

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

Commission File No. 001-34061

HSN, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1 HSN Drive, St. Petersburg, Florida
(Address of principal executive offices)

26-2590893
(I.R.S. Employer
Identification No.)

33729
(Zip Code)

(727) 872-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value \$0.01	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)
Series A Junior Participating Preferred Stock Purchase Rights	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company as defined in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, there was no established public market for the registrant's common stock.

As of March 6, 2009, the registrant had 56,342,620 shares of common stock, \$0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2009 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

This report contains certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”), which are based on management’s exercise of business judgment, as well as assumptions made by and information currently available to management. When used in this document, the words “may,” “will,” “anticipate,” “believe,” “estimate,” “expect,” “intend” and words of similar import, are intended to identify any forward-looking statements. These forward-looking statements include, among other things, statements relating to: HSNi’s future financial performance, HSNi’s business prospects and strategy, anticipated trends and prospects in the various markets in which HSNi’s businesses operate and other similar matters. These forward-looking statements are based on management’s current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Should one or more of these uncertainties, risks or changes in circumstances materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Factors that could cause or contribute to such differences include but are not limited to: the depth and duration of the current recession, which may persist throughout and beyond 2009, and the impact of these conditions on consumer confidence and spending levels; whether national economic stimulus initiatives and measures to stabilize the financial system 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; changes in the interest rate environment and developments in the overall credit markets, and particularly the impact of the current constrained credit environment, if it persists; HSNi’s business prospects and strategy, including whether HSNi’s initiatives to generate cash and preserve liquidity will be effective; changes in our relationships with pay television operators, vendors, manufacturers and other third parties; technological or regulatory changes; changes in senior management; 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. 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.

You should not place undue reliance on these forward-looking statements. We undertake no obligation, and do not intend, to update, revise or otherwise publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize.

PART I

ITEM 1. BUSINESS

Unless otherwise indicated in this Annual Report or the context otherwise requires, all references in this Annual Report to “HSNi,” the “Company,” “us,” “our” or “we” are to HSN, Inc. and/or its subsidiaries and affiliates.

Business Overview

HSNi owns and operates, through its subsidiaries, HSN, a retailer and interactive lifestyle network offering a broad assortment of products through television home shopping programming on the HSN television network and HSN.com through a business-to-consumer internet commerce site. HSN strives to transform the shopping experience by incorporating experts, entertainment, inspiration, solutions, tips and ideas in connection with the sale of products. HSNi also owns and operates, through its subsidiaries, the Cornerstone Brands portfolio of catalogs and related websites, including Frontgate, Ballard Designs, Garnet Hill, Smith+Noble, The Territory Ahead, TravelSmith and Improvements, as well as a limited number of retail stores.

HSNi was incorporated in Delaware in May 2008. Our principal offices are located at 1 HSN Drive, St. Petersburg, Florida 33729 and our main telephone number is 727-872-1000.

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History

HSNi's predecessor company began broadcasting television home shopping programming from its studios in St. Petersburg, Florida in 1981, and by 1985, was broadcasting this programming through a national network of cable and local television stations 24 hours a day, seven days a week. The company continued to broaden its national distribution network through a combination of cable, satellite and broadcast systems, and as of December 31, 2008, the HSN television network reached approximately 91.9 million homes in the United States.

The company acquired Improvements, a catalog featuring thousands of innovative home, patio and outdoor products, in June 2001, and significantly grew its catalogs business through the acquisition of the Cornerstone Brands portfolio of leading print catalogs and related websites in April 2005.

The company began conducting business online in 1994 and formally launched HSN.com, the online shopping portal for the HSN television network, in 1999.

On November 5, 2007, IAC/InterActiveCorp ("IAC") announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying HSN and Cornerstone, collectively, as one of those five companies. In this Annual Report, we refer to the separation transaction as the "spin-off." In anticipation of the spin-off, HSNi was incorporated as a Delaware corporation in May 2008. Effective August 20, 2008, HSNi completed the spin-off and HSNi's shares began trading on The Nasdaq Global Select Market under the symbol "HSNI." Since completion of the spin-off, HSNi now consists of HSN and Cornerstone, the principal businesses that formerly comprised most of IAC's Retailing segment.

What We Do

HSNi markets and sells a wide range of third party and private label merchandise directly to consumers through HSN, which includes the HSN television network and its related website, HSN.com, as well as through Cornerstone Brands portfolio of catalogs and related websites.

HSNi is committed to providing an evolving variety and mix of quality products at reasonable prices and brands that resonate with its customers. Products offered through HSN include electronics and housewares, jewelry, beauty, apparel, health, home fashions, accessories, vitamins/supplements and other products. Featured products include HSN-branded (or private label) products and third party-branded products, some of which are produced exclusively for HSN, as well as merchandise generally available through other retailers. The Cornerstone Brands primarily offer home and outdoor furnishings and casual and leisure apparel with the majority produced exclusively for Cornerstone.

HSN

Overview

HSN includes the HSN television network and its related website, HSN.com. The HSN television network broadcasts live, customer interactive television home shopping programming 24 hours a day, seven days a week. This programming is intended to promote sales and customer loyalty through a combination of product quality, value and selection, coupled with product information and entertainment. Programming is divided into separately televised segments, each of which has a host who presents and conveys information regarding featured products, sometimes with the assistance of a representative from the product vendor. HSN.com is a business-to-consumer internet commerce site that sells all of the merchandise offered on the HSN television network, together with complementary products and select merchandise sold exclusively on HSN.com. The HSN strategy continues to focus on defining a clear and differentiated brand and creating an identity for itself as a lifestyle, editorial, programmed commerce network that provides great products with innovative and engaging presentation.

Reach

HSN produces live programming for the HSN television network from its studios in St. Petersburg, Florida and distributes this programming by means of satellite uplink facilities, which it owns and operates, to a satellite transponder leased by HSN on a full-time basis through May 2019. HSN has entered into a long-term satellite transponder lease to provide for continued carriage of the HSN television network on a replacement transponder and/or replacement satellite, as applicable, in the event of a failure of the transponder and/or satellite currently carrying the HSN television network. HSN has also designed business continuity and disaster recovery plans to ensure its continued satellite transmission capability on a temporary basis in the event of inclement weather or a natural or other disaster.

As of December 31, 2008 and 2007, the HSN television network reached approximately 91.9 million and 90.6 million, respectively, of the approximately 114.5 million and 112.8 million homes in the United States with a television set, respectively. Television households reached by the HSN television network as of December 31, 2008 and 2007 primarily include approximately 63.3 million and 62.7 million households capable of receiving cable and/or broadcast transmissions and approximately 28.6 million and 27.9 million direct broadcast satellite system, or DBS, households, respectively.

Pay Television Distribution

HSN has entered into multi-year distribution and affiliation agreements with cable television and DBS operators, collectively referred to in this document as pay television operators, in the United States to carry the HSN television network, as well as to promote the network by carrying related commercials and distributing related marketing materials to their respective subscriber bases. HSN currently has contracts with many local and national pay television operators to distribute HSN television programming. Some of HSN's larger pay television operators include Comcast, Time Warner, DirecTV and Echostar/DISH. HSN television network sales from customers residing in households that subscribed to these larger pay television operators accounted for approximately 30% of HSN's annual revenue in 2008.

In exchange for this carriage and related promotional and other efforts, HSN generally pays these pay television operators a fee consisting of a per subscriber fee plus commissions based on a percentage of the net merchandise sales to their subscriber bases. In some cases, pay television operators receive additional compensation in the form of advertising insertion time on the HSN television network and commission guarantees in exchange for their commitments to deliver a specified number of subscribers.

The weighted average overall length of the terms of the multi-year distribution and affiliation agreements in effect as of December 31, 2008 is 4.6 years. All major pay television operator agreements are scheduled to expire between 2009 and 2011. HSN typically negotiates multi-year agreements that require HSN to pay monthly or annual fees. Distribution and affiliation agreements with major and other pay television operators expire from time to time and renewal and negotiation processes with major pay television operators are typically lengthy. At any given time in the ordinary course of business HSN is likely to be engaged in renewal and/or negotiation processes with one or more pay television operators. HSN is currently engaged in such a process with a major cable pay television operator regarding an agreement that expired in 2005 and, as has typically been the case in similar situations in the past, carriage of the HSN television network has continued (and is expected to continue) under rolling short-term extensions (in this case, month-to-month) pending the conclusion of this process. The ongoing extension of this agreement is on economic terms that are substantially similar to the agreement that expired in 2005. HSN expects that, as in the past, any long-term extension of the agreement will be on terms that, when taken as a whole, are commercially reasonable to HSN and competitive with the economics of other major cable pay television operators.

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Broadcast Television Distribution

As of December 31, 2008, HSN also had affiliation agreements with 77 low power broadcast television stations for leased carriage of the HSN television network with terms ranging from several weeks to several years. In exchange for this carriage, HSN pays the broadcast television stations hourly or monthly fixed rates. IAC's subsidiary, Ventana Television, Inc. ("Ventana") owns 27 of the 77 low power broadcast television stations that carry the HSN network on a full-time basis. IAC intends to file and receive the appropriate authorization from the Federal Communications Commission ("FCC") before transferring Ventana and its broadcast television licenses to HSNi, as the transfer is subject to FCC approval.

HSN.com

HSN also includes HSN.com, a transactional e-commerce site that sells merchandise offered on the HSN television network, as well as select merchandise sold exclusively on HSN.com. HSN.com provides customers with additional content to support and enhance HSN television programming. For example, HSN.com provides users with an online program guide, value-added video of product demonstrations, live streaming video of the HSN television network, customer-generated product reviews and additional information about HSN show hosts and guest personalities.

Cornerstone

Cornerstone consists of a number of branded catalogs and related websites, the primary of which are Frontgate, Ballard Designs, Garnet Hill, Smith+Noble, The Territory Ahead, TravelSmith and Improvements, and 26 retail, outlet and other stores.

Frontgate features premium, high quality bed, bath and kitchen accessories, as well as outdoor, patio, garden and pool furnishings and accessories. Ballard Designs features European-inspired bed, bath, dining and office furnishings and accessories, as well as rugs, shelving and architectural accents for the home. Garnet Hill offers bed and bath furnishings and soft goods, as well as apparel and accessories for women and children, and Smith+Noble offers custom home furnishings and window treatments. The Territory Ahead offers casual apparel for men and women and TravelSmith offers travel wear for men and women and related accessories. Improvements features thousands of innovative home, patio and outdoor products.

The various brands within Cornerstone generally incorporate on-site photography and real-life settings, coupled with related editorial content describing the merchandise and depicting situations in which it may be used. Branded catalogs are designed and produced in house, which enables each individual brand to control the production process and reduces the amount of lead time required to produce a given catalog.

New editions of full-color catalogs are mailed to customers several times each year, with a total annual circulation in 2008 of approximately 324 million catalogs. The timing and frequency of catalog circulation varies by brand and depends upon a number of factors, including the timing of the introduction of new products, marketing campaigns and promotions and inventory levels, among other factors.

Cornerstone also operates Frontgate.com, BallardDesigns.com, GarnetHill.com, SmithandNoble.com, TheTerritoryAhead.com, TravelSmith.com and Improvementscatalog.com, among other branded websites. These websites serve as additional, alternative storefronts for products featured in related print catalogs, as well as provide customers with additional content to support and enhance their shopping experience. Additional content provided by these websites, which differs across the various websites, includes decorating tips, measuring and installation information, online design centers, gift registries and travel centers, as well as a feature that allows customers to browse the related catalog online.

Supply

HSN and Cornerstone purchase products by way of short- and long-term contracts and purchase orders, including products made to their respective specifications, as well as name brand merchandise and lines from third party vendors, typically under certain

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exclusive rights. The terms of these contracts and purchase orders vary depending upon the underlying products, the retail channel in which the products will ultimately be sold and the method of sale. In some cases, these contracts provide for the payment of additional amounts to vendors in the form of commissions, the amount of which is based upon the achievement of agreed upon sales targets, among other milestones. In addition, in the case of some purchases, HSNi Businesses may have certain return, extended payment and/or termination rights. The mix and source of products generally depends upon a variety of factors, including price and availability, and HSNi manages inventory levels through periodic, ongoing analyses of anticipated and current sales. No single vendor accounted for more than 5% of HSNi's consolidated net sales in 2008, 2007 or 2006.

Marketing and Merchandising

HSN continuously works to bring customers a broad assortment of new and existing products in a compelling, informative and entertaining format. For example, HSN frequently collaborates with experts in a variety of fields to present special events on the HSN television network featuring HSN products and relevant expert content. In most cases, these events are staged at HSN's television studios, and to a lesser extent, staged at venues associated with featured products. Online versions of certain special events are also featured on HSN.com for a limited time period following their broadcast on the HSN television network.

In an effort to promote its own differentiated brand, HSN seeks to provide its customers with unique products that can only be purchased through HSN. HSN frequently partners with leading personalities and brands to develop product lines exclusive to HSN and believes that these affiliations enhance the awareness of the HSN brand among consumers generally, as well as increase the extent to which HSN and/or products sold through HSN are featured in the media. In some cases, vendors have agreed to market their HSN affiliation to their existing customers (*i.e.*, by way of e-mail notifying customers when their products will be featured on the HSN television network).

HSN also engages in co-promotional partnerships with major media companies to secure print advertising in national fashion, style and/or lifestyle publications to market HSN to prospective customers in its target demographic, as well as search engine marketing and targeted offline advertising around the holidays and other key promotional periods.

The Cornerstone brands differentiate themselves by offering customers an assortment of innovative proprietary and branded apparel and home products. In many cases, Cornerstone, seeks to secure exclusive distribution rights for certain products. In addition, Cornerstone employs in-house designers or partners with leading manufacturers to develop exclusive new technology, such as wrinkle free fabrics. The various Cornerstone brands use their respective websites to promote special sales events and e-mail marketing to promote special offers, including cross-promotions for other Cornerstone brands. In addition, Cornerstone partners with third parties to offer promotional events such as sweepstakes and/or other advertising agreements. HSNi believes that these affiliations enhance the awareness of the Cornerstone brands among consumers as well as strengthen its various brands overall.

Order Entry, Fulfillment and Customer Service

HSNi provides customers with convenient options in connection with the purchase, payment and shipment of merchandise, some of which vary by brand, business or product. Merchandise may be purchased online or ordered using toll free phone numbers through live sales and service agents. HSN also offers the convenience of an automated attendant system and, in limited markets, remote control ordering capabilities through pay television set-top boxes. Cornerstone's catalog orders can also be made via traditional catalog sales order form submissions.

In addition to traditional payment options, such as credit and debit cards, payment options include private label credit cards and, in the case of HSN, Flexpay, pursuant to which customers may pay for select merchandise in two to six interest-free, monthly credit or debit card payments. HSN also offers its customers the convenience of ordering products under the Autoship program, pursuant to which customers may arrange to have products automatically shipped and billed at scheduled intervals. Standard and express shipping options are available and customers may generally return most merchandise for a full refund or exchange in accordance with applicable return policies (which vary by brand and business), subject to restocking fees for custom merchandise in the case of products sold through Cornerstone. Returns generally must be received within specified time periods after purchase, ranging from a minimum of thirty days to a maximum of one year, depending upon the applicable policy.

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HSNi seeks to fulfill customer orders and process returns quickly and accurately from a network of fulfillment centers located, for HSN, in Tennessee, California and Virginia, and for Cornerstone, in Ohio. HSNi contracts with several third party carriers and other fulfillment partners to ensure the reliable and timely delivery of products to its customers and processing of returns.

Customers can also generally track the status of their orders through HSN.com and the various websites operated by Cornerstone, confirm information regarding shipping and, in some cases, confirm the availability of inventory and establish and manage personal accounts. Customers may communicate directly with customer service via e-mail or by telephone or with call center representatives available seven days a week.

Government Regulation

The manner in which we sell and promote merchandise and related claims and representations made in connection with these efforts is regulated by federal and state law. Some examples of regulations that affect the manner in which we sell and promote merchandise include the following:

- The Food and Drug Administration which has specific regulations regarding claims that can be made about food products and regulates marketing claims that can be made for cosmetic beauty products and over-the-counter drugs, which include acne products;
- The Environmental Protection Agency, or EPA, which requires products that make certain types of claims, such as “anti-bacterial,” be registered with the EPA prior to making such claims, which products are also sold through HSN; and
- Each of the Federal Trade Commission’s Telemarketing Sales Rule, the FCC’s Telephone Consumer Protection Act and similar state rules, which outline procedures that must be followed when telemarketing to customers.

Since October 1996, HSN has been subject to a consent order issued by the Federal Trade Commission (the “FTC”), which terminates on the later of April 15, 2019, or 20 years from the most recent date that the United States or the FTC files a complaint in federal court alleging any violation thereunder. Pursuant to this consent order, we are prohibited from making claims for specified categories of products, including claims that a given product can cure, treat or prevent any disease or have an effect on the structure or function of the human body, unless we have competent and reliable scientific evidence to substantiate such claims. Violation of this consent order may result in the imposition of significant civil penalties for non-compliance and related redress to consumers and/or the issuance of an injunction enjoining us from engaging in prohibited activities. The FTC periodically investigates our business and operation on an ongoing basis for purposes of determining its compliance with the consent order.

We market and provide a broad range of merchandise through online and offline channels. As a result, we are subject to a wide variety of statutes, rules, regulations, policies and procedures in various jurisdictions which are subject to change at any time, including laws regarding consumer protection, privacy, the regulation of retailers generally, the importation, sale and promotion of merchandise and the operation of retail stores and warehouse facilities, as well as laws and regulations applicable to the internet and businesses engaged in online commerce, such as those regulating the sending of unsolicited, commercial electronic mail. Unfavorable changes in the laws, rules and regulations applicable to us could decrease demand for merchandise offered by us, increase costs and/or subject us to additional liabilities.

Online sales must comply with a variety of existing and new federal and state laws dealing with privacy, intellectual property, taxation, the provision of online payment services and electronic contracts. While U.S. Supreme Court decisions currently restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the internet, a number of states, as well as the U.S. Congress, have adopted or are considering initiatives that would impose sales and use tax collection obligations arising from internet-based transactions. The imposition by the federal or state and local governments of various taxes and related obligations upon internet commerce could create administrative burdens for our businesses, could put our businesses at a competitive disadvantage to the extent that similar obligations are not imposed upon their competitors and could decrease future sales.

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While we believe that the practices of our businesses have been structured in a manner to ensure compliance with these laws and regulations, federal or state regulatory authorities may take a contrary position. Our failure and/or the failure of any of our businesses to comply with these laws and regulations could result in fines and/or proceedings against us and/or our businesses by governmental agencies and/or consumers, which could adversely affect our business, financial condition and results of operations.

Intellectual Property

We regard our intellectual property rights, including patents, service marks, trademarks and domain names, copyrights, trade secrets and similar intellectual property (as applicable), as critical to our success. Our businesses also rely heavily upon software codes, informational databases and other systemic components that are necessary to manage and support our operations. We rely on a combination of laws and contractual restrictions with employees, customers, suppliers, affiliates and others to establish and protect these proprietary rights. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use trade secret or copyrighted intellectual property without authorization which, if discovered, might require legal action to correct. In addition, third parties may independently and lawfully develop substantially similar intellectual properties.

We have generally registered and continue to apply to register, or secure by contract when appropriate, our trademarks and service marks as they are developed and used, and reserve and register domain names as we deem appropriate. We generally consider the protection of our trademarks to be important for purposes of brand maintenance and reputation. While we vigorously protect our trademarks, service marks and domain names, effective trademark protection may not be available or may not be sought in every country in which products and services are made available, and contractual disputes may affect the use of marks governed by private contract. Similarly, not every variation of a domain name may be available or be registered, even if available. Our failure to protect our intellectual property rights in a meaningful manner or challenges to related contractual rights could result in erosion of brand names and limit our ability to control marketing on or through the internet using our various domain names or otherwise, which could adversely affect our business, financial condition and results of operations.

Some of our businesses have been granted patents and/or have patent applications pending with the United States Patent and Trademark Office and/or various foreign patent authorities for various proprietary technologies and other inventions. We consider applying for patents or for other appropriate statutory protection when we develop valuable new or improved proprietary technologies or inventions are identified, and will continue to consider the appropriateness of filing for patents to protect future proprietary technologies and inventions as circumstances may warrant. The issuance or assessment of the validity of any patent involves complex legal and factual questions, and the breadth of claims allowed is uncertain. Accordingly, any patent application filed may not result in a patent being issued or existing or future patents may not be adjudicated valid by a court or be afforded adequate protection against competitors with similar technology. In addition, third parties may create new products or methods that achieve similar results without infringing upon patents that we own. Likewise, the issuance of a patent to us does not mean that our processes or inventions will not be found to infringe upon patents or other rights previously issued to third parties.

From time to time, we are subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of the trademarks, copyrights, patents and other intellectual property rights of third parties. In addition, litigation may be necessary in the future to enforce our intellectual property rights, protect trade secrets or determine the validity and scope of proprietary rights claimed by others. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could adversely affect our business, financial condition and results of operations. Patent litigation tends to be particularly protracted and expensive.

Competition

HSNi brands and businesses operate in a highly competitive environment. These brands and businesses are in direct competition for consumers with traditional offline and online retailers (both television and internet retailers), ranging from large department stores

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to specialty shops, electronic retailers, direct marketing retailers, mail order and catalog companies, infomercial retailers, wholesale clubs and discount retailers. In addition, the HSN television network competes for access to customers and audience share with other conventional forms of entertainment and content. The price and availability of programming for pay television systems affect the availability of distribution for HSN television programming and the compensation that must be paid to pay television operators for related carriage and competition for channel capacity and placement continues to increase. Principal competitive factors for HSNi brands and businesses include (i) brand recognition, (ii) value, quality and selection of merchandise, (iii) customer experience, including customer service and reliability of fulfillment and delivery services and (iv) convenience and accessibility of sales channels.

Employees

As of March 1, 2009, HSNi employed approximately 5,137 full-time employees and approximately 836 part-time employees. No HSNi employees are represented by unions or other similar organizations and HSNi considers its relations with its employees to be good.

Available Information

We are subject to the reporting requirements under the Exchange Act. As a result, we are filing annual reports, quarterly reports, proxy statements and other documents with the U.S. Securities and Exchange Commission ("SEC") under the Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at <http://www.sec.gov>.

Our website is located at <http://www.hsn.com>. We make available free of charge, on or through the website, our annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the SEC.

Our Code of Business Conduct and Ethics, which applies to all employees, including executive officers and senior financial officers and directors, is also available on our website at <http://www.hsn.com/governance.cfm>. The code of conduct complies with Item 406 of SEC Regulation S-K and the rules of The Nasdaq Global Select Market. Any changes to the code of conduct that affect the provisions required by Item 406 of Regulation S-K, and any waivers of the code of conduct for our executive officers, directors or senior financial officers, will also be disclosed on our website.

Information contained on our website is not a part of this Annual Report or any other report filed with the SEC.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Deteriorating macroeconomic conditions have negatively impacted our business and further weakening of the macroeconomic conditions may have additional negative impacts on our business.

Retailers generally are particularly sensitive to adverse global economic and business conditions, in particular to the extent they result in a loss of consumer confidence, rising unemployment and decreases in consumer spending, particularly discretionary spending. In 2008, we began to experience weakness across business segments in connection with the deteriorating macroeconomic conditions. This deterioration accelerated in the fourth quarter of 2008 and we believe that the current recessionary environment will persist throughout 2009 and possibly beyond. We are not able to predict the timing of any recovery. If macroeconomic conditions continue to worsen, our business could be adversely affected. When macroeconomic conditions do improve, there can be no assurance that we will be able to regain the levels of revenue and profitability that we achieved prior to the recession.

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Our level of indebtedness could limit our flexibility in responding to current market conditions, prevent us from meeting our obligations under our debt instruments or otherwise restrict our business activities.

The existence of, and limitations on the availability of HSNi's debt could have important consequences. The existence of debt could, among other things:

- require a substantial portion of HSNi cash flow from operations to be dedicated to the payment of principal and interest on HSNi indebtedness;
- limit HSNi's ability to use cash flow or obtain additional financing for future working capital, capital expenditures or other general corporate purposes;
- increase HSNi's vulnerability to general economic and industry conditions; or
- expose HSNi to the risk of increased interest rates because certain of its borrowings, including borrowings under its credit facilities, are at variable interest rates.

