs for brand and event marketing and accrued costs for the legal settlement.

Adjusted EBITDA decreased 8% to \$43.1 million from \$47.1 million. Operating income decreased 17% to \$30.7 million compared to \$37.1 million in the prior year due to the increase in operating expenses, including non-cash charges.

#### Cornerstone Segment Results for the Third Quarter 2010

Net sales for Cornerstone increased 23% to \$214.7 million compared to \$174.2 million in the prior year. The sales growth was 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. The return rate increased to 15.9% from 14.2% primarily due to a \$2.5 million sales provision recorded for the voluntary product recall.

Gross profit increased 17% to \$79.8 million. Gross profit margin declined 210 basis points to 37.2% from 39.3% in the prior year. The margin decline was primarily attributable to increased product costs, shipping costs associated with rate increases on larger package deliveries and a \$2.5 million sales provision for the voluntary product recall, partially offset by leverage over fixed warehousing costs.

Adjusted EBITDA increased 237% to \$5.9 million from \$1.7 million as a result of the growth in net sales, partially offset by catalog expenses, the product recall and accrued costs for the legal settlement. Adjusted EBITDA as a percent of net sales, improved 170 basis points to 2.7% from 1.0% in the prior year.

Operating income in the current quarter was \$2.1 million compared to an operating loss of \$1.0 million due to the growth in net sales, partially offset by catalog expenses, the product recall, stock-based compensation for performance-based awards and accrued costs for the legal settlement.

#### Liquidity and Capital Resources

As of September 30, 2010, HSNi had cash and cash equivalents of \$259.4 million. Net cash provided by operating activities in the nine months ended September 30, 2010 was \$6.2 million compared to \$117.0 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, partially offset by the improved operating performance. Total debt was approximately \$334.1 million as of September 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 November 3, 2010 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 17, 2010, by dialing 800-642-1687 or 706-645-9291, plus the passcode 17713726 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®, the only service of its kind in the U.S., the HSN Shopping App for mobile handheld devices and HSN on Demand®. Cornerstone comprises leading home and apparel lifestyle brands including Ballard Designs®, Frontgate®, Garnet Hill®, Improvements®, Smith + Noble®, The Territory Ahead® and TravelSmith®. 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 |            |              |              |
|--------------------------------|---|--------------------|------------|--------------|--------------|
| September 30,<br>September 30, | Nine Months Ended                                     | 2010               | 2009       | 2010         | 2009         |
|                                |   |                    |            |              |              |
|                                |   | 2010               | 2009       | 2010         | 2009         |
|                                |   |                    |            |              |              |
|                                | Net sales   | \$ 708,359         | \$ 641,244 | \$ 2,081,564 | \$ 1,910,947 |
|                                | Cost of sales   | 458,632            | 404,176    | 1,336,693    | 1,230,784    |
|                                | Gross profit  | 249,727            | 237,068    | 744,871      | 680,163      |
|                                | Operating expenses:                                   |                    |            |              |              |
|                                | Selling and marketing                                 | 132,404            | 120,997    | 382,899      | 367,909      |
|                                | General and administrative                            | 58,654             | 55,501     | 169,224      | 160,220      |
|                                | Production and programming                            | 16,165             | 14,922     | 44,697       | 42,383       |
|                                | Amortization of intangible assets                     | 141                | 140        | 422          | 421          |
|                                | Depreciation  | 9,566              | 9,430      | 28,986       | 28,510       |
|                                | Total operating expenses                              | 216,930            | 200,990    | 626,228      | 599,443      |
|                                | Operating income                                      | 32,797             | 36,078     | 118,643      | 80,720       |
|                                | Other (expense) income:                               |                    |            |              |              |
|                                | Interest income                                       | 182                | 124        | 428          | 212          |
|                                | Interest expense                                      | (8,271)            | (8,768)    | (24,873)     | (26,517)     |
|                                | Total other expense, net                              | (8,089)            | (8,644)    | (24,445)     | (26,305)     |
|                                | Income from continuing operations before income taxes | 24,708             | 27,434     | 94,198       | 54,415       |
|                                | Income tax provision                                  | (9,821)            | (10,849)   | (36,938)     | (21,210)     |
|                                | Income from continuing operations                     | 14,887             | 16,585     | 57,260       | 33,205       |
|                                | Loss from discontinued operations, net of tax         | (9)                | (13)       | (24)         | (69)         |
|                                | Net income  | \$ 14,878          | \$ 16,572  | \$ 57,236    | \$ 33,136    |
|                                | Income from continuing operations per share:          |                    |            |              |              |
|                                | Basic   | \$ 0.26            | \$ 0.29    | \$ 1.00      | \$ 0.59      |
|                                | Diluted   | \$ 0.25            | \$ 0.29    | \$ 0.96      | \$ 0.58      |
|                                | Net income per share:                                 |                    |            |              |              |
|                                | Basic   | \$ 0.26            | \$ 0.29    | \$ 1.00      | \$ 0.59      |