Limitations imposed as a part of the debt, such as the availability of credit and the existence of restrictive covenants may, among other things:

- make it difficult for HSNi to satisfy its financial obligations; and
- limit HSNi's ability to respond to business opportunities.

We depend on relationships with pay television operators and any adverse changes in these relationships could result in the cessation of carriage of the HSN television network.

We are dependent upon the pay television operators with whom we enter into distribution and affiliation agreements to carry the HSN television network. We currently have contracts with many local and national pay television operators to distribute HSN television programming. Some of HSN's larger pay television operators include Comcast, Time Warner, DirecTV and EchoStar/DISH. HSN television network sales from customers residing in households that subscribed to these larger pay television operators accounted for approximately 30% of HSNi's annual revenue in 2008. The cessation of carriage of the HSN television network by a major pay television operator or a significant number of smaller pay television operators for a prolonged period of time could adversely affect our business, financial condition and results of operations. While we believe that we will be able to continue to successfully manage the distribution process in the future, certain changes in distribution levels, as well as increases in commission rates and/or other fees payable for carriage, could occur notwithstanding these efforts.

Distribution and affiliation agreements with all major pay television operators are scheduled to expire between 2009 and 2011. In some cases, renewals are not agreed upon prior to the expiration of a given agreement and the HSN television network continues to be carried by the relevant pay television operator without an effective affiliation agreement in place. Renewal and negotiation processes with pay television operators are typically lengthy. We are currently engaged in the renewal and/or negotiation processes with a certain major cable pay television operator regarding an agreement that expired in 2005, with carriage of the HSN network continuing under short-term extensions pending the conclusion of this process. No assurance can be given that we will be successful in negotiating renewals with all these operators, or the financial and other terms of renewal will be on acceptable terms. The failure to successfully renew, or negotiate new, distribution and affiliation agreements covering a material portion of these existing cable and satellite households on acceptable terms could adversely affect our growth, sales revenue and earnings.

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We depend on relationships with vendors, manufacturers and other third parties, and any adverse changes in these relationships could result in a failure to meet customer expectations which could result in lost sales.

Our businesses purchase merchandise from a wide variety of third party vendors, manufacturers and other sources pursuant to short- and long-term contracts and purchase orders. The ability of our businesses to identify and establish relationships with these parties, as well as access quality merchandise in a timely and efficient manner on acceptable terms and cost, can be challenging. In particular, our businesses purchase a significant amount of merchandise from vendors and manufacturers abroad, and have experienced (and expect to continue to experience) increased costs for goods sourced in these markets, particularly in China. We depend on the ability of vendors and manufacturers in the U.S. and abroad to produce and deliver goods that meet applicable quality standards, which is impacted by a number of factors not within the control of these parties, such as political or financial instability, trade restrictions, tariffs, currency exchange rates and transport capacity and costs, among others. In particular, Cornerstone is dependent, in significant part, upon independent, third party manufacturers to produce private label merchandise.

The failure of our businesses to identify new vendors and manufacturers, maintain relationships with a significant number of existing vendors and manufacturers and/or access quality merchandise in a timely and efficient manner could cause our businesses to miss customer delivery dates or delay scheduled promotions, which would result in the failure to meet customer expectations and could cause customers to cancel orders or cause our businesses to be unable to source merchandise in sufficient quantities, which could result in lost sales.

The failure to secure suitable placement for the HSN television network would adversely affect our ability to attract and retain television viewers and could result in a decrease in revenue.

We are dependent upon the continued ability of HSN to compete for television viewers. Effectively competing for television viewers is dependent, in substantial part, on the ability of HSN to secure suitable placement of the HSN television network within a suitable programming tier at a low channel position. The advent of digital compression technologies and the adoption of digital cable has resulted in increased channel capacity, which together with other changing laws, rules and regulations regarding cable television ownership, impacts the ability of HSN to secure suitable channel placement. While increased channel capacity could provide a means through which the HSN television network could be more widely distributed, it could also adversely affect the ability to attract television viewers to the HSN television network to the extent it results in:

- higher channel position placement for the HSN television network;
- placement of the HSN television network in digital programming tiers, which generally have lower levels of television viewer penetration than basic or expanded basic programming tiers;
- more competitors entering the marketplace; or
- more programming options being available to the viewing public in the form of new television networks and time-shifted viewing (e.g., personal video recorders, video-on-demand, interactive television and streaming video over broadband internet connections).

If the HSN television network is carried exclusively in a system on a digital programming tier, HSN will experience a reduction in revenue to the extent that the digital programming tier has less television viewer penetration than the basic or expanded basic programming tier. In addition, HSN may experience a further reduction in revenue due to increased television viewing audience fragmentation and to the extent that not all television sets within a digital cable home are equipped to receive television programming in a digital format. Our future success will also depend, in part, on the ability of HSN to anticipate and adapt to technological changes and to offer elements of the HSN television network via new technologies in a cost-effective manner that meet customer demands and evolving industry standards.

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Our long-term success depends, in large part, on our continued ability to attract new and retain existing customers. We may not be able to do that in a cost-effective manner.

In an effort to attract and retain customers, we engage in various marketing and merchandising initiatives, which involve the expenditure of considerable money and resources, particularly in the case of the production and distribution of HSN television programming and Cornerstone catalogs and, to a lesser but increasing extent, online advertising. We have spent, and expect to continue to spend, increasing amounts of money on, and devote greater resources to, certain of these initiatives, particularly in connection with the growth and maintenance of our brands generally, as well as in the continuing efforts of our businesses to increasingly engage customers through online channels. These initiatives, however, may not resonate with existing customers or consumers generally or may not be cost-effective. In addition, we believe that costs associated with the production and distribution of HSN television programming, paper and printing costs for Cornerstone catalogs and costs associated with online marketing, including search engine marketing (primarily the purchase of relevant keywords) are likely to increase in the foreseeable future and, if significant, could have an adverse effect on our business, financial condition and results of operations to the extent that they do not result in corresponding increases in sales.

Our businesses may not be able to accurately predict and/or respond in a timely manner to evolving customer preferences and trends and industry standards, which could result in excess inventory, related markdowns and lost sales.

Our success depends, in significant part, on the ability of our businesses to accurately predict, and respond in a timely manner to, changes in customer preferences and fashion, lifestyle and other trends and industry standards. While product mix and price points are continuously monitored and adjusted in an attempt to satisfy consumer demand and respond to changing economic and business conditions, our businesses may not be successful in these efforts, and any sustained failure could result in excess inventory and related markdowns.

In addition, the e-commerce industry is characterized by evolving industry standards, frequent new service and product introductions and enhancements, as well as changing customer demands. If our businesses are not able to adapt quickly enough and/or in a cost-effective manner to these changes it could result in lost sales.

Failure to effectively manage our Flexpay program could result in unplanned losses.

HSN offers Flexpay, pursuant to which customers may pay for certain merchandise in two to six interest-free, monthly credit or debit card payments. We maintain allowances for estimated losses resulting from the inability of customers to make required payments. While actual losses due to the inability of customers to make required payments have historically been within estimates, we may not continue to experience these losses at the same rate as we have historically or our actual losses in any given period may exceed related estimates. As Flexpay balances grow, we expect that we will continue to experience these losses at greater rates, which will require us to maintain greater allowances for doubtful accounts of estimated losses than we have historically.

Increased delivery costs could adversely impact our profits, particularly if we are unable to pass these increased costs on to customers or offset them by increasing prices without a detrimental effect on customer demand.

Our businesses are impacted by increases in shipping rates charged by various shipping vendors relating to the procurement of merchandise from vendors and manufacturers, the shipment of merchandise to customers and the mailing of catalogs, which over the past few years have increased significantly in comparison to historical levels. We currently expect that shipping and postal rates will continue to increase. In the case of deliveries to customers, we have negotiated favorable shipping rates, which increase at agreed upon levels over time, with one independent, third party shipping company pursuant to a long-term contract. If this relationship were to terminate or if the shipping company was unable to fulfill its obligations under the contract for any reason, we would have to work with other shipping companies to deliver merchandise to customers, which would most likely be at less favorable rates. Any increase in shipping rates and related fuel and other surcharges passed on to us by this or any other shipping company would adversely impact profits, given that we may not be able to pass these increased costs directly to customers or offset them by increasing prices without a detrimental effect on customer demand.

The continued or permanent inability to broadcast the HSN television network would result in lost sales and could result in lost customers.

Our success is dependent upon the continued ability of HSN to transmit the HSN television network to broadcast and pay television operators from its satellite uplink facilities, which transmission is subject to FCC compliance. HSN has entered into a long-term satellite transponder lease to provide for continued carriage of the HSN television network on a replacement transponder and/or replacement satellite, as applicable, in the event of a failure of the transponder and/or satellite currently carrying the HSN television network. Although we believe that every reasonable measure is being taken to ensure continued satellite transmission capability, termination or interruption of satellite transmissions may occur.

HSN is affiliated with a number of low power broadcast television station licensees (the “Low Power Licensees”) that broadcast programming pursuant to licenses from the FCC. These Low Power Licensees are subject to regulation by the FCC under the Communications Act of 1934, as amended, which prohibits the operation of broadcast television stations except in accordance with a license issued by the FCC and empowers the FCC to issue, revoke, modify and renew broadcast television licenses, approve the transfer of control of any entity holding such licenses, determine the location of stations, regulate the equipment used by stations, adopt necessary regulations and impose penalties for related violations. The failure of the Low Power Licensees to comply with the terms of the broadcast licenses could result in the inability to broadcast the HSN television network on over-the-air facilities, as well as penalties. The prolonged or permanent interruption of satellite transmission capability or other inability to transmit the HSN television network for any reason, as well as related costs incurred, would result in lost sales and could result in lost customers.

We are currently the subject of a consent order issued by the FTC and violation of this consent order could result in significant civil penalties and an injunction enjoining HSN from engaging in prohibited activities, among other things.

In October 1996, HSN became subject to a consent order issued by the FTC which terminates on the later of April 15, 2019, or 20 years from the most recent date that the United States or the FTC files a complaint in federal court alleging any violation thereunder. Pursuant to this consent order, HSNi (including its subsidiaries and affiliates) is prohibited from making claims for specified categories of products, including claims that a given product can cure, treat or prevent any disease or have an effect on the structure or function of the human body, unless it has competent and reliable scientific evidence to substantiate such claims. Violation of this consent order may result in the imposition of significant civil penalties for non-compliance and related redress to consumers and/or the issuance of an injunction enjoining us from engaging in prohibited activities. The FTC periodically investigates our business and operation on an ongoing basis for purposes of determining its compliance with the consent order.

Our businesses may be subject to claims for representations made in connection with the sale and promotion of merchandise or for harm experienced by customers who purchase merchandise from our businesses.

The manner in which we sell and promote merchandise and related claims and representations made in connection with these efforts is regulated by federal and state law. Our businesses may be exposed to potential liability from claims by purchasers or from federal, state and local regulators and law enforcement agencies, including, but not limited to, for personal injury, wrongful death and damage to personal property relating to merchandise sold and misrepresentation of merchandise features and benefits. In certain instances, our businesses have the right to seek indemnification for related liabilities from their vendors and may require such vendors to carry minimum levels of product liability and errors and omissions insurance. These vendors, however, may be unable to obtain suitable coverage or maintain this coverage on acceptable terms, or this insurance may provide inadequate coverage against all potential claims or may not even be available with respect to any particular claim.

Failure to comply with existing laws, rules and regulations, or to obtain and maintain required licenses and rights, could subject us to additional liabilities.

We market and provide a broad range of merchandise through online and offline channels. As a result, we are subject to a wide variety of statutes, rules, regulations, policies and procedures in various jurisdictions which are subject to change at any time, including laws regarding consumer protection, privacy, the regulation of retailers generally, the importation, sale and promotion of merchandise and the operation of retail stores and warehouse facilities, as well as laws and regulations applicable to the internet and businesses engaged in online commerce, such as those regulating the sending of unsolicited, commercial electronic mail. Our failure and/or the failure of any of our businesses to comply with these laws and regulations could result in fines and/or proceedings against us and/or our businesses by governmental agencies and/or consumers, which could adversely affect our business, financial condition and results of operations. Moreover, unfavorable changes in the laws, rules and regulations applicable to us could decrease demand for merchandise offered by us, increase costs and/or subject us to additional liabilities. Finally, certain of these regulations impact the marketing efforts of our brands and businesses.

We could be subject to additional sales tax collection obligations.

U.S. Supreme Court decisions currently restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the internet. However, a number of states, as well as the U.S. Congress, have adopted or are considering initiatives that would impose sales and use tax collection obligations arising from internet-based transactions. If these initiatives are successful, we could be required to collect sales and use taxes in additional states. The imposition by state and local governments of various taxes upon internet commerce could create administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on all online competitors and decrease our future sales.

System interruption and the lack of integration and redundancy in these systems and infrastructures may adversely affect our ability to operate websites, process and fulfill transactions, respond to customer inquiries and generally maintain cost-efficient operations.

Our success depends, in part, on our ability to maintain the integrity of our systems and infrastructures, including websites, information and related systems, call centers and fulfillment facilities. We may experience occasional system interruptions that make some or all systems or data unavailable or prevent our businesses from efficiently providing services or fulfilling orders. We also rely on affiliate and third-party computer systems, broadband and other communications systems and service providers in connection with the provision of services generally, as well as to facilitate, process and fulfill transactions. Any interruptions, outages or delays in our systems and infrastructures, our businesses, our affiliates and/or third parties, or deterioration in the performance of these systems and infrastructures, could impair the ability of our businesses to provide services, fulfill orders and/or process transactions. Fire, flood, power loss, telecommunications failure, hurricanes, tornadoes, earthquakes, acts of war or terrorism, acts of God and similar events or disruptions may damage or interrupt computer, broadband or other communications systems and infrastructures at any time. Any of these events could cause system interruption, delays and loss of critical data, and could prevent our businesses from providing services, fulfilling orders and/or processing transactions. While we have backup systems for certain aspects of our operations, these systems are not fully redundant and disaster recovery planning is not sufficient for all eventualities. In addition, we may not have adequate insurance coverage to compensate for losses from a major interruption.

Our business is subject to online security risks, including security breaches and identity theft.

To succeed, we must be able to provide for secure transmission of confidential information over public networks. Our failure, and/or the failure by the various third party vendors and service providers with which we do business, to comply with applicable privacy policies or federal, state or similar international laws and regulations or any compromise of security that results in the unauthorized release of personally identifiable information or other user data could damage the reputation of these businesses, discourage potential users from trying our products and services and/or result in fines and/or proceedings by governmental agencies and/or consumers, one or all of which could adversely affect our business, financial condition and results of operations. Any penetration of network security or other misappropriation or misuse of personal consumer information could cause interruptions in the operations of our businesses and subject us to increased costs, litigation and other liabilities. Security breaches could also significantly

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damage our reputation with consumers and third parties with whom we do business. We may be required to expend significant capital and other resources to protect against and remedy any potential or existing security breaches and their consequences. We also face risks associated with security breaches affecting third parties with which we are affiliated or otherwise conduct business online.

The processing, storage, use and disclosure of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights.

In the processing of consumer transactions, our businesses receive, transmit and store a large volume of personally identifiable information and other user data. The sharing, use, disclosure and protection of this information are governed by the privacy and data security policies maintained by us and our businesses. Moreover, there are federal, state and international laws regarding privacy and the storing, sharing, use, disclosure and protection of personally identifiable information and user data. Specifically, personally identifiable information is increasingly subject to legislation and regulations in numerous jurisdictions around the world, the intent of which is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. We could be adversely affected if legislation or regulations are expanded to require changes in business practices or privacy policies, or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, financial condition and results of operations.

We may fail to adequately protect our intellectual property rights or may be accused of infringing intellectual property rights of third parties.

We regard our intellectual property rights, including patents, service marks, trademarks and domain names, copyrights, trade secrets and similar intellectual property (as applicable), as critical to our success. Our businesses also rely heavily upon software codes, informational databases and other components that make up their products and services.

From time to time, we are subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of the trademarks, copyrights, patents and other intellectual property rights of third parties. In addition, litigation may be necessary in the future to enforce our intellectual property rights, protect trade secrets or to determine the validity and scope of proprietary rights claimed by others. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could adversely affect our business, financial condition and results of operations. Patent litigation tends to be particularly protracted and expensive. Our failure to protect our intellectual property rights in a meaningful manner or challenges to related contractual rights could result in erosion of brand names and limit our ability to control marketing on or through the internet using our various domain names or otherwise, which could adversely affect our business, financial condition and results of operations.

Risks Related to Our Spin-Off from IAC

We have incurred and expect to continue to incur increased costs relating to operating as an independent public company that could cause our cash flow and results of operations to decline.

The obligations of being a public company, including substantial public reporting and investor relations obligations, have required new expenditures, placed new demands on our management and required the hiring of additional personnel. Further increases in these expenditures could adversely affect our business, financial condition and results of operations.

In addition, prior to the spin-off, IAC's businesses, by virtue of being under the same corporate structure, shared economies of scope and scale in costs, human capital, vendor relationships and customer relationships with the businesses that we and the other four publicly-traded companies resulting from the spin-off (the "Spincos") own following the spin-offs. The increased costs resulting from the loss of these benefits could have an adverse effect on us.

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The spin-off agreements were not the result of arm's length negotiations; accordingly, the terms may not be as favorable to us as would have resulted from negotiations among unrelated third parties.

The agreements that we entered into with IAC in connection with the spin-off, including the separation and distribution agreement, tax sharing agreement, employee matters agreement and transition services agreement, were established by IAC with the intention of maximizing the value to current IAC stockholders. Accordingly, the terms for us may not be as favorable as would have resulted from negotiations among unrelated third parties.

For example, the tax sharing agreement with IAC restricts our ability to enter into certain transactions that might be advantageous to us and our stockholders. In particular, the tax sharing agreement limits our ability to repurchase equity securities, dispose of certain assets or engage in mergers and acquisitions. In addition, the Tax Sharing Agreement generally provides that each Spinco will have to indemnify IAC and the other Spinco for any taxes resulting from the spin-off of such Spinco (and any related interest, penalties, legal and professional fees, and all costs and damages associated with related stockholder litigation or controversies) to the extent such amounts result from (i) any act or failure to act by such Spinco described in the covenants in the Tax Sharing Agreement, (ii) any acquisition of equity securities or assets of such Spinco or a member of its group, and (iii) any breach by such Spinco or any member of its group of any representation or covenant contained in the separation documents or in the documents relating to the IRS private letter ruling and/or tax opinions.

Risks Related to Our Common Stock

The stockholders' rights plan adopted by the Board of Directors in December 2008 may inhibit takeovers that would otherwise be beneficial to stockholders.

In the fourth quarter of 2008, our Board of Directors approved the creation of a Series A Junior Participating Preferred Stock, adopted a stockholders' rights plan and declared a dividend of one right for each outstanding share of common stock held by our stockholders. Initially, these rights, which will trade with the shares of our common stock, will not be exercisable. Under the rights plan, these rights will be exercisable if a person or group acquires or commences a tender or exchange offer for 15% or more of our common stock (except for certain grandfathered persons to which higher thresholds apply). If the rights become exercisable, each right will permit the holder, other than the "acquiring person," to purchase from us shares of common stock at a 50% discount to the then prevailing market price. As a result, the rights will cause substantial dilution to a person or group that becomes an "acquiring person" on terms not approved by our Board of Directors. The existence of these rights may prevent, discourage or delay an acquisition of us, even if such acquisition would be beneficial to our stockholders.

The market price and trading volume of our common stock may be volatile and may face negative pressure.

Following the spin-off, our common stock became publicly traded for the first time. The market price for our common stock has been volatile, especially in light of recent instability in the financial markets. Our stock price has experienced, and could continue to experience in the future, substantial volatility as a result of many factors, including persistent adverse macroeconomic conditions, broad market fluctuations and public perception of the prospects for the retail industry. Our failure to meet market expectations would also likely result in a decline in the market price of our stock. These and other factors may result in short-term or long-term negative pressure on the value of our common stock.

We do not intend to pay dividends for the foreseeable future.

We have never paid any cash dividends and do not anticipate paying any cash dividends in the foreseeable future. Additionally, under the terms of our credit facility and senior notes, the payment of cash dividends is subject to certain restrictions.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

HSNi owns its corporate headquarters in St. Petersburg, Florida, which consist of approximately 600,000 square feet of office space and include executive offices, television studios, showrooms, broadcast facilities and administrative offices for HSN, as well as an HSN fulfillment center in Piney Flats, Tennessee. HSNi leases two additional HSN fulfillment centers in Fontana, California and Roanoke, Virginia, three retail stores and other properties in various locations in the United States for administrative offices and data centers pursuant to leases that expire in 2009 through 2015. Cornerstone leases all of its properties, consisting of administrative offices, retail outlets and fulfillment centers in West Chester, Ohio, as well as 26 retail stores and outlets in various locations throughout the United States, all pursuant to leases with expiration dates ranging from 2009 to 2018.

HSNi believes that the duration of each lease is adequate and does not anticipate any future problems renewing or obtaining suitable leases for its principal properties. HSNi believes that its principal properties, whether owned or leased, are currently adequate for the purposes for which they are used and are suitably maintained for these purposes. From time to time HSNi considers various alternatives related to its long term facilities needs. While HSNi management believes existing facilities are adequate to meet its short term needs, it may become necessary to lease or acquire additional or alternative space to accommodate future growth.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in various legal matters. At December 31, 2008, management does not believe that any pending matters are material.

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

There were no matters submitted to a vote of our security holders during the fourth quarter of 2008.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Effective August 12, 2008, our shares of common stock began trading on the Nasdaq Global Select Market under the symbol HSNL. Prior to August 12, 2008, our common stock was not publicly traded. The table below sets forth the high and low per share sales prices of HSNL's common stock on the Nasdaq Global Select Market beginning August 12, 2008 and through December 31, 2008.

Fiscal 2008	Sales Price	
	High	Low
4 th Quarter	\$12.49	\$ 1.40
3 rd Quarter (beginning August 12, 2008)	\$16.54	\$ 9.55

Holders

As of March 6, 2009, there were 2,039 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are not able to estimate the total number of beneficial stockholders represented by these record holders.

Dividends

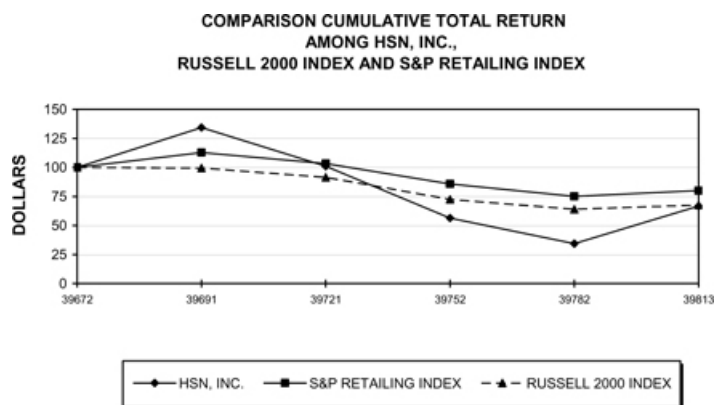
We have never paid any cash dividends and do not anticipate paying any cash dividends in the foreseeable future. Instead we intend to retain any future earnings for reinvestment. Additionally, under the terms of our credit facility and senior notes, the payment of cash dividends is subject to certain restrictions. Furthermore, any determination to pay cash dividends will be at the discretion of our Board of Directors and will depend upon our operating results, financial condition and capital requirements, general business conditions and such other factors that the Board of Directors considers relevant.

Issuer Purchases of Equity Securities

The Company did not purchase any shares of its common stock during the quarter ended December 31, 2008.

Performance Graph

The graph depicted below compares the performance of our common stock with the cumulative total return on the S&P 500 Retailing Index and the Russell 2000 Index from August 12, 2008, the first day of trading of the Company's common stock after the spin-off through December 31, 2008, the last day of our fiscal year.



ASSUMES \$100 INVESTED ON AUGUST 12, 2008
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDED DECEMBER 31, 2008

	8/12/2008	8/29/2008	9/30/2008	10/31/2008	11/28/2008	12/31/2008
HSN, Inc.	100.00	134.40	101.01	56.42	34.31	66.70
S&P 500 Retailing Index	100.00	112.75	103.36	85.85	75.13	80.07
Russell 2000 Index	100.00	99.36	91.44	72.42	63.85	67.56

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ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data for HSNi. The information in this table is not necessarily indicative of future performance and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our audited consolidated financial statements and related notes included herein. Our consolidated financial statements present our results of operations, financial position, shareholders’ equity and comprehensive income and cash flows on a combined basis up through the spin-off on August 20, 2008, and on a consolidated basis thereafter. However, this financial information does not necessarily reflect what the historical financial position and results of operations of HSNi would have been had HSNi been a stand-alone company during the periods presented.

For information about the shares used in computing earnings per share, see Note 10 of Notes to Consolidated Financial Statements.

	Year Ended December 31,				
	2008	2007	2006	2005 (1)	2004
				(unaudited)	(unaudited)
	(In thousands, except per share data)				
Statement of Operations Data:					
Net sales	\$ 2,823,593	\$ 2,908,242	\$ 2,877,954	\$ 2,670,951	\$ 1,905,903
Asset impairments (2)	3,186,650	—	—	—	—
Operating (loss) income	(3,102,311)	169,791	213,196	195,152	127,748
(Loss) income from continuing operations	(2,387,478)	105,233	133,532	127,077	84,235
Net (loss) income (3)	(2,390,888)	164,804	122,817	223,221	79,048
(Loss) income from continuing operations per share:					
Basic	\$ (42.48)	\$ 1.87	\$ 2.38	\$ 2.26	\$ 1.50
Diluted	\$ (42.48)	\$ 1.86	\$ 2.36	\$ 2.24	\$ 1.49
Net (loss) income per share:					
Basic	\$ (42.54)	\$ 2.93	\$ 2.19	\$ 3.97	\$ 1.41
Diluted	\$ (42.54)	\$ 2.91	\$ 2.17	\$ 3.94	\$ 1.40
Shares used in computing earnings per share:					
Basic	56,208	56,206	56,206	56,206	56,206
Diluted	56,208	56,649	56,649	56,649	56,649
Dividends per common share	—	—	—	—	—
Balance Sheet Data (end of period):					
Working capital	\$ 306,354	\$ 147,185	\$ 340,592	\$ 320,991	\$ 214,871
Total assets	1,152,457	4,220,631	4,458,167	4,527,376	3,988,728
Total debt, including current maturities	408,528	—	—	—	—
Other long-term liabilities, including deferred income taxes	96,392	828,902	846,280	845,840	762,415

(1) Includes the results of Cornerstone Brands, Inc. since its acquisition on April 1, 2005.

(2) See Note 3 of Notes to Consolidated Financial Statements for discussion of the goodwill and intangible assets impairment charges.

(3) See Note 7 of Notes to Consolidated Financial Statements for discussion of the sale of HSE which is included in discontinued operations and net income.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Spin-Off**

On November 5, 2007, IAC/InterActiveCorp (“IAC”) announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying HSN and Cornerstone, collectively, as one of those five companies. In the consolidated financial statements, we refer to the separation transaction as the “spin-off”. In anticipation of the spin-off, HSN, Inc. (“HSNi”) was incorporated as a Delaware corporation in May 2008. Effective August 20, 2008, HSNi completed the spin-off and HSNi’s shares began trading on The Nasdaq Global Select Stock Market under the symbol “HSNI”. Prior to the spin-off, HSNi was a wholly owned subsidiary of IAC and did not have any material assets or liabilities, nor did HSNi engage in any business or other activities and, other than in connection with the spin-off, did not acquire or incur any material assets or liabilities. Since completion of the spin-off, HSNi now consists of HSN and Cornerstone, the principal businesses that formerly comprised most of IAC’s Retailing segment. HSN primarily consists of the HSN television network and HSN.com, and Cornerstone includes the Cornerstone Brands portfolio of leading print catalogs, related websites and a limited number of retail stores. The businesses operated by HSNi following the spin-off are referred to herein as the “HSNi Businesses.” HSNi also includes the entity classified as discontinued operations in the Management Overview under the heading “Discontinued Operations.”

Basis of Presentation

The consolidated financial statements present our results of operations, financial position, shareholders’ equity and comprehensive income, and cash flows on a combined basis up through the spin-off on August 20, 2008, and on a consolidated basis thereafter. We prepared these financial statements relating to periods prior to the spin-off on a combined basis because they excluded certain investments and assets that were owned, either directly or indirectly, by legal entities that comprise the HSNi Businesses. The ownership of these investments and assets were retained by IAC after the spin-off. The historical combined financial statements of HSNi and its subsidiaries reflect the contribution or other transfer to HSNi of all of the subsidiaries and assets and the assumption by HSNi of all of the liabilities relating to the HSNi Businesses in connection with the spin-off and the allocation to HSNi of certain IAC corporate expenses relating to the HSNi Businesses. Accordingly, the historical combined financial statements of HSNi reflect the historical financial position, results of operations and cash flows of the HSNi Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the HSNi Businesses with the exception of accounting for income taxes. For purposes of these financial statements, income taxes have been principally computed for HSNi on an as if stand-alone, separate tax return basis.

In the opinion of HSNi’s management, the assumptions underlying the consolidated statements are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of HSNi would have been had HSNi been a stand-alone company during the periods presented.

Management Overview

HSNi markets and sells a wide range of third party and private label merchandise directly to consumers through (i) television home shopping programming broadcast on the HSN television network, (ii) catalogs, which consist primarily of the Cornerstone portfolio of leading print catalogs which includes Frontgate, Garnet Hill, Ballard Designs, Improvements, Smith & Noble, The Territory Ahead and TravelSmith and (iii) websites, which consist primarily of HSN.com and branded websites operated by Cornerstone. HSNi’s television home shopping business and related internet commerce is referred to herein as “HSN” and all catalog operations, including related internet commerce, are collectively referred to herein as “Cornerstone.”

Sources of Revenue

HSN revenue includes merchandise sales originating from the live television broadcast of its programming 24 hours per day, seven days a week and the HSN.com website. HSN also sells merchandise through its "Autoship" program under which customers receive scheduled merchandise shipments according to a pre-determined calendar.

Cornerstone sells private label and third party merchandise. The primary brands within the Cornerstone business portfolio include Frontgate, Ballard Designs, Garnet Hill, Smith+Noble, The Territory Ahead, TravelSmith and Improvements.

Products and Customers

HSNi sells a wide array of merchandise across its various channels of distribution. HSN merchandise categories primarily consist of jewelry, apparel & accessories, health & beauty and home & other (including housewares, home fashions, electronics, fitness and other). Cornerstone merchandise categories generally consist of home furnishings (including indoor/outdoor furniture, window treatments and other home-related goods) and apparel & accessories.

HSNi management believes that merchandise diversification, combined with a multi-channel distribution strategy, appeals to a broader segment of potential customers and is an important part of its overall business strategy. HSNi is continually developing new merchandise offerings from existing, potential and future suppliers, to supplement its existing product lines.

Shut-Down of America's Store

In April 2007, largely as a result of increasing cable and satellite distribution costs, HSN ceased operating America's Store, a home shopping network that reached an average of 14.3 million households during 2006. America's Store sales were \$15.9 million and \$88.6 million in 2007 and 2006, respectively.

Discontinued Operations

On June 19, 2007, HSNi sold Home Shopping Europe GmbH & Co. KG, and its affiliated station HSE24 ("HSE"). Accordingly, HSE is presented as a discontinued operation in the statement of operations. HSNi sold HSE for approximately \$216.5 million, which resulted in a pre-tax gain of \$45.7 million and an after-tax gain of \$30.6 million. The pre-tax gain included \$22.8 million of foreign currency translation gains that were recognized into earnings at the time of the sale.

Economic and Other Trends

Overall adverse economic conditions have affected HSNi's businesses, as total net sales and gross margin percentages declined 3% and 252 basis points, respectively, as compared to 2007. Revenues and gross margins derived from HSNi's Cornerstone segment were particularly challenged. Cornerstone's business is impacted by its dependency on demand generation from the more challenging home, apparel and luxury segment categories. Cornerstone's revenues decreased 15% to \$866.7 million, and its gross margins declined 340 basis points during 2008. Throughout the year, HSNi has taken steps to reduce the negative impact this economic environment had on Cornerstone's results through both organizational and cost reduction initiatives. During the third quarter of 2008, we made leadership changes to improve Cornerstone's operating performance, to refocus the organization and to benefit from operating leverage across both business segments. While we are satisfied that these leadership changes have refocused the organization as a whole, we expect that realizing the benefits of these changes will take time to materialize and will be dependent upon the duration and severity of the current adverse economic conditions.

The HSN segment's annual net sales increased 3% in 2008 over the prior year to \$2.0 billion, which included a 16% sales growth at HSN.com. We attribute this growth to the successful execution of our strategies and to the flexibility of HSN's business model, in which we are better able to adapt our merchandise offerings to customer demand. During 2008 HSN's active customer base grew by 2.6%. However, HSN experienced significant pressures on its gross profit margins, particularly in the fourth quarter. During the year, HSN's gross profit margins declined 151 basis points as compared to 2007. This decline was primarily the result of product mix changes, pricing pressures in HSN's apparel and accessories categories, shipping and handling costs and the general effects of the economic downturn.

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Going forward, we believe that the current economic environment will continue to adversely impact HSNi's results as consumers continue to approach discretionary spending cautiously. Therefore, while our overall business strategies of retention and growth of market share, product innovation and brand development, gross margin maintenance, and growth of our e-commerce penetration remain consistent; we are also focused on improving profitability through a reduction in operating expenses and capital utilization. We continue to manage our expenses and working capital judiciously, while focusing on certain key elements to improve profitability.

Results of Operations

Net Sales

	Year Ended December 31,				2006
	2008	% Change	2007	% Change	
	(Dollars in thousands)				
HSN	\$1,956,871	3%	\$1,892,582	0%	\$1,884,650
Cornerstone	866,722	(15)%	1,015,660	2%	993,304
Total net sales	<u>\$2,823,593</u>	<u>(3)%</u>	<u>\$2,908,242</u>	<u>1%</u>	<u>\$2,877,954</u>

Net sales primarily relate to the sale of merchandise and are reduced by incentive discounts and actual and estimated sales returns. Revenue is recorded when delivery to the customer has occurred. Delivery is considered to have occurred when the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment. HSNi's sales policy allows customers to return virtually all merchandise for a full refund or exchange, subject in some cases to restocking fees.

HSNi net sales in 2008 decreased 3% or \$84.6 million as compared to the same period in 2007 due to a 15% decline at Cornerstone, partially offset by growth of 3% at HSN. Internet sales continued to grow in 2008 representing 35.9% of HSNi net sales as compared to 33.3% in the prior year. The number of units shipped in 2008 decreased 5% to 51.6 million as compared to 54.1 million; however, this was offset by the 2% increase in the average price point to \$61.30 as compared to the prior year.

Net sales in 2007 increased \$30.3 million from 2006 primarily due to slight growth from Cornerstone, while net sales from HSN remained relatively flat. Online sales continued to grow at a double digit rate in 2007. Net sales from HSN grew 4%, excluding America's Store which ceased operations on April 3, 2007. HSNi's net sales reflect a 2% increase in average price point, partially offset by a 1% decrease in units shipped. Average price point was \$60.09 in 2007, up from \$58.70 in 2006. Overall units shipped in 2007 were negatively impacted by reduced sales associated with the shutdown of America's Store. Net sales from America's Store were approximately \$15.9 million in 2007 compared to \$88.6 million in 2006.

HSN

HSN net sales increased 3% in 2008 as compared to the prior year, highlighted by HSN.com net sales which increased 16% and now represent 28% of HSN's net sales. HSN's 12-month active customer file increased 3% from the prior year. The increase in net sales is attributed to the increase in the average price point to \$59.21 from \$56.41, offset by the 2% decrease in units shipped to 37.6 million from 38.3 million. The increase in the average price point is primarily a result of a shift in product mix to the home & other category, particularly electronics, housewares, health and fitness. These merchandise categories generally carry a higher average price point than fashion and beauty merchandise offerings. HSN manages its product mix to provide a balance between satisfying existing customer demand, generating interest from potential viewers and customers, providing new merchandise or values to its viewership and maximizing airtime and internet efficiency.

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Net sales from HSN in 2007 increased \$7.9 million. Excluding the revenues from America's Store which ceased operations in 2007, net sales reflect a 2% increase in average price point and a 3% increase in units shipped, partially offset by a 70 basis point increase in average return rates. The increase in average price point in 2007 was primarily due to a shift in product mix to the home & other category, particularly electronics and housewares, from the health & beauty category.

Divisional product mix at HSN is provided in the table below:

	Year Ended December 31,		
	2008	2007	2006
Jewelry	16%	18%	18%
Fashion (apparel & accessories)	13%	13%	13%
Health & beauty	19%	19%	20%
Home & other	52%	50%	49%
Total	100%	100%	100%

Cornerstone

Cornerstone's net sales for 2008 decreased 15% or \$148.9 million from the prior year. The decrease was primarily the result of slowing demand for Cornerstone's merchandise, caused by the significant deterioration of the U.S. economy, particularly its effect on the housing and apparel markets. As a result, average price points and the number of units shipped decreased 3% and 11%, respectively.

Net sales in 2007 increased \$22.4 million from 2006 primarily due to a 5% increase in average price point, partially offset by a 2% decrease in units shipped.

Cost of Sales and Gross Profit

Cost of sales consists primarily of the cost of products sold, shipping and handling costs and compensation and other employee-related costs (including stock-based compensation) for personnel engaged in warehouse functions. Cost of products sold includes merchandise cost, inbound freight and duties and in the case of HSN, certain allocable general and administrative costs, including certain warehouse costs.

	Year Ended December 31,				
	2008	% Change	2007	% Change	2006
	(Dollars in thousands)				
Gross profit:					
HSN	\$633,186	(1)%	\$ 640,915	(4)%	\$ 667,361
HSN gross profit margin	32.4%	(151 bp)	33.9%	(155 bp)	35.4%
Cornerstone	\$352,244	(21)%	\$ 447,279	0%	\$ 445,390
Cornerstone gross profit margin	40.6%	(340 bp)	44.0%	(80 bp)	44.8%
HSNi	\$985,430	(9)%	\$1,088,194	(2)%	\$1,112,751
HSNi gross profit margin	34.9%	(252 bp)	37.4%	(125 bp)	38.7%

bp = basis points

HSN

HSN gross profit margin was 32.4% for 2008, a 151 bp decrease from 2007. The decline in the gross profit margin was primarily the result of the product mix shift (principally from a product mix shift from jewelry and fashion to electronics, housewares, health and fitness), increased promotional activity in fashion and, to a lesser extent, jewelry and increased shipping and handling costs. The increase in shipping and handling costs is due to the product mix shift, fuel and other surcharges and annual rate increases. In a conscious effort to grow and maintain customer share in an increasingly competitive marketplace, HSN did not pass along all of these cost increases to its customers. In August 2008, HSN selectively implemented price increases in shipping and handling charges to help offset a portion of the cost increases.

Gross profit margin in 2007 decreased 155 bp to 33.9% from 35.4% in the prior year, primarily due to an increase in inventory reserves, a shift in mix to lower gross margin products, an increase in shipping and handling costs and the effect of merchandise liquidation and markdowns. Higher return rates negatively impact both revenue and gross margins as higher returns result in higher warehouse processing costs and higher inventory markdowns for goods that are not resalable at full retail price.

Cornerstone

Gross profit margin for Cornerstone was 40.6% in 2008 as compared to 44.0% in the previous year. The decrease in the gross profit margin was principally due to an increase in promotional pricing and clearance activity and an increase in net shipping costs. Shipping and handling costs grew at a faster rate than revenue primarily due to increased fuel surcharges charged by Cornerstone's shipping partners and a shift in product mix to heavier merchandise. The decrease in the 2007 gross profit margin to 44.0% from 44.8% in the prior year was mainly attributable to the additional shipping and handling costs.

Selling and Marketing Expense

	Year Ended December 31,				
	2008	% Change	2007	% Change	2006
	(Dollars in thousands)				
HSN	\$270,016	(1)%	\$272,896	5%	\$260,794
As a percentage of HSN net sales	14%	(62 bp)	14%	58 bp	14%
Cornerstone	\$297,289	(8)%	\$323,015	0%	\$324,203
As a percentage of Cornerstone net sales	34%	250 bp	32%	(81 bp)	33%
HSNi	\$567,305	(5)%	\$595,911	2%	\$584,997
As a percentage of HSNi net sales	20%	(40 bp)	20%	16 bp	20%

Selling and marketing expense consists primarily of advertising and promotional expenditures, compensation and other employee-related costs (including stock-based compensation) for personnel engaged in customer service, sales and merchandising functions and on-air distribution costs. Advertising and promotional expenditures primarily include catalog production and distribution costs and online marketing, including fees paid to search engines and third party distribution partners.

HSNi's selling and marketing expense in 2008 decreased \$28.6 million from 2007. This decrease is primarily due to the \$29.1 million reduction in catalog costs at Cornerstone and a \$11.1 million decrease in on-air distribution costs at HSN, partially offset by an increase of \$12.5 million in compensation and other employee-related costs. Catalog costs decreased primarily due to a 19% planned reduction in catalog circulation. The decrease in on-air distribution costs is primarily due to a \$5.0 million adjustment upon settlement of certain key contract conditions with a vendor which affected a previously recorded accrued liability, elimination of distribution costs associated with America's Store and other miscellaneous items. The increase in compensation and other employee-related costs in 2008 is primarily due to headcount additions and a \$0.9 million increase in non-cash compensation expense due to the modification of existing stock-based compensation awards in connection with the spin-off.

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HSNi's selling and marketing expense in 2007 increased \$10.9 million from 2006, primarily due to increases of \$6.7 million in on-air distribution costs at HSN, \$6.2 million in compensation and other employee-related costs and \$4.2 million in advertising and promotional expenditures, which is net of a decrease of \$6.6 million in catalog circulation costs. The increase in on-air distribution costs is primarily related to newly executed contracts with cable and satellite distribution partners. Compensation and other employee-related costs increased in 2007 due in part to a 15% increase in headcount as well as increased management transition costs. The decrease in catalog costs is primarily due to the planned reduction in circulation at certain catalog brands.

General and Administrative Expense

	Year Ended December 31,				
	2008	% Change	2007	% Change	2006
	(Dollars in thousands)				
HSN	\$158,218	12%	\$141,379	7%	\$131,538
As a percentage of HSN net sales	8%	62 bp	7%	49 bp	7%
Cornerstone	\$ 62,426	(12)%	\$ 70,576	29%	\$ 54,723
As a percentage of Cornerstone net sales	7%	25 bp	7%	144 bp	6%
HSNi	\$220,644	4%	\$211,955	14%	\$186,261
As a percentage of HSNi net sales	8%	53 bp	7%	82 bp	6%

General and administrative expense consists primarily of compensation and other employee-related costs (including stock-based compensation) for personnel engaged in finance, legal, tax, human resources, information technology and executive management functions, facilities costs and fees for professional services.

HSNi's general and administrative expense in 2008 increased \$8.7 million to \$220.6 million as compared to the prior year. This increase is primarily due to a \$6.6 million increase in non-cash compensation expense associated with the modification of existing stock-based compensation awards in connection with the spin-off, an increase in personnel related expenses at HSN and a \$5.2 million increase in bad debt expense, offset by a reduction in allocated expenses from our former parent company. HSN increased its bad debt provision in anticipation of losses associated with its Flexpay extended payment program. Flexpay, which is offered exclusively through HSN, allows customers to pay for merchandise in interest free monthly payments over a two to six month period.

HSNi's general and administrative expense in 2007 increased \$25.7 million from 2006, primarily due to higher compensation and other employee-related costs of \$14.3 million and increases of \$3.9 million in bad debt expense and \$3.4 million in professional fees. Between 2006 and 2007, HSNi invested in leadership by increasing compensation and expanding its management team. General and administrative expense was further impacted by increases in compensation and other employee-related costs associated with retail store expansion and internet development at Cornerstone. The increase in bad debt expense is primarily due to increased Flexpay sales.

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Production and Programming Expense

	Year Ended December 31,				
	2008	% Change	2007	% Change	2006
	(Dollars in thousands)				
Production and programming expense	\$60,217	2%	\$59,051	4%	\$56,800
As a percentage of HSN net sales	3%	(4 bp)	3%	11 bp	3%

Production and programming expense consists primarily of compensation and other employee-related costs (including stock-based compensation) for personnel engaged in production and programming at HSN. Expenses associated with on-air distribution of HSN, including expenses relating to pay television operators, are included in selling and marketing expense.

Production and programming expense for 2008 increased 2% to \$60.2 million compared to \$59.1 million in the prior year. The increase in production and programming costs is the result of a \$5.3 million increase in labor costs due to higher rates, offset by a \$4.2 million decrease in satellite costs. The decrease in satellite costs compared to 2007 is due to a termination fee assessed in 2007 for a satellite contract cancellation as a result of the shutdown of America's Store in April 2007. In addition, monthly satellite fees assessed in 2008 were less than 2007 as a result of this termination.

Production and programming expense in 2007 increased \$2.3 million from 2006, primarily due to an increase of \$2.9 million in compensation and other employee-related costs and a charge of \$2.0 million in connection with the termination of the satellite contract for America's Store previously discussed. This fee was partially offset by reduced broadcast rates upon cancellation of the satellite contract.

Depreciation

	Year Ended December 31,				
	2008	% Change	2007	% Change	2006
	(Dollars in thousands)				
HSN	\$27,348	8%	\$25,404	(13)%	\$29,082
Cornerstone	10,090	13%	8,959	9%	8,191
HSNi	<u>\$37,438</u>	9%	<u>\$34,363</u>	(8)%	<u>\$37,273</u>
As a percentage of total net sales	1%	14 bp	1%	(11 bp)	1%

Depreciation for 2008 increased \$3.1 million as compared to the prior year, primarily due to the incremental depreciation associated with capital expenditures made during 2007 and 2008, partially offset by certain fixed assets becoming fully depreciated during the period.

Depreciation in 2007 decreased \$2.9 million, primarily due to certain fixed assets becoming fully depreciated, partially offset by the incremental depreciation associated with capital expenditures made throughout 2006 and 2007.

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Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure and is defined in Note 6 of Notes to Consolidated Financial Statements.

	Year Ended December 31,				
	2008	% Change	2007	% Change	2006
	(Dollars in thousands)				
HSN	\$160,279	(8)%	\$174,397	(22)%	\$223,716
As a percentage of HSN net sales	8%	(102 bp)	9%	(266 bp)	12%
Cornerstone	\$ (1,375)	(102)%	\$ 59,316	(19)%	\$ 72,869
As a percentage of Cornerstone net sales	0%	(600 bp)	6%	(150 bp)	7%
HSNi	\$158,904	(32)%	\$233,713	(21)%	\$296,585
As a percentage of HSNi net sales	6%	(241 bp)	8%	(227 bp)	10%

HSNi's Adjusted EBITDA in 2008 decreased \$74.8 million from 2007 primarily due to a decrease in gross profit margins. Gross profit margins at HSN were adversely impacted by the product mix shift to lower gross margin products, primarily electronics and housewares, promotional activity and shipping and handling costs. Adjusted EBITDA at Cornerstone decreased 102% to (\$1.4) million, primarily as a result of a decrease in sales and gross margins in a highly promotional retail environment, partially offset by reduced costs associated with a 19% planned reduction in catalog circulation.

HSNi's Adjusted EBITDA in 2007 decreased \$62.9 million from 2006, primarily due to a 125 basis point decrease in gross profit margins and increased general and administrative and selling and marketing expenses.

Operating (Loss) Income

	Year Ended December 31,				
	2008	% Change	2007	% Change	2006
	(Dollars in thousands)				
HSN	\$(2,332,789)	NM	\$135,298	(18)%	\$165,221
As a percentage of HSN net sales	-119%	NM	7%	(162 bp)	9%
Cornerstone	\$ (769,522)	NM	\$ 34,493	(28)%	\$ 47,975
As a percentage of Cornerstone net sales	-89%	NM	3%	(143 bp)	5%
HSNi	\$(3,102,311)	NM	\$169,791	(20)%	\$213,196
As a percentage of HSNi net sales	-110%	NM	6%	(157 bp)	7%

NM = not meaningful

HSNi's operating loss for 2008 was \$3.1 billion as compared to \$169.8 million of operating income in 2007. The decrease in operating income is primarily attributed to the \$3.2 billion in asset impairment charges at HSN and Cornerstone, the decline in gross profit for the reasons discussed previously under the heading "Adjusted EBITDA", and the \$8.1 million increase in non-cash compensation expense.