|  | Diluted | \$ 0.25 | \$ 0.29 | \$ 0.96 | \$ 0.58 |
|--|---------|---------|---------|---------|---------|
| Shares used in computing earnings per share: |         |         |         |         |         |
| Basic  |         | 57,607  | 56,391  | 57,279  | 56,362  |
| Diluted                                      |         | 59,724  | 57,502  | 59,403  | 57,151  |

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

|  | September 30, |              |
|--|---------------|--------------|
| 2010   | December 31,  |              |
| 2009   |               |              |
| ASSETS   |               |              |
| Current assets:                                |               |              |
| Cash and cash equivalents                      | \$ 259,386    | \$ 269,921   |
| Accounts receivable                            | 133,116       | 182,746      |
| Inventories                                    | 338,378       | 261,473      |
| Deferred income taxes                          | 22,101        | 21,960       |
| Prepaid expenses and other current assets      | 51,245        | 47,152       |
| Total current assets                           | 804,226       | 783,252      |
| Property and equipment, net                    | 153,071       | 157,051      |
| Intangible assets, net                         | 260,763       | 261,185      |
| Other non-current assets                       | 13,924        | 17,162       |
| TOTAL ASSETS                                   | \$ 1,231,984  | \$ 1,218,650 |
| LIABILITIES AND SHAREHOLDERS' EQUITY           |               |              |
| Current liabilities:                           |               |              |
| Accounts payable, trade                        | \$ 209,359    | \$ 222,787   |
| Current maturities of long-term debt           | 19,048        | 4,762        |
| Accrued expenses and other current liabilities | 171,021       | 222,739      |
| Total current liabilities                      | 399,428       | 450,288      |
| Long-term debt, net of current maturities      | 315,059       | 333,960      |
| Deferred income taxes                          | 71,516        | 76,413       |
| Other long-term liabilities                    | 18,999        | 13,959       |
| Total liabilities                              | 805,002       | 874,620      |
| TOTAL SHAREHOLDERS' EQUITY                     | 426,982       | 344,030      |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY     | \$ 1,231,984  | \$ 1,218,650 |

HSN, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

September 30,

Cash flows from operating activities attributable to

Less: Loss from discontinued  
Income from

Adjustments to reconcile income from continuing operations to net cash provided by operating activities attributable to con

Amortization  
Stock-based  
Amortization of cable and satel  
Amortization  
Loss on dispo

Excess tax benefits f  
Changes in current ass

Prepaid expenses an  
Accounts payable, accrued expenses and oth  
Net cash provided by operating activities attributable to  
Cash flows from investing activities attributable to

Net cash used in investing activities attributable to  
Cash flows from financing activities attributable to

Repayment under rev  
Proceeds from issuance of common stock, net  
Excess tax benefits f  
Net cash provided by (used in) financing activities attributable to  
Total cash (used in) provided by  
Total cash provided by operating activities attributable to di  
Net (decrease) increase in cas  
Cash and cash equivalents  
Cash and cash equiva

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)

|                                 | September 30, 2010 | September 30, 2009 | September 30, 2010 | September 30, 2009 |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
| Three Months Ended              |                    |                    |                    |                    |
| September 30, Nine Months Ended |                    |                    |                    |                    |
| September 30,                   |                    |                    |                    |                    |