In the second quarter of 2008, HSNi recorded impairment charges related to goodwill and indefinite-lived intangible assets of \$300.0 million. These impairment charges were recorded at the Cornerstone reporting unit and were due, in part, to the significant deterioration in the macroeconomic environment for retailers, particularly in the home and apparel categories (which are Cornerstone's primary markets), the negative impact of this environment on Cornerstone's performance and the related reduction in market valuations for retailers.

In the fourth quarter of 2008, due to the deepening of the recession, the continuation of the weak conditions in the retail consumer market and a significant decline in our stock price, we recognized an additional \$2.9 billion of asset impairment charges related to the write down of goodwill and intangible assets at our HSN and Cornerstone reporting units.

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Non-cash compensation expense increased \$8.1 million as compared to the previous year which was primarily due to the modification of stock-based compensation awards in connection with the spin-off.

HSNi's operating income in 2007 decreased \$43.4 million from 2006, primarily due to the decrease in Adjusted EBITDA described above, a \$4.4 million increase in amortization of non-cash marketing and a \$0.4 million increase in non-cash compensation expense, partially offset by a \$21.5 million decrease in amortization of intangibles resulting from certain intangible assets being fully amortized in 2006 and 2007. The amortization of non-cash marketing referred to in this report consists of non-cash marketing and advertising secured by IAC from Universal Television as part of the IAC transaction pursuant to which Vivendi Universal Entertainment, LLLP ("VUE") was created, and the subsequent transaction by which IAC sold its partnership interests in VUE.

Other (Expense) Income

	Year Ended December 31,				
	2008	% Change	2007	% Change	2006
	(Dollars in thousands)				
Interest income	\$ 480	90%	\$ 252	(57)%	\$ 586
Interest expense	(16,420)	NM	—	—	—
Other income (expense)	—	NM	(256)	(75)%	(1,040)
Other (expense) income, net	<u>\$ (15,940)</u>	NM	<u>\$ (4)</u>	(99)%	<u>\$ (454)</u>
As a percentage of total net sales	-1%	(56 bp)	0%	2 bp	0%

Interest expense for the year ended December 31, 2008 primarily relates to the \$150 million five-year term loan and the \$240 million of 11.25% senior notes which were issued in the third quarter of 2008 in connection with the spin-off from IAC. Additionally, interest expense includes the cost on the \$40 million draw on the credit facility in the fourth quarter of 2008. HSNi repaid \$20.0 million of the revolving credit facility as of December 31, 2008 and repaid the remaining \$20.0 million in the first quarter of 2009.

Income Tax Provision

For the year ended December 31, 2008, HSNi recorded a tax benefit from continuing operations of \$730.8 million, which represents an effective tax rate of 23%. The 2008 tax rate is lower than the federal statutory rate of 35% due principally to the non-deductible impairment charges of goodwill and intangible assets. This rate is also lower than the 35% federal statutory rate due to the reversal of an interest accrual on a FIN 48 tax liability and adjustments related to state income tax rates.

Included in the 2008 income tax benefit is the reversal of \$753.3 million of deferred tax liabilities related to the goodwill and intangible asset impairments. These deferred tax liabilities for both HSN and Cornerstone were recorded upon the acquisition of certain business operations and interests in prior years in accordance with the prescribed accounting rules. This remaining deferred tax liability represents future taxes that could be owed upon a sale of the HSN and/or Cornerstone business operations.

In 2007 and 2006, HSNi recorded an income tax provision for continuing operations of \$64.6 million and \$79.2 million, respectively, which represents effective tax rates of 38% and 37%, respectively. These tax rates are higher than the federal statutory rate of 35% due principally to state and local income taxes.

Discontinued Operations

Discontinued operations in the accompanying consolidated statements of operations include Home Shopping Europe GmbH & Co. KG, and its affiliated station HSE24 (“HSE”) through June 19, 2007. (Losses) income from discontinued operations, net of tax, in 2008, 2007 and 2006 were losses of \$3.4 million, income of \$29.0 million and a loss of \$10.7 million, respectively. Loss from discontinued operations, net of tax, in 2008 primarily relates to 2007 income tax returns filed in 2008. Income from discontinued operations, net of tax, in 2007 primarily includes the income of HSE. Additionally, in 2007, HSNi recognized an after-tax gain on the sale of HSE of \$30.6 million.

Liquidity and Capital Resources

As of December 31, 2008, HSNi had \$177.5 million of cash and cash equivalents.

Net cash provided by operating activities attributable to continuing operations was \$137.1 million in 2008 and \$137.6 million in 2007, a decrease of \$0.5 million. The operating cash flow results in 2008 are due to a decrease in accounts receivable as a result of a concerted effort to minimize Flexpay utilization during the year at HSN, offset by other changes in working capital.

Net cash used in investing activities attributable to continuing operations in 2008 of \$22.9 million resulted primarily from capital expenditures of \$39.7 million, partially offset by cash transfers of \$16.7 million from IAC. The cash transfers from IAC primarily relate to IAC’s centrally managed U.S. treasury function. The capital expenditures were primarily at HSN and were for campus renovations, IT and broadcast related expenditures. Net cash used in investing activities attributable to continuing operations in 2007 of \$140.2 million resulted from cash transfers to IAC of \$91.6 million and capital expenditures of \$48.7 million. HSNi expects its capital expenditures in 2009 will approximate \$40 to \$50 million for continuing investments in IT, broadcast, high-definition, fulfillment center and other maintenance projects.

Net cash provided by financing activities attributable to continuing operations in 2008 was \$60.1 million. In connection with the spin-off, HSNi raised \$390 million of long-term debt through a combination of \$240 million of privately issued debt securities (the “Senior Notes”) and a \$300 million secured credit agreement, consisting of a \$150 million term loan and a \$150 million revolving credit facility. As of December 31, 2008, \$150 million was outstanding under the term loan and \$20 million was outstanding under the revolving credit facility. Debt issuance costs, including the \$1.6 million original issue discount on the issuance of the Senior Notes, totaled \$16.1 million resulting in net proceeds of \$373.8 million. In connection with the spin-off, HSNi made a \$333.8 million cash distribution to IAC. Net cash provided by financing activities attributable to continuing operations in 2007 of \$2.4 million was due to excess tax benefits from stock-based awards.

The credit agreement contains financial covenants consisting of a leverage ratio and an interest coverage ratio, among other covenants. HSNi was in compliance with all such covenants as of December 31, 2008. The amount available to us under the credit agreement is reduced by the amount of commercial and standby letters of credit issued under the revolving credit facility portion of the agreement. As of December 31, 2008, there were \$14.7 million of outstanding commercial and standby letters of credit issued under the revolving credit facility. The ability to draw funds under the revolving credit facility is dependent upon meeting the aforementioned financial covenants, which may limit HSNi’s ability to draw the full amount of the facility. As of December 31, 2008, the additional amount that could be borrowed under the revolving credit facility, in consideration of the financial covenants, was approximately \$47.0 million. Total debt at December 31, 2008 was approximately \$408.5 million resulting in a ratio of total debt to EBITDA, as defined in our credit agreement, of approximately 2.47x for 2008.

The \$40 million borrowed under the revolving credit facility in the fourth quarter of 2008 was done due to the uncertainty in the credit markets and in order to ensure financial flexibility and support working capital needs. As of December 31, 2008, \$20 million of the borrowings were repaid. The remaining \$20 million was repaid during the first quarter of 2009.

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Net cash used in discontinued operations in 2008 and 2007 of \$.5 million and \$48.5 million, respectively, relates primarily to the operations of HSN International and HSE. HSNi does not expect future cash flows associated with existing discontinued operations to be material.

HSNi anticipates that it will need to make capital and other expenditures in connection with the development and operation of its business. HSNi's ability to fund its cash and capital needs will be affected by its ongoing ability to generate cash from operations, the overall capacity and terms of its financing arrangements as discussed above, and access to the capital markets. HSNi believes that its cash on hand, its anticipated operating cash flows, its available unused portion of the revolving credit facility and its access to capital markets will be sufficient to fund its operating needs, capital, investing and other commitments and contingencies for the foreseeable future.

Contractual Obligations and Commercial Commitments

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total Amounts Committed</u>	<u>Less Than 1 Year</u>	<u>1 - 3 Years (In thousands)</u>	<u>3 - 5 Years</u>	<u>More Than 5 Years</u>
Short- and long-term obligations	\$ 410,000	\$ 15,000	\$ 52,500	\$ 102,500	\$ 240,000
Operating leases	125,697	30,272	43,481	24,707	27,237
Purchase obligations (a)	221,289	109,057	112,232	—	—
Total commercial commitments	<u>\$ 756,986</u>	<u>\$ 154,329</u>	<u>\$ 208,213</u>	<u>\$ 127,207</u>	<u>\$ 267,237</u>

(a) The purchase obligations primarily relate to contracts with pay television operators and include obligations for future cable distribution and commission guarantees.

<u>Other Commercial Commitments</u>	<u>Amount of Commitment Expiration Per Period</u>				
	<u>Total Amounts Committed</u>	<u>Less Than 1 Year</u>	<u>1 - 3 Years (In thousands)</u>	<u>3 - 5 Years</u>	<u>More Than 5 Years</u>
Letters of credit and surety bonds (b)	\$ 17,926	\$ 17,876	\$ 50	\$ —	\$ —

(b) The letters of credit ("LOCs") primarily consist of trade LOCs, which are used for inventory purchases. Trade LOCs are guarantees of payment based upon the delivery of goods. The surety bonds primarily consist of custom bonds, which relate to the import of merchandise into the United States.

At December 31, 2008, we have \$0.5 million recorded for uncertain tax positions under FIN 48. We are not able to reasonably estimate the timing of payments, or the amount by which our liability will increase or decrease over time; therefore, the FIN 48 liability of \$0.5 million has not been included in the contractual obligations table above.

Off-Balance Sheet Arrangements

Other than the items described above, HSNi does not have any off-balance sheet arrangements as of December 31, 2008.

Seasonality

Historically, seasonality impacts HSNi, with revenue highest in the fourth quarter, but not to the same extent it impacts the retail industry in general.

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Non-GAAP Measure

HSNi reports Adjusted EBITDA as a supplemental measure to generally accepted accounting principles ("GAAP"). This measure is one of the primary metrics by which HSNi evaluates the performance of its businesses, on which its internal budgets are based and by which management is compensated. HSNi believes that investors should have access to the same set of tools that it uses in analyzing its results.

Adjusted EBITDA is defined as operating income excluding, if applicable: (1) non-cash compensation expense and amortization of non-cash marketing, (2) amortization of intangible assets, (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 we believe it to be a helpful measure for those evaluating companies in the retail industry. 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 non-cash compensation, amortization of non-cash marketing, amortization of intangible assets, depreciation, gains and losses on asset dispositions, asset impairment charges, acquisition-related accounting and one-time items.

Pro Forma Results

We will only present Adjusted EBITDA on a pro forma basis if we view a particular transaction as significant in size or transformational in nature. For the periods presented in this report, there are no transactions that we have included on a pro forma basis.

One-Time Items

Adjusted EBITDA is presented before one-time items, if applicable. These items are truly one-time in nature and non-recurring, infrequent or unusual, and have not occurred in the past two years or are not expected to recur in the next two years, in accordance with SEC rules. For the periods presented in this report, there are no one-time items.

Non-Cash Expenses That Are Excluded From HSNi's Non-GAAP Measure

Non-cash compensation expense consists principally of expense associated with the grants of restricted stock, restricted stock units, stock options and stock appreciation rights, including expense associated with the modification and acceleration of such awards in connection with the spin-off. These expenses are not paid in cash, and HSNi includes the related shares in its calculations of diluted shares outstanding. Upon vesting of restricted stock and restricted stock units and the exercise of certain stock options and stock appreciation rights, the awards will be settled, at HSNi's discretion, on a net basis, with HSNi remitting the required tax withholding amount from its current funds.

Amortization of non-cash marketing consists of non-cash advertising provided to HSNi by IAC. The non-cash marketing was secured by IAC from Universal Television as part of the IAC transaction pursuant to which VUE was created, and the subsequent transaction by which IAC sold its partnership interests in VUE (collectively referred to as the "NBC Universal Advertising"). The NBC Universal Advertising is available for television advertising on various NBC Universal network and cable channels without any cash cost.

The NBC Universal Advertising is excluded from Adjusted EBITDA because it is non-cash and is incremental to the marketing and advertising that HSNi would otherwise undertake as a result of its ordinary cost/benefit marketing planning process. Accordingly, HSNi's aggregate level of advertising, and the increased concentration of that advertising on NBC Universal network and cable channels, does not reflect what HSNi's advertising effort would otherwise be without these credits. As a result, management believes that treating the NBC Universal Advertising as an expense does not appropriately reflect its true cost/benefit relationship, nor does it

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best reflect HSNi's long-term level of advertising expenditures. Nonetheless, while the benefits directly attributable to television advertising are always difficult to determine, and especially so with respect to the NBC Universal Advertising due to its incrementality and heavy concentration, it is likely that HSNi does derive benefits from it, though management believes such benefits are generally less than those received through its regular marketing and advertising for the reasons stated above. Adjusted EBITDA therefore has the limitation of including those benefits while excluding the associated expense.

Amortization of intangibles is a non-cash expense relating primarily to acquisitions. At the time of an acquisition, the intangible assets of the acquired company, such as distribution agreements, customer relationships and merchandise agreements, are valued and amortized over their estimated lives. HSNi believes that since intangibles represent costs incurred by the acquired company to build value prior to acquisition, they were part of transaction costs.

Depreciation, gains and losses on asset dispositions and long-lived asset impairment charges are non-cash items relating to our long-lived assets and have been excluded from Adjusted EBITDA. *Goodwill and intangible asset impairment charges* are also non-cash expenses that have been excluded from Adjusted EBITDA.

Reconciliation of Adjusted EBITDA

See Note 6 of Notes to Consolidated Financial Statements for the reconciliation between operating (loss) income and Adjusted EBITDA for the years ended December 31, 2008, 2007 and 2006.

Critical Accounting Policies and Estimates

The following disclosure is provided to supplement the descriptions of HSNi's accounting policies contained in Note 2 of Notes to Consolidated Financial Statements in regard to significant areas of judgment. HSNi's management is required to make certain estimates and assumptions during the preparation of its consolidated financial statements in accordance with GAAP. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net income during any period. Actual results could differ from those estimates. Because of the size of the financial statement elements to which they relate, some of HSNi's accounting policies and estimates have a more significant impact on its consolidated financial statements than others. What follows is a discussion of some of HSNi's more significant accounting policies and estimates.

Recoverability of Long-Lived Assets

HSNi reviews the carrying value of all long-lived assets, primarily property and equipment and definite-lived intangible assets, for impairment whenever triggering events or changes in circumstances indicate that the carrying value of an asset may be impaired. In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), impairment is considered to have occurred whenever the carrying value of a long-lived asset exceeds the sum of the undiscounted cash flows that is expected to result from the use and eventual disposition of the asset. The impairment is measured by comparing the fair value of the asset to its carrying value. Our valuation methodologies include, but are not limited to, discounting the future cash flows from the asset being tested. Significant judgments include determining if a triggering event has occurred, determining the future cash flows from the assets and applying the appropriate discount rate when measuring the fair value. The determination of cash flows is based upon assumptions that may not occur.

Recoverability of Goodwill and Indefinite-Lived Intangible Assets

HSNi assesses the impairment of goodwill and identifiable intangible assets at least annually during the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In performing this review, HSNi is required to make an assessment of the implied fair value of its goodwill and intangible assets. If it is determined that the implied fair value of goodwill and/or intangible assets is less than the carrying amount, an impairment charge, equal to the excess, is recorded. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business

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combination. The estimated fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit (including the unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the purchase price paid. The fair value of the reporting unit is determined by using a combination of a discounted cash flow analysis and an equity analysis based on the trading value of its common stock. The discounted cash flow analysis indicates the fair value of the reporting units based on the present value of the cash flows expected to be generated in the future. The equity analysis is based on the trading value of its common stock as of the valuation date or the average stock price over a range of dates prior to the valuation date, plus an estimated control premium.

In assessing fair value, HSNi considers, among other indicators, differences between estimated and actual cash flows, changes in the related discount rate and the relationship between the trading price of its common stock and its per-share book value. Determining fair value requires the exercise of significant judgments, including judgments about discount rates, perpetual growth rates, royalty rates, terminal growth rates, control premiums and the amount and timing of future cash flows. These factors used in the determination of fair value, particularly estimated cash flows, are sensitive to, among other things, changes in the retail consumer market and the general economy. For more information on the impairment charges recognized during 2008, see Note 3 of Notes to Consolidated Financial Statements.

Returns Reserves

Net sales from HSNi primarily consists of merchandise sales and is reduced by incentive discounts and sales returns. In accordance with Staff Accounting Bulletin 104, revenue is recorded when delivery to the customer has occurred. Delivery is considered to have occurred when the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment. HSNi's sales policy allows customers to return merchandise for a full refund or exchange, subject in some cases to restocking fees and exceptions for certain merchandise. Allowances for returned merchandise and other adjustments (including reimbursed shipping and handling costs) are provided based upon past experience. Actual levels of product returns may vary from these estimates. HSNi's estimated return rates were 18.4%, 18.4% and 17.7% in 2008, 2007 and 2006, respectively.

Allowance for Doubtful Accounts

HSNi makes judgments as to its ability to collect outstanding receivables and provide allowances when it is assessed that all or a portion of the receivable will not be collected. HSNi determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, its previous loss history and the condition of the general economy. HSNi writes off accounts receivable when they become uncollectible.

Income Taxes

Estimates of deferred income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 13 of Notes to Consolidated Financial Statements, and reflect management's assessment of actual future taxes to be paid on items reflected in the consolidated financial statements, giving consideration to both timing and the probability of realization. Actual income taxes could vary from these estimates due to future changes in income tax law, state income tax apportionment, as well as actual operating results of HSNi that vary significantly from anticipated results. Valuation allowances are related to items for which it is more likely than not that the tax benefit will not be realized. In assessing the adequacy of a recorded valuation allowance, we consider all positive and negative information and a variety of factors including the scheduled reversal of deferred tax liabilities, historical and projected future taxable income and feasible tax planning strategies. Effective January 1, 2007, HSNi adopted the provisions of FIN 48. As a result of the adoption of FIN 48, HSNi recognizes liabilities for uncertain tax positions based on the two-step process prescribed by the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. This measurement step is inherently difficult and requires subjective estimations of such amounts to determine the probability of various possible outcomes. HSNi considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

Inventory Valuation

Inventories are valued at the lower of cost or market, cost being determined based upon the first-in, first-out method. Market is determined on the basis of net realizable value, giving consideration to obsolescence and other factors. Net realizable value is estimated by HSNi based upon historical sales data, the age of inventory, the quantity of goods on hand and the ability to return merchandise to vendors. The actual net realizable value may vary from estimates due to changes in customer tastes or viewing habits, or judgmental decisions made by merchandising personnel when ordering new products.

Stock-Based Compensation

We measure compensation cost for stock awards at fair value and recognize compensation over the service period for awards expected to vest. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. The fair value of restricted stock units is determined based on the number of shares granted and the closing price of our common stock at the grant date. The fair value of stock options and stock appreciation rights are estimated on the grant date using the Black-Scholes option pricing model. This model incorporates various assumptions, including expected volatility and expected term. Expected stock price volatilities are estimated based on the historical and implied volatilities of comparable publicly-traded companies. The expected term of awards granted is based on analyses of historical employee termination rates and option exercise patterns, giving consideration to expectations of future employee behavior. Actual results and future estimates may differ substantially from our current estimates.

New Accounting Pronouncements

Refer to Note 2 of Notes to Consolidated Financial Statements for a description of recent accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

At December 31, 2008, approximately 41.6% of our \$408.5 million of outstanding long-term debt bore interest at variable rates, generally tied to a reference rate such as the LIBOR rate or the prime rate of interest of certain banks. Changes in interest rates on loans from these financial institutions could affect our earnings as a result of interest rates charged on certain underlying obligations that are variable. At December 31, 2008, a hypothetical 100 basis point increase in interest rates on our variable rate obligations would have resulted in an increase of approximately \$1.7 million in annual pre-tax interest expense.

Foreign Currency Exchange Risk

During the second quarter of 2003, one of our foreign subsidiaries entered into a foreign exchange forward contract with a notional amount of \$38.6 million which was used to hedge against the change in value of a liability denominated in a currency other than the subsidiary's functional currency. In connection with the sale of HSE, we unwound the foreign exchange forward contract during June 2007. Prior to unwinding this contract, all foreign exchange remeasurement gains and losses related to the contract and liability were recognized each period in the statements of operations and were offsetting. Subsequent to the sale of HSE, we do not have significant exposure to foreign currency risk and do not hold any foreign currency derivative instruments at December 31, 2008.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of HSN, Inc.

We have audited the accompanying consolidated balance sheets of HSN, Inc. and subsidiaries (the “Company”) as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index as Schedule II. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of HSN, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Tampa, Florida

March 27, 2009

HSN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended December 31,		
	2008	2007	2006
Net sales	\$ 2,823,593	\$ 2,908,242	\$ 2,877,954
Cost of sales	1,838,163	1,820,048	1,765,203
Gross profit	985,430	1,088,194	1,112,751
Operating expenses:			
Selling and marketing	567,305	595,911	584,997
General and administrative	220,644	211,955	186,261
Production and programming	60,217	59,051	56,800
Amortization of non-cash marketing	8,022	4,442	—
Amortization of intangible assets	7,465	12,681	34,224
Depreciation	37,438	34,363	37,273
Asset impairments	3,186,650	—	—
Total operating expenses	4,087,741	918,403	899,555
Operating (loss) income	(3,102,311)	169,791	213,196
Other income (expense):			
Interest income	480	252	586
Interest expense	(16,420)	—	—
Other expense	—	(256)	(1,040)
Total other expense, net	(15,940)	(4)	(454)
(Loss) income from continuing operations before income taxes	(3,118,251)	169,787	212,742
Income tax benefit (provision)	730,773	(64,554)	(79,210)
(Loss) income from continuing operations	(2,387,478)	105,233	133,532
Gain on sale of discontinued operations, net of tax	—	30,572	—
(Loss) income from discontinued operations, net of tax	(3,410)	28,999	(10,715)
Net (loss) income	\$ (2,390,888)	\$ 164,804	\$ 122,817
(Loss) income from continuing operations per share:			
Basic	\$ (42.48)	\$ 1.87	\$ 2.38
Diluted	\$ (42.48)	\$ 1.86	\$ 2.36
Net (loss) income per share:			
Basic	\$ (42.54)	\$ 2.93	\$ 2.19
Diluted	\$ (42.54)	\$ 2.91	\$ 2.17
Shares used in computing earnings per share:			
Basic	56,208	56,206	56,206
Diluted	56,208	56,649	56,649

The accompanying notes are an integral part of these consolidated financial statements.

HSN, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31,	
	2008	2007
ASSETS		
Cash and cash equivalents	\$ 177,463	\$ 6,220
Accounts receivable, net of allowance of \$10,026 and \$8,112, respectively	165,114	192,609
Inventories	304,172	317,411
Deferred income taxes	21,777	24,606
Prepaid expenses and other current assets	42,080	55,182
Total current assets	710,606	596,028
Property and equipment, net	157,832	155,805
Goodwill	—	2,884,389
Intangible assets, net	261,747	571,662
Other non-current assets	22,272	12,747
TOTAL ASSETS	\$ 1,152,457	\$ 4,220,631
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable, trade	\$ 209,615	\$ 260,531
Current maturities of long-term debt	15,000	—
Accrued expenses and other current liabilities	179,637	188,312
Total current liabilities	404,252	448,843
Long-term debt, less current liabilities	393,528	—
Deferred income taxes	83,276	819,969
Other long-term liabilities	13,116	8,933
Total liabilities	894,172	1,277,745
Commitments and contingencies (Note 14)		
SHAREHOLDERS' EQUITY:		
Preferred stock \$0.01 par value; 25,000,000 authorized shares; no issued shares	—	—
Common stock \$0.01 par value; 300,000,000 authorized shares; 56,222,631 issued shares	562	—
Invested capital	—	4,522,873
Receivables from IAC and subsidiaries	—	(1,581,157)
Additional paid-in capital	2,406,503	—
Retained deficit	(2,148,534)	—
Accumulated other comprehensive (loss) income	(246)	1,170
Total shareholders' equity	258,285	2,942,886
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,152,457	\$ 4,220,631

The accompanying notes are an integral part of these consolidated financial statements.

HSN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Preferred Stock		Common Stock		Invested Capital	Receivables From IAC and Subsidiaries	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount	Shares	Amount						
Balance as of December 31, 2005	—	\$ —	—	\$ —	\$ 4,445,923	\$(1,305,373)	\$ —	\$ —	\$ 17,810	\$ 3,158,360
Comprehensive income:										
Net income	—	—	—	—	122,817	—	—	—	—	122,817
Net gains of derivative contracts	—	—	—	—	—	—	—	—	4,319	4,319
Foreign currency translation	—	—	—	—	—	—	—	—	16,441	16,441
										143,577
Comprehensive income:					279	—	—	—	—	279
Net transfers from IAC	—	—	—	—	—	(178,500)	—	—	—	(178,500)
Net change in receivables from IAC and subsidiaries	—	—	—	—	—	—	—	—	—	—
Balance as of December 31, 2006	—	—	—	—	4,569,019	(1,483,873)	—	—	38,570	3,123,716
Comprehensive income:										
Net income	—	—	—	—	164,804	—	—	—	—	164,804
Net losses of derivative contracts	—	—	—	—	—	—	—	—	(2,355)	(2,355)
Foreign currency translation	—	—	—	—	—	—	—	—	(35,045)	(35,045)
Comprehensive income:					—	—	—	—	—	127,404
Cumulative effect of adoption of FIN 48	—	—	—	—	(225)	—	—	—	—	(225)
Net transfers to IAC	—	—	—	—	(210,725)	—	—	—	—	(210,725)
Net change in receivables from IAC and subsidiaries	—	—	—	—	—	(97,284)	—	—	—	(97,284)
Balance as of December 31, 2007	—	—	—	—	4,522,873	(1,581,157)	—	—	1,170	2,942,886
Comprehensive loss:										
Net loss prior to spin-off	—	—	—	—	(242,354)	—	—	—	—	(242,354)
Net loss after spin-off	—	—	—	—	—	—	—	(2,148,534)	—	(2,148,534)
Foreign currency translation	—	—	—	—	—	—	—	—	(1,416)	(1,416)
Comprehensive loss:					—	—	—	—	—	(2,392,304)
Net change in transfers to and receivables from IAC	—	—	—	—	—	22,531	—	—	—	22,531
Distribution to IAC	—	—	—	—	(333,799)	—	—	—	—	(333,799)
Non-cash compensation expense for equity awards	—	—	—	—	—	16,314	3,972	—	—	20,286
Stock-based awards accounted for as a liability	—	—	—	—	—	(2,136)	718	—	—	(1,418)
Capitalization as a result of the spin-off, net of extinguishment of IAC receivables	—	—	—	—	(3,946,720)	1,544,448	2,402,272	—	—	—
Issuance of common stock at spin-off	—	—	56,206	562	—	—	(562)	—	—	—
Board of Directors deferred compensation	—	—	—	—	—	—	29	—	—	29
Issuance of common stock upon exercise of stock options, including related tax benefit of \$0	—	—	16	—	—	—	74	—	—	74
Balance as of December 31, 2008	—	\$ —	56,222	\$ 562	\$ —	\$ —	\$2,406,503	\$(2,148,534)	\$ (246)	\$ 258,285

The accompanying notes are an integral part of these consolidated financial statements.

HSN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2008	2007 (In thousands)	2006
Cash flows from operating activities attributable to continuing operations:			
Net (loss) income	\$(2,390,888)	\$ 164,804	\$ 122,817
Less: (Loss) income from discontinued operations, net of tax	(3,410)	59,571	(10,715)
(Loss) income from continuing operations	(2,387,478)	105,233	133,532
Adjustments to reconcile (loss) income from continuing operations to net cash provided by operating activities attributable to continuing operations:			
Depreciation	37,438	34,363	37,273
Amortization of intangible assets	7,465	12,681	34,224
Asset impairments	3,186,650	—	—
Non-cash compensation expense	20,286	12,160	11,746
Amortization of cable and satellite distribution fees	4,028	4,866	29,565
Amortization of non-cash marketing	8,022	4,442	—
Amortization of debt issuance costs	1,124	—	—
Loss on disposition of fixed assets	1,354	276	146
Deferred income taxes	(742,053)	(11,803)	(15,282)
Excess tax benefits from stock-based awards	(135)	(2,401)	(2,269)
Bad debt expense	19,775	14,598	10,734
Increase in cable and satellite distribution fees	—	—	(16,876)
Changes in current assets and liabilities:			
Accounts receivable	8,787	(53,130)	(15,382)
Inventories	13,239	(3,498)	(23,415)
Prepaid expenses and other current assets	12,816	(2,212)	(1,459)
Accounts payable, accrued expenses and other current liabilities	(54,230)	22,009	(14,832)
Net cash provided by operating activities attributable to continuing operations	137,088	137,584	167,705
Cash flows from investing activities attributable to continuing operations:			
Transfers from (to) IAC	16,738	(91,560)	(188,269)
Capital expenditures	(39,662)	(48,714)	(35,985)
Other, net	—	113	(174)
Net cash used in investing activities attributable to continuing operations	(22,924)	(140,161)	(224,428)
Cash flows from financing activities attributable to continuing operations:			
Proceeds from issuance of long-term debt, net of issuance costs	373,833	—	—
Borrowings under revolving credit facility	40,000	—	—
Repayment under revolving credit facility	(20,000)	—	—
Distribution to IAC in connection with the spin-off	(333,799)	—	—
Excess tax benefits from stock-based awards	135	2,401	2,269
Other, net	(117)	(10)	—
Net cash provided by financing activities attributable to continuing operations	60,052	2,391	2,269
Total cash provided by (used in) continuing operations	174,216	(186)	(54,454)
Cash flows from discontinued operations:			
Net cash used in operating activities attributable to discontinued operations	(501)	(8,956)	(27,931)
Net cash used in investing activities attributable to discontinued operations	—	(965)	(8,526)
Net cash used in financing activities attributable to discontinued operations	—	(38,571)	(1,748)
Total cash used in discontinued operations	(501)	(48,492)	(38,205)
Effect of exchange rate changes on cash and cash equivalents	(2,472)	1,531	7,788
Net increase (decrease) in cash and cash equivalents	171,243	(47,147)	(84,871)
Cash and cash equivalents at beginning of period	6,220	53,367	138,238
Cash and cash equivalents at end of period	\$ 177,463	\$ 6,220	\$ 53,367

The accompanying notes are an integral part of these consolidated financial statements.

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—ORGANIZATION**Company Overview**

HSN, Inc. (“HSNi”) markets and sells a wide range of third party and private label merchandise directly to consumers through (i) television home shopping programming broadcast on the HSN television network, (ii) catalogs, which consist primarily of the Cornerstone portfolio of leading print catalogs which includes Frontgate, Gamet Hill, Ballard Designs, Improvements, Smith & Noble, The Territory Ahead and TravelSmith and (iii) websites, which consist primarily of HSN.com and branded websites operated by Cornerstone. HSNi’s television home shopping business and related internet commerce is referred to herein as “HSN” and all catalog operations, including related internet commerce, are collectively referred to herein as “Cornerstone.”

HSN offerings primarily consist of jewelry, apparel & accessories, health & beauty and home & other. Merchandise offered by Cornerstone primarily consists of home furnishings (including indoor/outdoor furniture, window treatments and other home related goods) and apparel & accessories.

Basis of Presentation

On November 5, 2007, IAC/InterActiveCorp (“IAC”) announced that its Board of Directors approved a plan to separate IAC into five publicly traded companies, identifying HSN and Cornerstone, collectively, as one of those five companies. In these consolidated financial statements, the separation transaction is referred to as the “spin-off”. In anticipation of the spin-off, HSNi was incorporated as a Delaware corporation in May 2008. Effective August 20, 2008, HSNi completed the spin-off and HSNi’s shares began trading on The Nasdaq Global Select Market under the symbol “HSNI”. Prior to the spin-off, HSNi was a wholly owned subsidiary of IAC and did not have any material assets or liabilities, nor did HSNi engage in any business or other activities and, other than in connection with the spin-off, did not acquire or incur any material assets or liabilities. Since completion of the spin-off, HSNi now consists of HSN and Cornerstone, the principal businesses that formerly comprised most of IAC’s Retailing segment. HSN primarily consists of the HSN television network and HSN.com, and Cornerstone includes the Cornerstone Brands portfolio of leading print catalogs, related websites and a limited number of retail stores. The businesses operated by HSNi following the spin-off are referred to herein as the “HSNi Businesses.” HSNi also includes the entity classified as discontinued operations in Note 7.

In conjunction with the spin-off, HSNi completed the following transactions: (1) extinguished all intercompany receivable balances from IAC, which totaled \$1.5 billion by recording a non-cash distribution to IAC, (2) recapitalized the invested equity balance with common stock, whereby holders of IAC common stock and/or Class B common stock received one-fifth of a share of HSNi common stock for every share of IAC common stock and/or Class B common stock held at the close of business on August 11, 2008, the record date for the spin-off, as more fully described in our Registration Statement on Form S-1, as amended, (3) raised \$390 million through a combination of \$240 million of privately issued debt securities and \$150 million from a secured credit facility (See Note 11), and (4) transferred to IAC all cash in excess of \$50 million, which totaled \$333.8 million.

These consolidated financial statements present our results of operations, financial position, shareholders’ equity and cash flows on a combined basis up through the spin-off on August 20, 2008, and on a consolidated basis thereafter. We prepared these financial statements relating to periods prior to the spin-off on a combined basis because they excluded certain investments and assets that were owned, either directly or indirectly, by legal entities that comprise the HSNi Businesses. The ownership of these investments and assets were retained by IAC after the spin-off. The historical combined financial statements of HSNi and its subsidiaries reflect the contribution or other transfer to HSNi of all of the subsidiaries and assets and the assumption by HSNi of all of the liabilities relating to the HSNi Businesses in connection with the spin-off and the allocation to HSNi of certain IAC corporate expenses relating to the HSNi Businesses. Accordingly, the historical combined financial statements of HSNi reflect the historical financial position, results of operations and cash flows of the HSNi Businesses since their respective dates of acquisition by IAC, based on the historical consolidated financial statements and accounting records of IAC and using the historical results of operations and historical bases of the assets and liabilities of the HSNi Businesses with the exception of accounting for income taxes. For purposes of these financial

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

statements, income taxes have been principally computed for HSNi on an as if stand-alone, separate tax return basis. Our income tax payable, as well as deferred tax assets and liabilities, represent the estimated impact of filing a consolidated income tax return with IAC through the spin-off, and filing a stand-alone consolidated income tax return thereafter. Intercompany transactions and accounts have been eliminated.

In the opinion of HSNi's management, the assumptions underlying these consolidated statements are reasonable. However, this financial information does not necessarily reflect what the historical financial position, results of operations and cash flows of HSNi would have been had HSNi been a stand-alone company during the periods presented.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue primarily consists of merchandise sales and is reduced by incentive discounts and sales returns to arrive at net sales. In accordance with Staff Accounting Bulletin 104, revenue is recorded when delivery to the customer has occurred. Delivery is considered to have occurred when the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment. HSNi's sales policy allows customers to return merchandise for a full refund or exchange, subject in some cases to restocking fees and exceptions for certain merchandise. Allowances for returned merchandise and other adjustments (including reimbursed shipping and handling costs) are provided based upon past experience. HSNi believes that actual returns of product sales have not materially varied from estimates in any of the periods presented. HSNi's estimated return rates were 18.4%, 18.4% and 17.7% in 2008, 2007 and 2006, respectively. Sales taxes collected are not included in revenue.

Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are recorded as revenue. The costs associated with shipping goods to customers are recorded as cost of sales.

Cash and Cash Equivalents

Cash and cash equivalents include cash and money market instruments with an original maturity of three months or less when purchased and are stated at cost.

Accounts Receivable

Accounts receivable are stated at amounts due from customers, net of an allowance for doubtful accounts. HSN provides extended payment terms to its customers known as Flexpay. Flexpay is offered on certain products sold by HSN. Revenue is recorded when delivery to the customer has occurred, at which time HSN collects the first payment, sales tax and all shipping and handling fees. Subsequent collections are due from customers in 30-day increments, payable automatically upon authorization of the customer's method of payment. HSN accepts most credit, and select debit cards. HSN offers Flexpay programs ranging from two to six interest-free payments. Flexpay receivables consist of outstanding balances owed by customers, less a reserve for uncollectible balances. The balance of Flexpay receivables, net of allowance, at December 31, 2008 and 2007 was \$130.3 million and \$148.3 million, respectively.

Accounts receivable outstanding longer than the contractual payment terms are considered past due. HSNi determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, HSNi's previous loss history and the condition of the general economy. HSNi writes off accounts receivable when they become uncollectible.

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories

Inventories, which primarily consist of finished goods, are valued at the lower of cost or market, with the cost being determined based upon the first-in, first-out method. Cost includes inbound freight and duties and, in the case of HSN, certain allocable general and administrative costs, including certain warehouse costs. Inventories include approximately \$5.4 million and \$4.9 million of these allocable general and administrative overhead costs at December 31, 2008 and 2007, respectively, and approximately \$19.7 million, \$17.8 million and \$19.8 million of such costs were included in "General and administrative expense" in the accompanying consolidated statements of operations for the years ended December 31, 2008, 2007 and 2006, respectively. Market is determined on the basis of net realizable value, giving consideration to obsolescence and other factors.

Property and Equipment

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

Depreciation is recorded on a straight-line basis to allocate the cost of depreciable assets to operations over the shorter of the estimated service life or lease period

<u>Asset Category</u>	<u>Depreciation Period</u>
Computer equipment and capitalized software	3 to 6 Years
Buildings and leasehold improvements	3 to 39 Years
Furniture and other equipment	3 to 10 Years

In accordance with American Institute of Certified Public Accountants' Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," HSNi capitalizes certain qualified costs incurred in connection with the development of internal use software. Capitalization of internal use software costs begins when the preliminary project stage is completed, management with the relevant authority authorizes and commits to the funding of the software project, and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalized internal use software is depreciated on a straight-line basis over the estimated useful life of the software, not to exceed three years. Capitalized software costs, net of accumulated amortization, totaled \$23.6 million and \$19.5 million at December 31, 2008 and 2007, respectively, and are included in "Property and equipment, net" in the accompanying consolidated balance sheets. Amortization expense related to the capitalized software costs was \$14.0 million, \$12.9 million and \$16.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Goodwill and Indefinite-Lived Intangible Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill acquired in business combinations is assigned to the reporting units that are expected to benefit from the combination as of the acquisition date. Goodwill and indefinite-lived intangible assets, primarily trade names and trademarks, are tested annually for impairment as of October 1 or earlier upon the occurrence of certain events or substantive changes in circumstances. See Note 3 for a further discussion on goodwill and indefinite-lived intangible assets.

Long-Lived Assets and Intangible Assets with Definite Lives

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), long-lived assets, including property and equipment and intangible assets with definite lives, are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying amount is deemed to not be recoverable, an impairment loss is recorded as the amount by which the carrying amount of the long-lived asset exceeds its fair value. Amortization of definite lived intangible assets is recorded on a straight-line basis over their estimated lives.

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cable and Satellite Distribution Fees

Cable and satellite distribution fees relate to fees paid in connection with annual or multi-year cable and satellite contracts for carriage of HSN's programming. Fees that are paid upfront are amortized on a straight-line basis over the terms of the respective contracts. Unpaid fees are accrued.

Cable and satellite distribution fees and amortization totaled \$86.1 million, \$91.8 million and \$88.7 million for the years ended December 31, 2008, 2007 and 2006, respectively, and are included in "Selling and marketing expense" in the accompanying consolidated statements of operations. Prepaid cable and satellite distribution fees due within 12 months were \$1.6 million and \$5.0 million at December 31, 2008 and 2007, respectively, and are included in "Prepaid expenses and other current assets" in the accompanying consolidated balance sheets. The long-term portions of upfront payments relating to multi-year cable and satellite contracts were \$7.6 million and \$11.6 million at December 31, 2008 and 2007, respectively, and are included in "Other non-current assets" in the accompanying consolidated balance sheets. Accrued cable and satellite distribution fees were \$17.9 million and \$32.6 million at December 31, 2008 and 2007, respectively, and are included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets.

Advertising

Advertising costs principally represent offline costs, including catalog production and distribution costs, and online advertising costs. Advertising costs are expensed in the period incurred, except for Cornerstone's direct costs of producing and distributing its catalogs, which are capitalized. These capitalized costs are amortized over the expected future revenue stream, which is generally three months from the date catalogs are mailed. Such capitalized costs totaled \$23.0 million and \$26.8 million at December 31, 2008 and 2007, respectively, and are included in "Prepaid expenses and other current assets" in the accompanying consolidated balance sheets.

Of these amounts, \$13.6 million and \$18.6 million at December 31, 2008 and 2007, respectively, related to catalogs that had not yet been mailed. Advertising expense was \$256.4 million, \$282.5 million and \$278.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Amortization of Non-Cash Marketing

Amortization of non-cash marketing consists of non-cash marketing and advertising provided to HSNi by IAC. The non-cash marketing was secured by IAC from Universal Television as part of the transaction pursuant to which Vivendi Universal Entertainment LLLP ("VUE") was created, and the subsequent transaction by which IAC sold its partnership interests in VUE. HSNi used the non-cash advertising for television advertising on various NBC Universal network and cable channels without any cash cost.

Income Taxes

HSNi accounts for income taxes under the liability method, and deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the deferred tax asset will not be realized. HSNi records interest and penalties on potential tax contingencies as a component of income tax expense and records interest net of any applicable related income tax benefit.

Effective January 1, 2007, HSNi adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"). As a result of the adoption of FIN 48, HSNi recognizes liabilities for uncertain tax positions based on the two-step process prescribed by the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Foreign Currency Translation and Transaction Gains and Losses

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange as of the balance sheet date, and local currency revenue and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses are included as a component of accumulated other comprehensive income (loss), a component of equity. Transaction gains and losses arising from transactions denominated in a currency other than the functional currency of the entity are included in the consolidated statements of operations.

Foreign currency transaction gains and losses arose from entities that are presented in these statements as discontinued operations and, accordingly, are included in "Income from discontinued operations, net of tax" in the accompanying consolidated statements of operations.

Stock-Based Compensation

Effective January 1, 2006, HSNi adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), using the modified prospective transition method and therefore has not restated results for prior periods. HSNi recognizes compensation expense, reduced for estimated forfeitures, on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the outstanding stock awards. In accordance with SFAS No. 123R, tax benefits resulting from tax deductions in excess of the stock-based compensation expense recognized in the consolidated statement of operations are reported as a component of financing cash flows. HSNi issues new shares to satisfy equity vestings and exercises. See Note 12 for a further description for our stock compensation plans.

Earnings (Loss) Per Share

We compute basic earnings (loss) per share by dividing net income (loss) by the weighted average number of common shares outstanding during the period. We compute diluted earnings (loss) per share using the treasury stock or as if converted methods, as applicable.

Fair Value of Financial Instruments

Effective January 1, 2008, HSNi adopted the provisions of SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157") which applies to financial assets and liabilities that are being measured and reported on a fair value basis and expands disclosures about fair value measurements. The adoption of SFAS No. 157 for financial assets and liabilities had no effect on HSNi's existing fair-value measurement practices but requires disclosure of a fair-value hierarchy of inputs used to value an asset or a liability. The three levels of the fair-value hierarchy include:

Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these items. The carrying amount of debt outstanding pursuant to the credit agreement (the term loan and revolving credit facility) approximates fair value as interest rates on these instruments approximate current market rates (level 2 criteria).

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The \$240.0 million of senior notes are carried at cost. The estimated fair value of the senior notes was approximately \$176.4 million at December 31, 2008, based upon quoted market information (level 1 criteria).

Accounting Estimates

HSNi prepares its financial statements in conformity with generally accepted accounting principles in the United States ("GAAP"). These principles require management to make certain estimates and assumptions during the preparation of its consolidated financial statements. These estimates and assumptions impact the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates.

Significant estimates underlying the accompanying consolidated financial statements include: the determination of the lower of cost or market adjustment for inventory; sales returns and other revenue allowances; the allowance for doubtful accounts; the recoverability of long-lived assets; the recovery of goodwill and intangible assets; the determination of deferred income taxes, including related valuation allowances; the accrual for actual, pending or threatened litigation, claims and assessments; and assumptions related to the determination of stock-based compensation.

Certain Risks and Concentrations

HSNi's business is subject to certain risks and concentrations including dependence on third-party technology providers, exposure to risks associated with online commerce security, consumer credit risk and credit card fraud. HSNi also depends on third-party service providers for processing certain fulfillment services.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be applied prospectively, except as it relates to disclosures, for which the effects will be applied retrospectively for all periods presented. Early adoption is not permitted. HSNi does not expect SFAS No. 160 to have a material impact on its consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R supersedes SFAS No. 141, "Business Combinations," and establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations in fiscal years beginning after December 15, 2008. Early adoption is not permitted. HSNi will implement the provisions of SFAS No. 141R for any acquisitions made by HSNi subsequent to December 31, 2008.

In February 2009, FASB Staff Position FAS 141(R)-a, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies," ("FSP No. 141(R)-a") was issued which will amend the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under SFAS No. 141R. FSP No. 141(R)-a is effective for HSNi for any acquisitions subsequent to December 31, 2008.

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In April 2008, the FASB issued FSP No. 142-3, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP No. 142-3 requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141, "Business Combinations." FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008, and the guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. FSP No. 142-3 is not expected to have a significant impact on HSNi's results of operations, financial position or cash flows.

In February 2008, the FASB issued FASB Statement Position ("FSP") No. 157-1 and 157-2 which partially deferred the effective date of SFAS No. 157 for one year for certain nonfinancial assets and liabilities and removed certain leasing transactions from the scope of SFAS No. 157. The adoption of the provisions of SFAS No. 157 did not have an impact on HSNi's consolidated financial position, results of operations or cash flows, but requires expanded disclosures regarding HSNi's fair value measurements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities" ("SFAS No. 159"). SFAS No. 159 permits companies to make an election to carry certain eligible financial assets and liabilities at fair value, even if fair value measurement has not historically been required for such assets and liabilities under GAAP. The provisions of SFAS No. 159 became effective for HSNi's fiscal year beginning January 1, 2008. The adoption of the provisions of SFAS No. 159 did not have an impact on HSNi's consolidated financial position, results of operations or cash flows as HSNi elected not to record eligible instruments in the financial statements at their respective fair value.

NOTE 3—GOODWILL AND INTANGIBLE ASSETS

HSNi accounts for goodwill and identifiable intangible assets in accordance with SFAS No. 142. Under this standard, HSNi assesses the impairment of goodwill and indefinite-lived identifiable intangible assets at least annually during the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

In performing this review, HSNi assesses the implied fair value of its goodwill and intangible assets. If it is determined that the implied fair value of goodwill and/or indefinite-lived intangible assets is less than the carrying amount, an impairment charge, equal to the excess is recorded. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. The estimated fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit (including the unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the purchase price paid. The fair value of the reporting unit is determined by using a combination of a discounted cash flow analysis and an equity analysis based on the trading value of its common stock. The discounted cash flow analysis indicates the fair value of the reporting units based on the present value of the cash flows expected to be generated in the future. The equity analysis is based on the trading value of its common stock as of the valuation date or the average stock price over a range of dates prior to the valuation date, plus an estimated control premium.

In assessing fair value, HSNi considers, among other indicators, differences between estimated and actual cash flows, changes in the related discount rate and the relationship between the trading price of its common stock and its per-share book value. Determining fair value requires the exercise of significant judgments, including judgments about discount rates, perpetual growth rates, royalty

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rates, terminal growth rates, control premiums and the amount and timing of future cash flows. These factors used in the determination of fair value, particularly estimated cash flows, are sensitive to, among other things, changes in the retail consumer market and the general economy.

In the second quarter of 2008, HSNi recorded impairment charges related to goodwill and indefinite-lived intangible assets of \$221.5 million and \$78.5 million, respectively. The impairment charges were recorded at the Cornerstone reporting unit and were due, in part, to the deterioration in the macroeconomic environment for retailers, particularly in the home and apparel categories (which are Cornerstone's primary markets), the negative impact of this environment on Cornerstone's performance and the related reduction in market valuations for retailers.