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Diluted earnings per share                       | \$ 0.25   | \$ 0.29   | \$ 0.96   | \$ 0.58   |
| Net income                                       | \$ 14,878 | \$ 16,572 | \$ 57,236 | \$ 33,136 |
| Stock-based compensation expense                 | 5,753     | 3,057     | 15,063    | 8,084     |
| Amortization of intangible assets                | 141       | 140       | 422       | 421       |
| Loss on disposition of fixed assets              | 720       | 93        | 1,208     | 398       |
| Loss from discontinued operations, net of tax    | 9         | 13        | 24        | 69        |
| Impact of income taxes                           | (2,775)   | (1,300)   | (5,854)   | (3,455)   |
| Adjusted Net Income                              | \$ 18,726 | \$ 18,575 | \$ 68,099 | \$ 38,653 |
| GAAP diluted weighted average shares outstanding | 59,724    | 57,502    | 59,403    | 57,151    |
| Adjusted EPS                                     | \$ 0.31   | \$ 0.32   | \$ 1.15   | \$ 0.68   |

#### HSN, INC. RECONCILIATION OF NON

| September 30, 2010<br>September 30, 2009 | Three Months Ended                                    | Three Months Ended |             |           |           |
|--|---|--------------------|-------------|-----------|-----------|
|  |   | HSN                | Cornerstone | Total     | HSN       |
|  | Adjusted EBITDA                                       | \$ 43,122          | \$ 5,855    | \$ 48,977 | \$ 47,061 |
|  | Stock-based compensation expense                      | (4,057)            | (1,696)     | (5,753)   | (2,463)   |
|  | Amortization of intangible assets                     | (141)              | --          | (141)     | (140)     |
|  | Depreciation  | (7,460)            | (2,106)     | (9,566)   | (7,253)   |
|  | Loss on disposition of fixed assets                   | (720)              | --          | (720)     | (61)      |
|  | Operating income (loss)                               | \$ 30,744          | \$ 2,053    | 32,797    | \$ 37,144 |
|  | Other expense, net                                    |                    |             | (8,089)   |           |
|  | Income from continuing operations before income taxes |                    |             |           |           |
|  |   | 24,708             |             |           | 27,434    |
|  | Income tax provision                                  |                    |             | (9,821)   |           |
|  | Income from continuing operations                     |                    |             | 14,887    |           |
|  | Loss from discontinued operations, net of tax         | (9)                |             | (13)      |           |
|  | Net income  |                    |             | \$ 14,878 |           |

| September 30, 2010<br>September 30, 2009 | Nine Months Ended                                     | Nine Months Ended |             |            |            |
|--|---|-------------------|-------------|------------|------------|
|  |   | HSN               | Cornerstone | Total      | HSN        |
|  | Adjusted EBITDA                                       | \$ 138,498        | \$ 25,824   | \$ 164,322 | \$ 120,675 |
|  | Stock-based compensation expense                      | (10,098)          | (4,965)     | (15,063)   | (6,462)    |
|  | Amortization of intangible assets                     | (422)             | --          | (422)      | (421)      |
|  | Depreciation  | (22,327)          | (6,659)     | (28,986)   | (21,387)   |
|  | Loss on disposition of fixed assets                   | (1,148)           | (60)        | (1,208)    | (360)      |
|  | Operating income (loss)                               | \$ 104,503        | \$ 14,140   | 118,643    | \$ 92,045  |
|  | Other expense, net                                    |                   |             | (24,445)   |            |
|  | Income from continuing operations before income taxes |                   |             |            |            |
|  |   | 94,198            |             |            | 54,415     |
|  | Income tax provision                                  |                   |             | (36,938)   |            |
|  | Income from continuing operations                     |                   |             | 57,260     |            |
|  | Loss from discontinued operations, net of tax         | (24)              |             | (69)       |            |
|  | Net income  |                   |             | \$ 57,236  |            |

#### 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 non-cash marketing, (c) amortization of intangibles, (d) depreciation and gains and losses on asset dispositions, and (e) goodwill, long-lived asset and intangible asset impairments; (2) pro forma adjustments for significant acquisitions; and (3) 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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