HSNi conducted its annual test for impairment as of October 1, 2008 during the fourth quarter of 2008. During the fourth quarter of 2008, the recession deepened and consumers were spending less. As a result of the deepening recession, deteriorating consumer confidence and uncertainties with respect to the breadth, depth and duration of the economic downturn and its potential effects on HSNi's business, HSNi revised its projections used to derive its future cash flows. Further, HSNi employed and considered the input of specialists to aid in valuing assets and liabilities of its reporting units (including identified definite and indefinite lived intangible assets) and in determining appropriate discount rates and terminal growth rates to calculate HSNi's discounted cash flows. The outcome of the annual impairment testing indicated the existence of impairment associated with both the HSN and Cornerstone reporting units.

Also, during the fourth quarter of 2008, HSNi determined that the downward trend of its stock price and the overall negative environment regarding the expected performance of the retail sector were triggering events as defined in SFAS 142. Accordingly, HSNi updated its impairment assessment as of December 31, 2008. As a part of this assessment, HSNi updated its valuation as of December 31, 2008, and adjusted the rates used to discount its cash flows to support a valuation that was indicative of the 10 day average market value of HSNi's stock plus an estimated control premium based upon observable transactions of comparable companies.

As a result of the analyses, the goodwill impairment charges recorded in the fourth quarter of 2008 at the HSN and Cornerstone reporting units were \$2.4 billion and \$271.1 million, respectively. The intangible asset impairment charges in the fourth quarter of 2008 at the HSN and Cornerstone segments were \$50.0 million and \$174.0 million, respectively.

Charges related to the impairment of goodwill and intangible assets are included in asset impairments in the accompanying consolidated statements of operations.

As a result of these impairment charges, HSNi no longer has goodwill recorded, and its intangible assets are recorded at their estimated fair values as of December 31, 2008. An increase in the discount rates or additional declines in the future estimated cash flows or the trading value of our common stock could result in additional future material intangible asset impairment charges.

The balance of goodwill and intangible assets, net, is as follows (in thousands):

	December 31,	
	2008	2007
Goodwill	\$ —	\$ 2,884,389
Intangible assets with indefinite lives	260,248	554,848
Intangible assets with definite lives, net	1,499	16,814
Total goodwill and intangible assets, net	\$ 261,747	\$ 3,456,051

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. When definite-lived intangible assets are sold or expire, the cost of the asset and the related accumulated amortization are eliminated and any gain or loss is recognized at such time. For the year ended December 31, 2008, HSNi wrote off \$259.0 million of fully amortized definite-lived intangible assets.

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At December 31, 2008, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
Other	\$5,666	\$ (4,167)	\$1,499	10.0

At December 31, 2007, intangible assets with definite lives relate to the following (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
Distribution agreements	\$159,268	\$ (159,268)	\$ —	4.1
Customer lists	36,773	(22,468)	14,305	4.7
Merchandise agreements	33,257	(33,257)	—	4.7
Technology	28,007	(27,665)	342	3.9
Other	7,409	(5,242)	2,167	8.5
Total	<u>\$264,714</u>	<u>\$ (247,900)</u>	<u>\$16,814</u>	

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2008 balances, such amortization for the next three years is estimated to be as follows (in thousands):

<u>Years Ending December 31,</u>	
2009	\$ 562
2010	562
2011	375
	<u>\$ 1,499</u>

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The following tables present the balance of goodwill by reporting unit, including changes in the carrying amount of goodwill, for the years ended December 31, 2008 and 2007 (in thousands):

	Balance as of January 1, 2008	Additions	Deductions	Impairment	Balance as of December 31, 2008
HSN	\$ 2,390,197	\$ 1,397	\$ —	\$(2,391,594)	\$ —
Cornerstone	494,192	—	(1,586)	(492,606)	—
Total	<u>\$ 2,884,389</u>	<u>\$ 1,397</u>	<u>\$ (1,586)</u>	<u>\$(2,884,200)</u>	<u>\$ —</u>

	Balance as of January 1, 2007	Additions	Deductions	Impairment	Balance as of December 31, 2007
HSN	\$ 2,390,330	\$ —	\$ (133)	\$ —	\$ 2,390,197
Cornerstone	493,439	865	(112)	—	494,192
Total	<u>\$ 2,883,769</u>	<u>\$ 865</u>	<u>\$ (245)</u>	<u>\$ —</u>	<u>\$ 2,884,389</u>

Deductions principally relate to a reduction in acquired tax liabilities and the income tax benefit realized pursuant to the exercise of stock options assumed in a business acquisition that were vested at the transaction date and are treated as a reduction in goodwill when the income tax deductions are realized.

NOTE 4—PROPERTY AND EQUIPMENT

The balance of property and equipment, net, is as follows (in thousands):

	December 31,	
	2008	2007
Capitalized software	\$ 185,107	\$ 169,709
Computer and broadcast equipment	87,757	81,821
Buildings and leasehold improvements	77,857	72,815
Furniture and other equipment	60,910	58,058
Projects in progress	16,370	19,572
Land	11,740	11,778
	<u>439,741</u>	<u>413,753</u>
Less: accumulated depreciation and amortization	<u>(281,909)</u>	<u>(257,948)</u>
Total property and equipment, net	<u>\$ 157,832</u>	<u>\$ 155,805</u>

NOTE 5—ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following (in thousands):

	December 31,	
	2008	2007
Accrued sales returns	\$ 37,340	\$ 37,596
Accrued cable and satellite distribution fees	17,857	32,637
Accrued freight and fulfillment expenses	21,966	25,624
Accrued compensation and benefits	15,296	15,502
Other accrued expenses and current liabilities	87,178	76,953
Total accrued expenses and other current liabilities	<u>\$ 179,637</u>	<u>\$ 188,312</u>

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6—SEGMENT INFORMATION

HSNi has determined to represent its operating segments and related financial information in a manner consistent with how the chief operating decision maker and executive management view the businesses, how the businesses are organized as to segment management, and the focus of the businesses with regards to the types of products or services offered or the target market. HSNi has two operating segments, HSN and Cornerstone. Entities included in discontinued operations, as described in Note 7, are excluded from the schedules below. The accounting policies of the segments are the same as those described in Note 2 – Summary of Significant Accounting Policies. Intercompany accounts and transactions have been eliminated in consolidation.

HSNi's primary metric is Adjusted EBITDA, which is defined as operating income excluding, if applicable: (1) non-cash 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 we believe it to be a helpful measure for those evaluating companies in the retail industry. 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 non-cash 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.

The following tables reconcile Adjusted EBITDA to operating (loss) income for HSNi's operating segments (in thousands):

	Year Ended December 31, 2008		
	HSN	Cornerstone	Total
Operating loss	\$ (2,332,789)	\$ (769,522)	\$ (3,102,311)
Non-cash compensation expense	14,197	6,089	20,286
Amortization of non-cash marketing	8,022	—	8,022
Amortization of intangible assets	568	6,897	7,465
Asset impairments	2,441,594	745,056	3,186,650
Depreciation	27,348	10,090	37,438
Loss on disposition of fixed assets	1,339	15	1,354
Adjusted EBITDA	\$ 160,279	\$ (1,375)	\$ 158,904

	Year Ended December 31, 2007		
	HSN	Cornerstone	Total
Operating income	\$ 135,298	\$ 34,493	\$ 169,791
Non-cash compensation expense	6,411	5,749	12,160
Amortization of non-cash marketing	4,442	—	4,442
Amortization of intangible assets	2,584	10,097	12,681
Asset impairments	—	—	—
Depreciation	25,404	8,959	34,363
Loss on disposition of fixed assets	258	18	276
Adjusted EBITDA	\$ 174,397	\$ 59,316	\$ 233,713

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	Year Ended December 31, 2006		
	HSN	Cornerstone	Total
Operating income	\$ 165,221	\$ 47,975	\$ 213,196
Non-cash compensation expense	4,733	7,013	11,746
Amortization of non-cash marketing	—	—	—
Amortization of intangible assets	24,502	9,722	34,224
Asset impairments	—	—	—
Depreciation	29,082	8,191	37,273
Loss on disposition of fixed assets	178	(32)	146
Adjusted EBITDA	<u>\$ 223,716</u>	<u>\$ 72,869</u>	<u>\$ 296,585</u>

Financial information by segment is as follows (thousands):

	Year Ended December 31,		
	2008	2007 (In thousands)	2006
Net sales:			
HSN	\$ 1,956,871	\$ 1,892,582	\$ 1,884,650
Cornerstone	866,722	1,015,660	993,304
Total	<u>\$ 2,823,593</u>	<u>\$ 2,908,242</u>	<u>\$ 2,877,954</u>
Identifiable assets:			
HSN	\$ 940,515	\$ 3,205,428	\$ 3,195,255
Cornerstone	210,949	1,011,923	981,976
Discontinued operations	993	3,280	280,936
Total	<u>\$ 1,152,457</u>	<u>\$ 4,220,631</u>	<u>\$ 4,458,167</u>
Capital expenditures:			
HSN	\$ 33,367	\$ 34,288	\$ 23,415
Cornerstone	6,295	14,426	12,570
Total	<u>\$ 39,662</u>	<u>\$ 48,714</u>	<u>\$ 35,985</u>

HSNi does not report revenue from external customers for each product or each group of similar products as it is impracticable to do so. HSNi maintains operations principally in the United States with no long-lived assets and insignificant net sales in all other countries.

NOTE 7—DISCONTINUED OPERATIONS

On June 19, 2007, HSNi sold Home Shopping Europe GmbH & Co. KG, and its affiliated station HSE24 (“HSE”). Accordingly, HSE is presented as a discontinued operation in the statement of operations. HSNi sold HSE for approximately \$216.5 million, which resulted in a pre-tax gain of \$45.7 million and an after-tax gain of \$30.6 million. The pre-tax gain included \$22.8 million of foreign currency translation gains that were recognized into earnings at the time of the sale.

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The net sales and net (loss) income for the aforementioned discontinued operation for the applicable periods are as follows (in thousands):

	Year Ended December 31,		
	2008	2007	2006
Net sales	\$ —	\$ 192,701	\$ 387,281
(Loss) income before income taxes	\$ (749)	\$ 28,786	\$ (9,511)
Income tax (expense) benefit	(2,661)	213	(1,204)
(Loss) income before income taxes	<u>\$ (3,410)</u>	<u>\$ 28,999</u>	<u>\$ (10,715)</u>

NOTE 8—COMPREHENSIVE (LOSS) INCOME

Comprehensive (loss) income is comprised of (in thousands):

	Year Ended December 31,		
	2008	2007	2006
Net (loss) income	\$ (2,390,888)	\$ 164,804	\$ 122,817
Foreign currency translation (loss) gain	(1,416)	(35,045)	16,441
Net gains on derivative contracts	—	(2,355)	4,319
Other comprehensive (loss) income	(1,416)	(37,400)	20,760
Comprehensive (loss) income	<u>\$ (2,392,304)</u>	<u>\$ 127,404</u>	<u>\$ 143,577</u>

Accumulated other comprehensive income at December 31, 2008 and December 31, 2007 is solely related to foreign currency translation and is recorded net of tax.

NOTE 9—RETIREMENT AND SAVINGS PLAN

Through December 31, 2008, our employees continued to be eligible to participate in IAC's retirement and savings plan in the U.S. that qualifies under Section 401(k) of the Internal Revenue Code. Effective December 31, 2008, IAC transferred the assets of our participating employees into the HSN, Inc. Retirement Savings Plan that is intended to qualify under Section 401(k) of the Internal Revenue Code. Participating employees may contribute up to 50% of their pretax salary, up to the statutory limits. Through December 31, 2008, we contributed fifty cents for each dollar a participant contributes in this plan, with a maximum contribution of 3% of a participant's earnings. Our matching contribution was \$4.2 million, \$4.4 million and \$4.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

NOTE 10—EARNINGS PER SHARE

We compute earnings per share in accordance with SFAS No. 128, "Earnings Per Share." We compute basic earnings per share using the weighted average number of common shares outstanding for the period. We compute diluted earnings per share using the treasury stock method or as if converted method, as applicable, which includes the weighted average number of common shares outstanding for the period plus the potential dilution that could occur if various equity awards to issue common stock were exercised or restricted equity awards were vested resulting in the issuance of common stock that could share in our earnings.

Basic Earnings Per Share

For the year ended December 31, 2008, basic earnings per share was computed using the number of shares of common stock outstanding immediately following the spin-off, as if such shares were outstanding for the entire period prior to the spin-off, plus the weighted average number of such shares outstanding following the spin-off date through December 31, 2008.

For the years ended December 31, 2007 and 2006, basic earnings per share was computed using the number of shares of common stock outstanding immediately following the spin-off, as if such shares were outstanding for the entire period.

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Diluted Earnings Per Share

For the year ended December 31, 2008, diluted earnings per share was computed using (i) the number of shares of common stock outstanding immediately following the spin-off, (ii) the weighted average number of such shares outstanding following the spin-off date through December 31, 2008, and (iii) if dilutive, the incremental common stock that we would issue upon the assumed exercise of stock options and the vesting of restricted stock units using the treasury stock method.

For the years ended December 31, 2007 and 2006, diluted earnings per share was calculated using (i) the number of shares of common stock outstanding immediately following the spin-off, and (ii) if dilutive, the incremental common stock that we would issue upon exercise of stock options and the vesting of restricted stock units using the treasury stock method.

The following table presents our basic and diluted earnings per share (in thousands, except per share data):

	Year Ended December 31,		
	2008	2007	2006
Net (loss) income:			
(Loss) income from continuing operations	\$ (2,387,478)	\$ 105,233	\$ 133,532
(Loss) income from discontinued operations	(3,410)	59,571	(10,715)
Net (loss) income	<u>\$ (2,390,888)</u>	<u>\$ 164,804</u>	<u>\$ 122,817</u>
Weighted average number of shares outstanding:			
Basic	56,208	56,206	56,206
Dilutive effect of non-cash compensation awards	—	443	443
Diluted	<u>56,208</u>	<u>56,649</u>	<u>56,649</u>
Net (loss) income per share—basic:			
Continuing operations	\$ (42.48)	\$ 1.87	\$ 2.38
Discontinued operations	(0.06)	1.06	(0.19)
Net (loss) income	<u>\$ (42.54)</u>	<u>\$ 2.93</u>	<u>\$ 2.19</u>
Net (loss) income per share—diluted:			
Continuing operations	\$ (42.48)	\$ 1.86	\$ 2.36
Discontinued operations	(0.06)	1.05	(0.19)
Net (loss) income	<u>\$ (42.54)</u>	<u>\$ 2.91</u>	<u>\$ 2.17</u>
Unexercised employee stock options and stock appreciation rights and unvested restricted stock units excluded from the diluted EPS calculation because their effect would have been antidilutive	<u>6,318</u>	<u>5,242</u>	<u>5,242</u>

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11—LONG-TERM DEBT

	December 31,	
	2008	2007
Secured credit agreement expiring July 25, 2013:		
Term loan	\$ 150,000	\$—
Revolving credit facility	20,000	—
11.25% Senior Notes due August 1, 2016; interest payable each February 1 and August 1 commencing February 1, 2009	240,000	—
Unamortized original issue discount on Senior Notes	(1,472)	—
Total long-term debt	408,528	—
Less: current maturities	(15,000)	—
Long-term debt, net of current maturities	<u>\$393,528</u>	<u>\$—</u>

On July 25, 2008, HSNi entered into a secured credit agreement with a syndicate of banks relating to a \$150 million term loan and a \$150 million revolving credit facility, each having a five year maturity. Certain HSNi subsidiaries have unconditionally guaranteed HSNi's obligation under the credit agreement, which is secured by substantially all of HSNi's assets. The credit agreement bears interest based on our financial leverage and, as of December 31, 2008, the term loan interest rate was equal to LIBOR plus 2.75% (4.65%) and the revolving credit facility interest rate was equal to the U.S. Prime Rate plus 1.25% (4.50%). The credit agreement contains financial covenants consisting of a leverage ratio and an interest coverage ratio among other covenants. HSNi was in compliance with all such covenants as of December 31, 2008. The amount available to us under the credit agreement is reduced by the amount of commercial and standby letters of credit issued under the revolving credit facility portion of the agreement. As of December 31, 2008, there were \$14.7 million of outstanding commercial and standby letters of credit issued under the revolving credit facility. The ability to draw funds under the revolving credit facility is dependent upon meeting the aforementioned financial covenants, which may limit HSNi's ability to draw the full amount of the facility. As of December 31, 2008, the additional amount that could be borrowed under the revolving credit facility, in consideration of the financial covenants, was approximately \$47.0 million. HSNi capitalized \$7.3 million in financing costs related to the credit agreement, and HSNi will amortize these costs to interest expense over the credit agreement's five-year life. The annual fee to maintain the revolving credit facility is 50 basis points on the revolving credit facility portion of the credit agreement. As of December 31, 2008, there was \$20.0 million outstanding on the revolving credit facility and \$150 million outstanding related to the term loan.

On July 28, 2008, HSNi issued \$240 million of 11.25% senior notes due 2016 (the "Senior Notes"). The Senior Notes are unsecured and subordinated to all of HSNi's secured debt. The Senior Notes were issued at a discount of \$1.6 million, which along with other issuance expenses of \$7.3 million are being amortized to interest expense over the eight year term of the Senior Notes. At any time prior to August 1, 2012, we may redeem the Senior Notes at a redemption price equal to the sum of the principal amount thereof, plus accrued interest and a make-whole premium. Thereafter, we may redeem the Senior Notes at the redemption prices set forth below, together with accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the 12-month period beginning on June 15 of the years indicated below:

Year	Percentage
2012	105.625%
2013	102.813%
2014 and thereafter	100.000%

In addition, prior to August 1, 2011, we may redeem up to 35% of the aggregate principal amount of the Senior Notes at a redemption price equal to 111.25% of the principal amount thereof, plus accrued interest with the net cash proceeds from certain equity offerings. If we experience a change of control, we may be required to offer to purchase the Senior Notes at a purchase price equal to 101% of the principal amount, plus accrued interest.

Substantially all of our domestic subsidiaries have unconditionally guaranteed the Senior Notes. The indenture governing the Senior Notes contains covenants that limit our ability and the ability of our subsidiaries to, among other things, incur additional indebtedness, pay dividends or make other distributions or repurchase or redeem our stock, make investments, sell assets, incur liens, enter into agreements restricting our subsidiaries' ability to pay dividends, enter into transactions with affiliates and consolidate, merge or sell all or substantially all of our assets.

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Aggregate contractual maturities of long-term debt are as follows (in thousands):

<u>Years ending December 31,</u>	
2009	\$ 15,000
2010	22,500
2011	30,000
2012	30,000
2013	72,500
Thereafter	240,000
	<u>\$ 410,000</u>

NOTE 12—STOCK-BASED AWARDS

Effective January 1, 2006, HSNi adopted SFAS No. 123R using the modified prospective transition method and has applied the classification provisions of Staff Accounting Bulletin No. 107 regarding the SEC's interpretation of SFAS No. 123R and the valuation of stock-based payments for public companies in its adoption of SFAS 123R. The adoption of SFAS No. 123R did not impact the amount of stock-based compensation expense recorded in the accompanying consolidated statements of operations for the year ended December 31, 2006, since HSNi had previously adopted the expense recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

Non-cash compensation expense is included in the following line items in the accompanying consolidated statements of operations (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cost of sales	\$ 1,412	\$ 937	\$ 755
Selling and marketing	1,968	1,025	1,117
General and administrative	16,774	10,189	9,867
Production and programming	132	9	7
Non-cash stock-based compensation expense before income taxes	20,286	12,160	11,746
Income tax benefit	(7,709)	(4,434)	(4,017)
Non-cash stock-based compensation expense after income taxes	<u>\$12,577</u>	<u>\$ 7,726</u>	<u>\$ 7,729</u>

As of December 31, 2008, there was approximately \$26.7 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is currently expected to be recognized over a weighted average period of approximately 2.9 years.

2008 Stock and Annual Incentive Plan

The 2008 Stock and Annual Incentive Plan (the "Plan") became effective upon the date of the spin-off and authorizes the issuance of 5 million shares of HSNi common stock for new awards granted by HSNi. As of December 31, 2008, there were 2.8 million shares of common stock available for grants under the Plan. The purpose of the Plan is to assist HSNi in attracting, retaining and motivating officers, employees, directors and consultants, and to provide HSNi with the ability to provide incentives more directly linked to the profitability of our business and increases in stockholder value.

HSN, INC.
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HSNi can grant restricted stock units (“RSUs”), stock options, stock appreciation rights (“SARs”) and other stock-based awards under the Plan. Stock-based awards have a maximum term of 10 years. The exercise price of options and SARs granted under the Plan are required to be priced at, or above, the fair market value of HSNi’s stock on the date of grant.

Modification of Stock-Based Compensation Awards

In conjunction with the spin-off, IAC share-based awards were converted to equivalent share-based awards (“Adjusted Awards”) as follows:

- All unexercised stock option awards granted on or prior to December 31, 2007 to purchase shares of IAC common stock, whether vested or unvested, converted into an option to purchase shares of common stock of each of the five public-traded companies resulting from the spin-off (the “Spincos”).
- Certain unvested RSUs were accelerated immediately prior to the spin-off, with awards thereafter settled in shares of common stock of each of the Spincos.
- Unvested RSUs granted by IAC that provide for vesting of 100% of the award following passage of a multi-year period (cliff vesting awards) will settle in shares of common stock of each of the Spincos.
- Performance-based RSUs granted in 2007 were converted into non-performance based RSUs with the same vesting schedules, with awards that will settle in shares of common stock of each of the Spincos.
- All other IAC RSUs held by HSNi employees that did not convert or vest as described above converted into an RSU award of HSNi at the spin-off date.
- All equity-based awards granted after December 31, 2007 to employees of HSNi converted into awards of common stock of HSNi.

The adjustments to the number of shares subject to each award and the stock option exercise prices were based on the relative market capitalization of IAC and each of the Spincos following the spin-off. The conversion was accounted for as a modification under the provisions of SFAS No. 123R and resulted in additional fair value that was recognized immediately for fully vested awards and will be amortized over the remaining service period for unvested awards. These modifications affected all current and former employees of HSNi, HSN and Cornerstone who were holding vested and unvested stock-based compensation awards on August 11, 2008.

These modifications resulted in additional compensation expense of approximately \$10.9 million, of which approximately \$8.3 million was recorded during the year ended December 31, 2008 related to awards that had vested and the remainder will be recognized over the vesting period of the unvested awards.

Approximately 197,000 fully vested RSUs that were modified in connection with the spin-off were not released until January 2009. These deferred awards were settled in cash, stock or both as determined by the employee. HSNi follows the guidance of SFAS No. 123R and accounts for these awards as liabilities, which are marked to market each reporting period through earnings. As of December 31, 2008, a liability equal to their intrinsic value of approximately \$1.4 million was recorded for these awards.

Restricted Stock Units

RSUs are awards in the form of phantom shares or units that are denominated in a hypothetical equivalent number of shares of our common stock. At the time of grant, HSNi determines if the RSUs will be settled in cash, stock or both. The value to the holder of the RSU is based upon the market value of our stock when the RSUs vest. Compensation expense for RSUs granted under the Plan is measured at the grant date as the fair market value of HSNi’s common stock and expensed ratably over the vesting term. Compensation expense for RSUs granted prior to the spin-off was measured as the fair value of IAC common stock on the original grant date plus any additional fair value measured at the spin-off date as a result of the modifications discussed previously. The RSUs are generally subject to service-based vesting over a three to five year term. HSNi’s Board of Directors were granted approximately 136,000 RSUs during the year ended December 31, 2008 which have graded vesting over a two year period.

HSN, INC.
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A summary of the status of the nonvested RSUs, including the Adjusted Awards and awards granted under the Plan, as of December 31, 2008 and changes during the year ended December 31, 2008 is as follows:

	RSUs	
	Number of shares	Weighted Average Grant Date Fair Value
Nonvested at 8/20/08	1,090,304	\$ 22.24
Granted	433,065	5.53
Vested	—	—
Forfeited	(88,317)	23.89
Nonvested at 12/31/08 (1)	<u>1,435,052</u>	<u>17.10</u>

(1) Approximately 337,000 of the nonvested awards outstanding as of December 31, 2008 were held by employees of the other Spincos.

A portion of the RSUs granted by IAC prior to the spin-off accelerated at the date of the spin-off and were settled in HSNi common stock. In connection with these accelerated RSUs, approximately 240,000 shares of HSNi common stock were issued at the date of the spin-off to employees of all five Spincos which had a value of approximately \$3.0 million.

As of December 31, 2008, there was approximately \$13.9 million of unrecognized compensation cost, net of estimated forfeitures, related to RSUs, which is currently expected to be recognized over a weighted average period of approximately 2.6 years.

Stock Options and Stock-Settled SARs

Stock-settled SARs are similar to traditional stock options, except, upon exercise, holders of stock-settled SARs will only receive shares with a value equal to the spread between the current market price per share of HSNi common stock and the exercise price. The exercise price for awards granted under the Plan is required to be priced at, or above, the fair market value of HSNi's stock at the date of grant. For stock options granted prior to the spin-off, the exercise price was based on the fair market value of IAC's stock at the date of grant and then adjusted based on the relative market capitalizations of IAC and HSNi following the spin-off. Awards typically vest periodically over a three or four year term.

HSN, INC.
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A summary of the status of the outstanding stock options and SARs as of December 31, 2008 is as follows:

	Stock Options and Stock-Settled SARs			
	Number of shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at August 20, 2008	4,104,929	\$ 19.25		
Granted	1,799,826	19.30		
Exercised	(9,354)	7.93		
Forfeited	(2,871)	18.31		
Expired	(275,017)	19.54		
Outstanding at December 31, 2008 (1)	5,617,513	19.27	7.6	\$ 2,123,882
Vested and expected to vest at December 31, 2008	4,831,848	19.35	7.3	\$ 1,783,935
Exercisable at December 31, 2008	1,307,313	17.56	3.0	\$ 359,994

(1) Approximately 3.1 million of the stock options and stock-settled SARs outstanding as of December 31, 2008 were held by employees of the other Spincos.

The aggregate intrinsic value in the table above represents the pre-tax difference between the closing price of HSNi's common stock on December 31, 2008 of \$7.27 and the exercise price for all "in the money" awards at December 31, 2008. This amount changes based on the fair market value of HSNi's common stock. The intrinsic value of the stock options and stock-settled SARs exercised during the year ended December 31, 2008 was less than \$0.1 million.

The fair value of each stock option and stock-settled SAR award is estimated on the grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model incorporates various assumptions, including expected volatility and expected term. For purposes of this model, no dividends have been assumed. Expected stock price volatilities are estimated based on the historical and implied volatilities of comparable publicly-traded companies. The risk-free interest rates are based on U.S. Treasury yields for notes with comparable terms as the awards, in effect at the grant date. The expected term of options granted is based on analyses of historical employee termination rates and option exercise patterns, giving consideration to expectations of future employee behavior. The following are the weighted average assumptions used in the Black-Scholes option pricing model for the year ended December 31, 2008: volatility factor of 47.7%, risk-free interest rate of 2.25%, expected term of 5.8 years, and a dividend yield of zero.

The weighted average fair value of stock options granted from the Plan during the year ended December 31, 2008 at market prices equal to HSNi's common stock on the grant date was \$2.76.

At the date of the spin-off, HSNi granted approximately 719,000 stock options to its Chief Executive Officer at exercise prices greater than market value on the date of grant with a 10-year term and graded vesting over four years. The weighted average exercise price and the weighted average fair value related to these grants were \$39.84 and \$3.36, respectively.

Cash received from stock option exercises and the related actual tax benefit realized for the years ended December 31, 2008 was less than \$0.1 million. As of December 31, 2008, there was approximately \$12.8 million of unrecognized compensation cost, net of estimated forfeitures, related to stock options and SARs, which is currently expected to be recognized over a weighted average period of approximately 3.1 years.

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the information about stock options and stock-settled SARs outstanding and exercisable as of December 31, 2008:

	Outstanding			Exercisable	
	Number Outstanding at December 31, 2008	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Number Exercisable at December 31, 2008	Weighted Average Exercise Price
\$0.00 to \$4.99	167,971	\$ 3.65	6.5	84,585	\$ 3.14
\$5.00 to \$9.99	1,090,351	5.94	9.4	92,851	7.89
\$10.00 to \$14.99	237,803	12.66	4.2	204,175	12.57
\$15.00 to \$19.99	2,251,303	16.85	7.6	534,527	18.08
\$20.00 to \$24.99	329,208	22.70	3.1	329,179	22.70
\$25.00 to \$73.11	1,540,877	34.23	7.7	61,996	36.36
	<u>5,617,513</u>	<u>19.27</u>	<u>7.6</u>	<u>1,307,313</u>	<u>17.56</u>

Restricted Common Equity in Cornerstone Brands

In connection with the acquisition of Cornerstone Brands by IAC in 2005 certain members of Cornerstone Brand's management were granted restricted common equity in Cornerstone Brands. These awards were granted on April 1, 2005 and were initially measured at fair value, which is being amortized to expense over the vesting period. These awards vest ratably over four years, or earlier based upon the occurrence of certain prescribed events. The awards vest in non-voting restricted common shares of Cornerstone Brands.

These shares are subject to a put right by the holders, which is not exercisable until the first quarter of 2010 and annually thereafter, and a call right by HSNi, which is not exercisable until the first quarter of 2012 and annually thereafter. The value of these shares upon exercise of the put or call is equal to their fair market value, determined by negotiation or arbitration, reduced by the accreted value of the preferred interest that was taken by IAC upon the purchase of Cornerstone Brands. The initial value of the preferred interest was equal to the acquisition price of Cornerstone Brands. The preferred interest accretes value at a 15% annual rate. Upon exercise of the put or call the consideration is payable in HSNi shares or cash or a combination thereof at HSNi's option. As of December 31, 2008, these awards were significantly out of the money and are not expected to result in any value.

NOTE 13—INCOME TAXES

Prior to the spin-off, HSNi's results were included in IAC's consolidated federal and applicable state tax returns. In all periods presented, current and deferred tax expense has been computed for HSNi on a separate return basis. HSNi's share of IAC's consolidated federal and state tax return liabilities have been reflected within cash flows from operating activities in the accompanying consolidated statements of cash flows.

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of the provision for income taxes attributable to continuing operations are as follows (in thousands):

	Years Ended December 31,		
	2008	2007	2006
Current income tax provision:			
Federal	\$ (10,727)	\$ (68,969)	\$ (85,370)
State	(553)	(7,388)	(9,122)
Current income tax provision	(11,280)	(76,357)	(94,492)
Deferred income tax benefit (provision):			
Federal	674,789	10,683	13,423
State	67,264	1,120	1,859
Deferred income tax benefit (provision)	742,053	11,803	15,282
Income tax benefit (provision)	<u>\$730,773</u>	<u>\$ (64,554)</u>	<u>\$ (79,210)</u>

Current income taxes payable has been reduced by \$3.8 million, \$2.4 million and \$2.3 million for the years ended December 31, 2008, 2007 and 2006, respectively, for tax deductions attributable to stock-based compensation. The related income tax benefits of this stock-based compensation were recorded as amounts charged or credited to additional paid in capital, invested capital or a reduction in goodwill.

The tax effects of cumulative temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 are presented below (in thousands). The valuation allowance is related to items for which it is more likely than not that the tax benefit will not be realized.

	December 31,	
	2008	2007
Deferred tax assets:		
Provision for accrued expenses	\$ 29,815	\$ 35,631
Inventories	11,885	14,916
Foreign investment	6,917	6,665
Stock-based compensation	6,312	5,451
Net operating losses	6,901	6,818
Other	197	2,819
Total deferred tax assets	62,027	72,300
Less valuation allowance	(17,229)	(12,862)
Net deferred tax assets	44,798	59,438
Deferred tax liabilities:		
Intangible and other assets	(87,904)	(840,938)
Prepaid expenses	(9,561)	(10,805)
Property and equipment	(8,832)	(3,058)
Total deferred tax liabilities	(106,297)	(854,801)
Net deferred tax liability	<u>\$ (61,499)</u>	<u>\$ (795,363)</u>

At December 31, 2008, HSNi had \$23.7 million of net operating loss carryforwards related to its discontinued international operations which expire in 2011 through 2012. As of December 31, 2008 and 2007, HSNi had a valuation allowance of approximately \$17.2 million and \$12.9 million, respectively, primarily related to the net operating losses, the unrealized capital losses and deferred assets associated with uncertain tax positions for which it is more likely than not that the tax benefit will not be realized. During 2008, the valuation allowance was increased by \$4.3 million due to it being more likely than not that certain deferred tax benefits of tax positions taken while HSNi was included in the IAC consolidated tax returns will not be realized.

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A reconciliation of the income tax provision to the amounts computed by applying the statutory federal income tax rate to earnings from continuing operations before income taxes is shown as follows (in thousands):

	Years Ended December 31,		
	2008	2007	2006
Income tax provision at the federal statutory rate of 35%	\$ (1,091,388)	\$ 59,425	\$ 74,460
State income taxes, net of effect of federal tax benefit	(41,846)	4,182	4,721
Nondeductible portion of goodwill and intangible asset impairment charges	404,034	—	—
Other, net	(1,573)	947	29
Income tax (benefit) provision	<u>\$ (730,773)</u>	<u>\$ 64,554</u>	<u>\$ 79,210</u>

HSNi adopted the provisions of FIN 48 effective January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of the adoption resulted in a decrease of \$0.2 million to invested capital. A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest, is as follows (in thousands):

	2008	2007
Balance at beginning of year	\$ 8,944	\$4,316
Additions based on tax positions related to the current year	—	2,298
Additions for tax positions of prior years	289	2,330
Reductions for tax positions of prior years	(8,819)	—
Balance at end of year	<u>\$ 414</u>	<u>\$8,944</u>

As of December 31, 2008 and 2007, the unrecognized tax benefits, including interest, were \$0.5 million and \$11.7 million, respectively. Included within "Receivables from IAC and subsidiaries" in the accompanying consolidated balance sheet at December 31, 2007 was approximately \$11.6 million of unrecognized tax benefits and related interest that remained with IAC after the spin-off. During 2008, unrecognized tax benefits decreased by \$8.8 million for tax positions included in IAC's consolidated tax return filings. Liabilities associated with these return filings are the responsibility of IAC pursuant to the terms of the spin-off. Included in unrecognized tax benefits at December 31, 2008 and 2007 is approximately \$0.3 million and \$8.8 million for tax positions which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Other than the interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authorities to an earlier period.

HSNi recognizes interest and, if applicable, penalties related to unrecognized tax benefits in income tax expense. Included in income tax expense from continuing operations for the years ended December 31, 2008 and 2007 is \$0.7 million of interest income and \$1.2 million of interest expense, respectively, net of related deferred taxes of \$0.4 million and \$0.7 million, respectively. As of December 31, 2008 and 2007, HSNi accrued \$40,000 and \$2.8 million, respectively, for the payment of interest. There are no material accruals for penalties.

By virtue of previously filed separate company and consolidated tax returns with IAC, HSNi is routinely under audit by federal, state, local and foreign tax authorities in the area of income tax. These audits include questioning the timing and the amount of deductions and the allocation of income among various tax jurisdictions. Income taxes payable include amounts considered sufficient to pay assessments that may result from examination of prior year returns; however, the amount paid upon resolution of issues raised may differ from the amount provided. Differences between the reserves for tax contingencies and the amounts owed by HSNi are recorded in the period they become known.

The Internal Revenue Service ("IRS") is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2003, which includes the operations of HSNi. The statute of limitations for these years has been extended to December 31, 2009. Various IAC consolidated tax returns filed with state, local and foreign jurisdictions are currently under examination, the most significant of which are California, Florida, New York and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by late 2009. In early 2009, the IRS commenced an audit of IAC's consolidated tax returns for the years ended December 31, 2004 through 2006. The statute of limitations for these years has been extended and this examination is expected to be completed in 2011.

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As a result of the spin-off, HSNi entered into a Tax Sharing Agreement with IAC that generally provides that each Spinco will have to indemnify IAC and the other Spinco for any taxes resulting from the spin-off of such Spinco (and any related interest, penalties, legal and professional fees, and all costs and damages associated with related stockholder litigation or controversies) to the extent such amounts result from (i) any act or failure to act by such Spinco described in the covenants in the Tax Sharing Agreement, (ii) any acquisition of equity securities or assets of such Spinco or a member of its group, and (iii) any breach by such Spinco or any member of its group of any representation or covenant contained in the separation documents or in the documents relating to the IRS private letter ruling and/or tax opinions.

HSNi believes that it is reasonably possible that its unrecognized tax benefits could decrease by approximately \$0.2 million within twelve months of the current reporting date due to the lapse of applicable statutes of limitations. An estimate of other changes in unrecognized tax benefits cannot be made, but are not expected to be significant.

NOTE 14—COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, HSNi is a party to various lawsuits. HSNi establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where it believes an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that an unfavorable resolution of claims against HSNi, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the liquidity, results of operations, or financial condition of HSNi, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. HSNi also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 13 for discussion related to income tax contingencies.

HSNi leases satellite transponders, computers, warehouse and office space, equipment and services used in connection with its operations under various operating leases, many of which contain escalation clauses.

Future minimum payments under operating lease agreements are as follows (in thousands):

<u>Years Ending December 31,</u>	
2009	\$ 30,272
2010	25,305
2011	18,176
2012	15,299
2013	9,408
Thereafter	27,237
Total	<u>\$ 125,697</u>

Expenses charged to operations under these agreements were \$25.8 million, \$29.3 million and \$28.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HSNi also has funding commitments that could potentially require its performance in the event of demands by third parties or contingent events, as follows (in thousands):

	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Letters of credit and surety bonds	\$ 17,926	\$ 17,876	\$ 50	\$ —	\$ —
Purchase Obligations	221,289	109,057	112,232	—	—
Total Commercial commitments	<u>\$ 239,215</u>	<u>\$ 126,933</u>	<u>\$112,282</u>	<u>\$ —</u>	<u>\$ —</u>

The letters of credit (“LOCs”) primarily consist of trade LOCs, which are used for inventory purchases. Trade LOCs are guarantees of payment based upon the delivery of goods. The surety bonds primarily consist of customs bonds, which relate to the import of merchandise into the United States.

The purchase obligations primarily relate to cable contracts and include obligations for future cable distribution and commission guarantees.

NOTE 15—DERIVATIVE INSTRUMENTS

During the second quarter of 2003, one of HSNi’s foreign subsidiaries entered into a five-year foreign exchange forward contract with a notional amount of \$38.6 million, which was used to hedge against the change in value of a liability denominated in a currency other than the subsidiary’s functional currency. This derivative contract was designated as a cash flow hedge for accounting purposes and foreign exchange remeasurement gains and losses related to the contract and liability were recognized each period in the statement of operations and were offsetting. In addition, the remaining effective portion of the derivative gain or loss was recorded in other comprehensive income until the derivative liability was extinguished in June 2007 in connection with the sale of HSE. Subsequent to the sale of HSE, HSNi does not have any significant exposure to foreign currency risk and did not hold any derivative instruments at December 31, 2008 or 2007.

NOTE 16—RELATED PARTY TRANSACTIONS

Relationship Between IAC and HSNi Prior to the Spin-off

HSNi’s expenses prior to the spin-off include allocations from IAC of costs associated with IAC’s accounting, treasury, legal, tax, corporate support, human resources and internal audit functions. These expenses were allocated based on the ratio of HSNi’s revenue as a percentage of IAC’s total revenue. Allocated costs were \$3.3 million and \$8.1 million for the years ended December 31, 2008 and 2007, respectively, and are included in “General and administrative expense” in the accompanying consolidated statements of operations. It is not practicable to determine the amounts of these expenses that would have been incurred had HSNi operated as an unaffiliated entity. In the opinion of management, the allocation method is reasonable.

The portion of the interest expense reflected in the consolidated statements of operations that is intercompany in nature was \$1.7 million for the year ended December 31, 2007. There was no interest expense that is intercompany in nature for the year ended December 31, 2008. This intercompany interest expense, which is included in discontinued operations, arose from the transfer of cash from IAC to HSE that occurred in connection with IAC’s treasury operations.

During 2008 and 2007, IAC provided HSNi with non-cash advertising totaling \$8.0 million and \$4.4 million, respectively. See the amortization of non-cash marketing discussion in Note 2 for a further description of this arrangement.

In accordance with the terms of the spin-off, HSNi transferred its investment in ARO stock and related derivative asset to IAC. See Note 17 for a further description of this transfer.

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Relationship Between IAC and HSNi After the Spin-off

For purposes of governing certain of the ongoing relationships between HSNi and IAC at and after the spin-off and to provide for an orderly transition, effective August 20, 2008, HSNi entered into the following agreements (collectively, the “Spin-Off Agreements”):

- a Separation and Distribution Agreement that sets forth the arrangements between IAC and HSNi regarding the principal transactions necessary to separate HSNi from IAC, and that governs certain aspects of the relationship of HSNi with IAC and the other Spinco after the spin-off;
- a Tax Sharing Agreement that governs the respective rights, responsibilities and obligations of IAC and HSNi after the Spin-Off with respect to tax periods ending on or before the spin-off, including tax liabilities and benefits, tax attributes, tax contests and other matters regarding income taxes, other taxes and related tax returns;
- an Employee Matters Agreement that covers a wide range of compensation and benefit issues, including the allocation among IAC and HSNi of responsibility for the employment and benefit obligations and liabilities of each company’s current and former employees (and their dependents and beneficiaries), as well as the provision of health and welfare benefits to employees of HSNi (the costs of which will be borne by HSNi) pursuant to IAC’s employee benefit plans through the end of 2008; and
- a Transition Services Agreement that governs the provision of transition services among IAC and HSNi.

Also in connection with the spin-off, pursuant to a Spinco Assignment and Assumption Agreement (the “Spinco Agreement”), dated as of August 20, 2008, among HSNi, IAC, Liberty Media Corporation (“Liberty”) and a subsidiary of Liberty that holds shares of IAC common stock and IAC Class B common stock (together with Liberty, the “Liberty Parties”), HSNi (i) assumed from IAC all rights and obligations providing for post-spin-off governance and other arrangements at HSNi under the Spinco Agreement, dated May 13, 2008, among IAC, Liberty and affiliates of Liberty that held shares of IAC common stock and/or Class B common stock at the time such Spinco Agreement was entered into, and (ii) as required by the Spinco Agreement, entered into a registration rights agreement with the Liberty Parties.

Relationship Between Liberty Media Corporation and HSNi After the Spin-off

Spinco Agreement

Representation of Liberty on the Spinco Boards of Directors

The Spinco Agreement generally provides that so long as Liberty beneficially owns securities of HSNi representing at least 20% of the total voting power of the HSNi’s equity securities, Liberty has the right to nominate up to 20% of the directors serving on HSNi’s Board of Directors (rounded up to the nearest whole number). Any director nominated by Liberty must be reasonably acceptable to a majority of the directors on HSNi’s Board who were not nominated by Liberty. All but one of Liberty’s nominees serving on the Board of Directors must qualify as “independent” under applicable stock exchange rules. In addition, the Nominating Committee of the Board may include only “Qualified Directors,” namely directors other than any who were nominated by Liberty, are officers or employees of HSNi or were not nominated by the Nominating Committee of the HSNi Board in their initial election to the Board and for whose election any Liberty Party voted shares.

Until the second anniversary of the spin-off, the Liberty Parties agreed to vote all of the equity securities of HSNi beneficially owned by them in favor of the election of the full slate of director nominees recommended to stockholders by the HSNi Board of Directors so long as the slate includes the director-candidates that Liberty has the right to nominate.

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Acquisition Restrictions

The Liberty Parties have agreed not to acquire beneficial ownership of any equity securities of HSNi (with specified exceptions) unless:

- the acquisition was approved by a majority of the Qualified Directors;
- the acquisition is permitted under the provisions described in “Competing Offers” below; or
- after giving effect to the acquisition, Liberty’s ownership percentage of the equity securities of HSNi, based on voting power, would not exceed the Applicable Percentage.

The “Applicable Percentage” is Liberty’s ownership percentage upon the spin-off of HSNi, based on voting power (approximately 30%), plus 5%, but in no event more than 35%. Following the spin-off, the Applicable Percentage for the Spinco will be reduced for specified transfers of equity securities of the Spinco by the Liberty Parties. During the first two years following the spin-off, acquisitions by the Liberty Parties are further limited to specified extraordinary transactions and, otherwise, to acquisitions representing no more than one-third of HSNi Common Stock received by the Liberty Parties in the spin-off.

Standstill Restrictions

Until the second anniversary of the spin-off, unless a majority of the Qualified Directors consent or to the extent permitted by the provisions described under “Acquisition Restrictions” or “Competing Offers” or in certain other limited circumstances, no Liberty Party may:

- offer to acquire beneficial ownership of any equity securities of such Spinco;
- initiate or propose any stockholder proposal or seek or propose to influence, advise, change or control the management, Board of Directors, governing instruments or policies or affairs of HSNi;
- offer, seek or propose, collaborate on or encourage any merger or other extraordinary transaction;
- subject any equity securities of HSNi to a voting agreement;
- make a request to amend any of the provisions described under “Acquisition Restrictions”, “Standstill Restrictions” or “Competing Offers”;
- make any public disclosure, or take any action which could reasonably be expected to require HSNi to make any public disclosure, with respect to any of the provisions described under “Standstill Restrictions”; or
- enter into any discussions, negotiations, arrangements or understandings with any third party with respect to any of the provisions described under “Standstill Restrictions”.

Transfer Restrictions

Unless a majority of the Qualified Directors consent, the Spinco Agreement prohibits transfers by the Liberty Parties of any equity securities of HSNi to any person except for certain transfers, including:

- transfers under Rule 144 under the Securities Act (or, if Rule 144 is not applicable, in “broker transactions”);
- transfers pursuant to a third party tender or exchange offer or in connection with any merger or other business combination, which merger or business combination has been approved by HSNi;

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- transfers in a public offering in a manner designed to result in a wide distribution, provided that no such transfer is made, to the knowledge of the Liberty Parties, to any person whose ownership percentage (based on voting power) of HSNi's equity securities, giving effect to the transfer, would exceed 15%;
- a transfer of all of the equity securities of HSNi beneficially owned by the Liberty Parties and their affiliates in a single transaction if the transferee's ownership percentage (based on voting power), after giving effect to the transfer, would not exceed the Applicable Percentage and only if the transferee assumes all of the rights and obligations (subject to limited exceptions) of the Liberty Parties under the Spinco Agreement;
- specified transfers in connection with changes in the beneficial ownership of the ultimate parent company of a Liberty Party or a distribution of the equity interests of a Liberty Party or certain similar events; and
- specified transfers relating to certain hedging transactions or stock lending transactions in respect of the Liberty Parties' equity securities in HSNi, subject to specified restrictions.

During the first two years following the spin-off, transfers otherwise permitted by the first and third bullets above will be prohibited, and transfers otherwise permitted by the fourth and sixth bullets above in respect of which IAC and HSNi do not make certain determinations with respect to the transferee will be prohibited, unless such transfers represent no more than one-third of HSNi Common Stock received by the Liberty Parties in the spin-off.

Competing Offers

During the period when Liberty continues to have the right to nominate directors to HSNi's Board of Directors, if the Board of Directors determines to pursue certain types of transactions on a negotiated basis (either through an "auction" or with a single bidder), Liberty is granted certain rights to compete with the bidder or bidders, including the right to receive certain notices and information, subject to specified conditions and limitations. In connection with any such transaction that HSNi is negotiating with a single bidder, the Board of Directors must consider any offer for a transaction made in good faith by Liberty but is not obligated to accept any such offer or to enter into negotiations with Liberty.

If a third party (x) commences a tender or exchange offer for at least 35% of the capital stock of HSNi other than pursuant to an agreement with HSNi or (y) publicly discloses that its ownership percentage (based on voting power) exceeds 20% and HSNi's Board fails to take certain actions to block such third party from acquiring an ownership percentage of HSNi (based on voting power) exceeding the Applicable Percentage, the Liberty Parties generally will be relieved of the obligations described under "Standstill Restrictions" and "Acquisition Restrictions" above to the extent reasonably necessary to permit Liberty to commence and consummate a competing offer. If Liberty's ownership percentage (based on voting power) as a result of the consummation of a competing offer in response to a tender or exchange offer described in (x) above exceeds 50%, any consent or approval requirements of the Qualified Directors in the Spinco Agreement will be terminated, and, following the later of the second anniversary of the spin-off and the date that Liberty's ownership percentage (based on voting power) exceeds 50%, the obligations described under "Acquisition Restrictions" will be terminated.

Other

Following the spin-off, amendments to the Spinco Agreement and determinations required to be made thereunder (including approval of transactions between a Liberty Party and HSNi that would be reportable under the proxy rules) will require the approval of the Qualified Directors.

Registration Rights Agreement

Under the registration rights agreement, the Liberty Parties and their permitted transferees (the "Holders") will be entitled to three demand registration rights (and unlimited piggyback registration rights) in respect of the shares of HSNi common stock

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

received by the Liberty Parties as a result of the spin-off and other shares of HSNi common stock acquired by the Liberty Parties consistent with the Spinco Agreement (collectively, the “Registrable Shares”). The Holders will be permitted to exercise their registration rights in connection with certain hedging transactions that they may enter into in respect of the Registrable Shares.

HSNi will be obligated to indemnify the Holders, and each selling Holder will be obligated to indemnify HSNi, against specified liabilities in connection with misstatements or omissions in any registration statement.

NOTE 17—SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental Disclosure of Non-Cash Transactions for 2007

On June 19, 2007, in consideration for the sale of HSE to Arcandor AG (“ARO”), formerly known as KarstadtQuelle AG, HSNi received approximately 5.5 million shares of ARO stock valued at €141 million (the “ARO Shares”), plus additional consideration in the form of a contingent value right, that has a value of up to €54 million within three years. In accordance with the terms of the spin-off, the ARO Shares and the contingent value right were transferred to IAC in 2007. This transfer totaled approximately \$217.2 million, of which \$190.1 million related to the ARO Shares and \$27.1 million related to the contingent value right, and is included in “Net transfers to IAC” in the accompanying consolidated statements of shareholders’ equity.

Supplemental Disclosure of Cash Flow Information:

	Years Ended December 31,		
	2008	2007	2006
Cash paid during the period for:			
Income tax payments including amounts paid to IAC for HSNi’s share of IAC’s consolidated tax liability in periods prior to the spin-off	\$15,671	\$84,516	\$94,383
Income tax refunds	(643)	(761)	(3,176)
Interest payments	3,064	—	—

NOTE 18—SHAREHOLDERS’ EQUITY

Stockholder Rights Plan

In December 2008, the Company’s Board of Directors approved the creation of a Series A Junior Participating Preferred Stock, adopted a stockholders rights plan and declared a dividend of one right for each outstanding share of common stock held by our stockholders of record as of the close of business on January 5, 2009. The rights will attach to any additional shares of common stock issued after January 5, 2009. Initially, these rights, which will trade with the shares of our common stock, will not be exercisable. Under the rights plan, these rights will be exercisable if a person or group acquires or commences a tender or exchange offer for 15% or more of our common stock. If the rights become exercisable, each right will permit its holder, other than the “acquiring person,” to purchase from us shares of common stock at a 50% discount to the then prevailing market price. As a result, the rights will cause substantial dilution to a person or group that becomes an “acquiring person” on terms not approved by our Board of Directors.

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NOTE 19—QUARTERLY RESULTS (UNAUDITED)

	Quarter Ended March 31,	Quarter Ended June 30, (a)	Quarter Ended September 30, (b)	Quarter Ended December 31, (c)
	(In thousands)			
Year Ended December 31, 2008				
Net sales	\$676,886	\$ 695,826	\$ 672,348	\$ 778,533
Gross profit	235,484	248,565	235,826	265,555
Operating income (loss)	15,078	(277,632)	12,316	(2,852,073)
Income (loss) from continuing operations	9,406	(249,377)	5,018	(2,152,525)
(Loss) income from discontinued operations, net of tax	(78)	(451)	(2,837)	(44)
Net income	9,328	(249,828)	2,181	(2,152,569)
Income (loss) from continuing operations per share:				
Basic	\$ 0.17	\$ (4.44)	\$ 0.09	\$ (38.29)
Diluted	\$ 0.17	\$ (4.44)	\$ 0.09	\$ (38.29)
Net income (loss) per share:				
Basic	\$ 0.17	\$ (4.44)	\$ 0.04	\$ (38.29)
Diluted	\$ 0.16	\$ (4.44)	\$ 0.04	\$ (38.29)
Year Ended December 31, 2007				
Net sales	\$666,705	\$ 681,506	\$ 680,762	\$ 879,268
Gross profit	247,999	260,032	256,294	323,868
Operating income	30,147	29,763	36,427	73,453
Income from continuing operations	18,652	18,420	22,589	45,571
Income (loss) from discontinued operations, net of tax	(1,566)	56,186	(5,934)	10,886
Net income	17,086	74,606	16,655	56,457
Income from continuing operations per share:				
Basic	\$ 0.33	\$ 0.33	\$ 0.40	\$ 0.81
Diluted	\$ 0.33	\$ 0.33	\$ 0.40	\$ 0.80
Net income per share:				
Basic	\$ 0.30	\$ 1.33	\$ 0.30	\$ 1.00
Diluted	\$ 0.30	\$ 1.32	\$ 0.29	\$ 1.00

- (a) The second quarter of 2008 includes \$300.0 million of asset impairment charges related to goodwill and intangible assets and a \$36.6 million tax benefit from the release of the related deferred tax liabilities in the Cornerstone segment. These adjustments increased diluted loss per share by \$4.65.
- The second quarter of 2007 includes an after-tax gain of \$34.8 million related to the sale of HSE, IAC's former Retailing International segment., which increased diluted earnings per share by \$0.61 per share for the quarter ended June 30, 2007.
- (b) The third quarter of 2007 includes an after-tax loss of \$4.2 million related to an adjustment to the gain recognized for the sale of HSE. This adjustment decreased diluted earnings per share by \$0.07.
- (c) The fourth quarter of 2008 includes \$2.9 billion of asset impairment charges related to goodwill and intangible assets and \$716.7 million of tax benefits from the release of the related deferred tax liabilities in the HSN and Cornerstone segments. These adjustments increased diluted loss per share by \$38.60.
- The fourth quarter of 2008 also includes a \$5.0 million accrual adjustment for liabilities associated with on-air distribution costs. This adjustment, after taxes, decreased loss per share by \$0.06.

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Subsequent to the reporting of the quarters ended March 31, 2008 and June 30, 2008, it was determined that two of the entities previously included within HSNi's discontinued operations would not be spun-off from IAC and, therefore, not included within HSNi. Quiz TV Limited and iBuy are entities that ceased operations in 2006 and were reported within HSNi's combined statements of operations as a discontinued operation through the Form 10-Q filed for the quarter ended June 30, 2008. Their results have been removed from HSNi's 2008 results; however, prior year balances have not been restated due to their immaterial impact relative to the combined results.

HSN, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charges to Earnings</u>	<u>Charges to Other Accounts (In thousands)</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
2008					
Allowance for doubtful accounts	\$ 8,112	\$ 19,775	\$ 100	\$ (17,961)(1)	\$ 10,026
Sales returns accrual	37,596	580,306	—	(580,562)	37,340
Deferred tax valuation allowance	12,862	—	4,367	—	17,229
Other reserves	331				726
2007					
Allowance for doubtful accounts	\$ 5,994	\$ 14,598	\$ (23)	\$ (12,457)(1)	\$ 8,112
Sales returns accrual	35,942	592,679	—	(591,025)	37,596
Deferred tax valuation allowance	12,859	—	3	—	12,862
Other reserves	971				331
2006					
Allowance for doubtful accounts	\$ 8,329	\$ 10,734	\$ (147)	\$ (12,922)(1)	\$ 5,994
Sales returns accrual	34,462	559,990	—	(558,510)	35,942
Deferred tax valuation allowance	13,343	—	(484)	—	12,859
Other reserves	1,271				971

(1) Write-off of uncollectible accounts receivable.

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

None.

ITEM 9A.(T) CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We monitor and evaluate on an ongoing basis our disclosure controls and procedures in order to improve their overall effectiveness. In the course of these evaluations, we modify and refine our internal processes as conditions warrant.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of December 31, 2008. Based on that evaluation, management has concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate “internal control over financial reporting” (as defined in Rule 13a-15(f) under the Exchange Act) for the company. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Our management does not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute assurance, that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

As required by Rule 13a-15(b) under the Exchange Act, our management evaluated the effectiveness of our internal controls and procedures (as defined by Rule 13a-15(e) and 15d-15(e) under the Exchange Act). In making this assessment, our management used the criteria for effective internal control over financial reporting described in “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that evaluation, we concluded that as December 31, 2008, our internal control over financial reporting was effective.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit the company to provide only management’s report in this annual report.

Changes in Internal Control Over Financial Reporting

We regularly monitor and evaluate on an ongoing basis our internal control over financial reporting in order to improve its effectiveness. In the course of these evaluations, we modify and refine our internal processes as conditions warrant. In addition, we

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have been evaluating, designing and enhancing controls related to processes that previously were handled by IAC, including equity transactions, treasury functions, and periodic reporting in accordance with SEC rules and regulations.

As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and our Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, management has concluded that there were no such changes during this period.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference from our Proxy Statement for our 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2008.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from our Proxy Statement for our 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2008.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference from our Proxy Statement for our 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2008.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Incorporated by reference from our Proxy Statement for our 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2008.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from our Proxy Statement for our 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2008.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements.

Financial statements filed as part of this Form 10-K are listed under Item 8.

2. Financial Statement Schedules.

Financial statement schedules filed as part of this Form 10-K are listed under Item 8. All other schedules have been omitted because they are either not applicable or not required under the instructions contained in Regulation S-X because the information called for is contained in the financial statements and notes thereto.

3. Exhibits.

The documents set forth below, numbered in accordance with Item 601 of Regulation S-K, are filed herewith or incorporated herein by reference to the location indicated.

<u>Exhibit No.</u>	<u>Description of Document</u>	<u>Method of Filing</u>
3.1	Amended and Restated Certificate of Incorporation of HSN, Inc.	Exhibit 3.1 to the Company's Current Report on Form 8-K filed August 25, 2008
3.2	Amended and Restated By-laws of HSN, Inc.	Exhibit 3.2 to the Company's Current Report on Form 8-K filed August 25, 2008
3.3	Certificate of Designations, Preferences and Rights to Series A Junior Participating Preferred Stock	Filed herewith
4.1	Rights Agreement, dated as of December 23, 2008, between HSN, Inc. and The Bank of New York Mellon, as Rights Agent.	Exhibit 4.1 to the Company's Current Report on Form 8-K filed December 29, 2008
10.1	Separation and Distribution Agreement, dated August 20, 2008, by and among HSN, Inc., Interval Leisure Group, Inc., Ticketmaster, Tree.com, Inc. and IAC/InterActiveCorp	Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 25, 2008
10.2	Tax Sharing Agreement, dated August 20, 2008, among HSN, Inc., Interval Leisure Group, Inc., Ticketmaster, Inc., Tree.com and IAC/InterActive Corp	Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 25, 2008
10.3	Employee Matters Agreement, dated August 20, 2008, among HSN, Inc., Interval Leisure Group, Inc., Ticketmaster, Tree.com, Inc. and IAC/InterActiveCorp	Exhibit 10.3 to the Company's Current Report on Form 8-K filed August 25, 2008

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<u>Exhibit No.</u>	<u>Description of Document</u>	<u>Method of Filing</u>
10.4	Transition Services Agreement, dated August 20, 2008, among HSN, Inc., Interval Leisure Group, Inc., Ticketmaster, Tree.com, Inc. and IAC/InterActiveCorp	Exhibit 10.4 to the Company's Current Report on Form 8-K filed August 25, 2008
10.5	Registration Rights Agreement, dated as of August 20, 2008, among Liberty Media Corporation, the Liberty Parties (as defined in the Agreement) and HSN, Inc.	Exhibit 10.5 to the Company's Current Report on Form 8-K filed December 29, 2008
10.6	Spinco Assignment and Assumption Agreement, dated as of August 20, 2008, by and among IAC/InterActive Corp, HSN, Inc., Liberty Media Corporation and Liberty USA Holdings, LLC	Exhibit 10.6 to the Company's Current Report on Form 8-K filed August 25, 2008
10.7	Spinco Agreement, dated as of May 13, 2008, between IAC/InterActiveCorp, Liberty Media Corp., LMC Silver King, Inc., Liberty HSN II, Inc., LMC USA VIII, Inc., LMC USA IX, Inc., LMC USA XI, Inc., LMC USA XII, Inc., LMC USA XIII, Inc., LMC USA XIV, Inc., LMC USA XV, Inc., Liberty Tweety, Inc., BDTV Inc., BDTV II Inc., BDTV III Inc., BDTV IV Inc. and Barry Diller	Exhibit 10.1 to IAC/InterActiveCorp's Current Report on Form 8-K (SEC File No. 0-20570) dated May 16, 2008 and incorporated herein by reference
10.8	Employment Agreement between Mindy Grossman and HSN, Inc., dated as of July 29, 2008*	Exhibit 10.5 to the Company's Registration Statement on Form S-1 (Registration No. 333-152697) filed August 1, 2008
10.9	Employment Agreement between William Lynch, HSN General Partner LLC and IAC/InterActiveCorp, dated as of November 19, 2007*	Exhibit 10.6 to the Company's Registration Statement on Form S-1 (Registration No. 333-152697) filed August 1, 2008
10.10	Employment Agreement between Lynne Ronon and HSN General Partner LLC, dated as of October 15, 2007*	Exhibit 10.7 to the Company's Registration Statement on Form S-1 (Registration No. 333-152697) filed August 1, 2008
10.11	Employment Agreement between Judy A. Schmeling and HSN, Inc. dated as of October 27, 2008, as amended by the Amendment to Employment Agreement effective as of December 31, 2008*	Filed herewith
10.12	Employment Agreement between Jim Warner and HSN, Inc. dated as of October 27, 2008, as amended by the Amendment to Employment Agreement effective as of December 31, 2008*	Filed herewith
10.13	HSN, Inc. Amended and Restated 2008 Stock and Annual Incentive Plan*	Filed herewith

* Reflects management contracts and management and director compensation plans.

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10.14	Amended and Restated Deferred Compensation Plan for Non-Employee Directors*	Filed herewith
10.15	Credit Agreement among HSN, Inc., as Borrower, Certain Subsidiaries of the Borrower, as Guarantors, The Lenders Party thereto, Bank of America, N.A., as Administrative Agent and Collateral Agent, dated as of July 25, 2008	Exhibit 10.12 to the Company's Registration Statement on Form S-1 (Registration No. 333-152697) filed August 1, 2008
10.16	Indenture, dated as of July 28, 2008, between HSN, Inc., as Issuer, and The Bank of New York Mellon, as Trustee	Exhibit 10.13 to the Company's Registration Statement on Form S-1 (Registration No. 333-152697) filed August 1, 2008
10.17	Employment Agreement between Mark Ethier and HSN General Partner LLC effective December 1, 2004, as amended by the First Amendment to Employment Agreement dated July 9, 2007 and Second Amendment to Employment Agreement dated June 23, 2008*	Exhibit 10.14 to the Company's Registration Statement on Form S-1 (Registration No. 333-152697) filed August 1, 2008
10.18	Amendment to Employment Agreement between Mark Ethier and HSN, Inc. effective as of December 31, 2008	Filed herewith
10.19	Form of Stock Appreciation Rights Agreement	Filed herewith
10.20	Form of Stock Option Agreement	Filed herewith
10.21	Form of Restricted Stock Units Agreement	Filed herewith
10.22	Form of Restricted Stock Units Agreement (for Non-Employee Directors)	Filed herewith
12.1	Computation of Ratio of Earnings to Fixed Charges	Filed herewith
14.1	Code of Ethics and Business Conduct	Filed herewith
21.1	Subsidiaries of HSN, Inc.	Filed herewith
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith

* Reflects management contracts and management and director compensation plans.

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31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act	Filed herewith
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act	Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSNI, INC.

Date: March 31, 2009

By: /s/ Mindy Grossman
Mindy Grossman, Chief Executive Officer
(Principal Executive Officer)

Date: March 31, 2009

By: /s/ Judy A. Schmeling
Judy A. Schmeling, Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 31, 2009.

<u>/s/ Mindy Grossman</u> Mindy Grossman	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Judy A. Schmeling</u> Judy A. Schmeling	Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ Greg Blatt</u> Greg Blatt	Director
<u>/s/ Patrick Bousquet-Chavanne</u> Patrick Bousquet-Chavanne	Director
<u>/s/ Michael C. Boyd</u> Michael C. Boyd	Director
<u>/s/ William Costello</u> William Costello	Director
<u>/s/ James Follo</u> James Follo	Director
<u>/s/ Stephanie Kugelman</u> Stephanie Kugelman	Director
<u>/s/ Arthur Martinez</u> Arthur Martinez	Chairman of the Board of Directors
<u>/s/ Thomas McInerney</u> Thomas McInerney	Director
<u>/s/ John B. Morse, Jr.</u> John B. Morse, Jr.	Director

EXHIBIT INDEX

Exhibit No.	Description of Document
3.3	Certificate of Designations, Preferences and Rights to Series A Junior Participating Preferred Stock
10.11	Employment Agreement between Judy A. Schmeling and HSN, Inc. dated as of October 27, 2008 as amended by the Amendment to the Employment Agreement effective as of December 31, 2008*
10.12	Employment Agreement between Jim Warner and HSN, Inc. dated as of October 27, 2008 as amended by the Amendment to the Employment Agreement effective as of December 31, 2008*
10.13	HSN, Inc. Amended and Restated 2008 Stock and Annual Incentive Plan*
10.14	Amended and Restated Deferred Compensation Plan for Non-Employee Directors*
10.18	Amendment to Employment Agreement between Mark Ethier and HSN, Inc. effective as of December 31, 2008
10.19	Form of Stock Appreciation Rights Agreement.
10.20	Form of Stock Option Agreement
10.21	Form of Restricted Stock Units Agreement
10.22	Form of Restricted Stock Units Agreement (for Non-Employee Directors)
12.1	Computation of Ratio of Earnings to Fixed Charges
14.1	Code of Ethics and Business Conduct
21.1	Subsidiaries of HSN, Inc.
31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Reflects management contracts and management and director compensation plans.

CERTIFICATE OF DESIGNATION, PREFERENCES AND RIGHTS
OF SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

of

HSN, INC.

Pursuant to Section 151 of the General Corporation Law
of the State of Delaware

We, the undersigned, James P. Warner, Executive Vice President and General Counsel, and Linda C. Frazier, Vice President and Senior Counsel, of HSN, Inc., a Delaware corporation (hereinafter called the “Corporation”), pursuant to the provisions of Sections 103 and 151 of the General Corporation Law of the State of Delaware, do hereby make this Certificate of Designation and do hereby state and certify that pursuant to the authority expressly vested in the Board of Directors of the Corporation by the Amended and Restated Certificate of Incorporation, the Board of Directors duly adopted the following resolutions:

RESOLVED, that, pursuant to Section FOURTH, B. of the Amended and Restated Certificate of Incorporation (which authorizes 25,000,000 shares of preferred stock, \$0.01 par value per share (“Preferred Stock”) of which none have already been designated), the Board of Directors hereby fixes the designations, powers, preferences and rights, and the qualifications, limitations and restrictions, of a series of Preferred Stock;

RESOLVED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of its Amended and Restated Certificate of Incorporation, a series of Preferred Stock of the Corporation be and it hereby is created, and that the designation and amount thereof and the voting powers, preferences and rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. Designation and Amount. The shares of such series shall be designated as “Series A Junior Participating Preferred Stock” and the number of shares constituting such series shall be 100,000.

Section 2. Dividends and Distributions.

(a) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series A Junior Participating Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the 1st day of March, June, September and December in each year (each such date being referred to herein as a “Quarterly Dividend Payment Date”), commencing on the first Quarterly Dividend

Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (i) \$0.10 or (ii) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock of the Corporation since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. In the event the Corporation shall at any time after December 29, 2008 (the "Rights Announcement Date") (A) declare any dividend on Common Stock payable in shares of Common Stock, (B) subdivide the outstanding Common Stock, or (C) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event under clause (ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in Section 2(a) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$0.10 per share on the Series A Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of

holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Announcement Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) Except as otherwise provided herein or by law, the holders of shares of Series A Junior Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(c)(i) If at any time dividends on any Series A Junior Participating Preferred Stock shall be in arrears in an amount equal to 6 quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a “default period”) which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Junior Participating Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, all holders of Preferred Stock (including holders of the Series A Junior Participating Preferred Stock) with dividends in arrears in an amount equal to 6 quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect 2 directors.

(ii) During any default period, such voting right of the holders of Series A Junior Participating Preferred Stock may be exercised initially at a special meeting called pursuant to Section 3(c)(iii) or at any annual meeting of stockholders, and thereafter at annual meetings of stockholders, provided that neither such voting right nor the right of the holders of any other series of Preferred Stock, if any, to increase, in certain cases, the authorized number of directors shall be exercised unless the holders of 10% in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Preferred Stock of such voting right. At any meeting at which the holders of

Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect directors to fill such vacancies, if any, in the Board of Directors as may then exist up to 2 directors or, if such right is exercised at an annual meeting, to elect 2 directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preferred Stock shall have the right to make such increase in the number of directors as shall be necessary to permit the election by them of the required number. After the holders of the Preferred Stock shall have exercised their right to elect directors in any default period and during the continuance of such period, the number of directors shall not be increased or decreased except by vote of the holders of Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or pari passu with the Series A Junior Participating Preferred Stock.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect directors, the Board of Directors may order, or any stockholder or stockholders owning in the aggregate not less than 10% of the total number of shares of Preferred Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Preferred Stock, which meeting shall thereupon be called by the President, a Vice-President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this Section 3(c)(iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to such holder at its last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any stockholder or stockholders owning in the aggregate not less than 10% of the total number of shares of Preferred Stock outstanding. Notwithstanding the foregoing provisions of this Section 3(c)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the stockholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of directors until the holders of Preferred Stock shall have exercised their right to elect 2 directors voting as a class, after the exercise of which right (x) the directors so elected by the holders of Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may (except as provided in Section 3(c)(ii)) be filled by vote of a majority of the remaining directors theretofore elected by the holders of the class of stock which elected the director whose office shall have become vacant. References in this Section 3(c) to directors elected by the holders of a particular class of stock shall include directors elected by such directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Preferred Stock as a class to elect directors shall cease, (y) the term of any directors elected by the holders of Preferred Stock as a class shall terminate, and (z) the

number of directors shall be such number as may be provided for in the certificate of incorporation or by-laws of the Corporation irrespective of any increase made pursuant to the provisions of Section 3(c)(ii) (such number being subject, however, to change thereafter in any manner provided by law or in the certificate of incorporation or by-laws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining directors.

(d) Except as set forth herein, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions.

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Participating Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under Section 4(a), purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. Liquidation, Dissolution or Winding Up. (a) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received an amount equal to \$1.00 per share of Series A Participating Preferred Stock, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 1,000 (as appropriately adjusted as set forth in Section 6(c) below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Junior Participating Preferred Stock and Common Stock, respectively, holders of Series A Junior Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(b) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any, which rank on a parity with the Series A Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(c) In the event the Corporation shall at any time after the Rights Announcement Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Announcement Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Junior Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The shares of Series A Junior Participating Preferred Stock shall not be redeemable.

Section 9. Ranking. The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 10. Amendment. At any time when any shares of Series A Junior Participating Preferred Stock are outstanding, the Amended and Restated Certificate of Incorporation of the Corporation shall not be amended (whether by merger or otherwise) in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

Section 11. Fractional Shares. Series A Junior Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock.

Section 12. Certain Definitions. As used herein with respect to the Series A Junior Participating Preferred Stock, the term Common Stock" means the common stock, par value \$0.01 per share, of the Corporation at the date hereof or any other class of stock resulting from successive changes or reclassification of the common stock.

IN WITNESS WHEREOF, we have executed and subscribed this Certificate and do affirm the foregoing as true under the penalties of perjury this 23rd day of December, 2008.

/s/ James P. Warner

James P. Warner,
Executive Vice President and
General Counsel

/s/ Linda C. Frazier

Attest:
Linda C. Frazier
Vice President and Senior Counsel

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT ("Agreement") is entered into by and between Judy A. Schmeling ("Employee") and HSN, Inc., a Delaware corporation (the "Company"), and is effective October 27, 2008 (the "Effective Date").

WHEREAS, the Company desires to establish its right to the services of Employee, in the capacity described below, on the terms and conditions hereinafter set forth, and Employee is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Employee and the Company have agreed and do hereby agree as follows:

1A. EMPLOYMENT. The Company agrees to employ Employee as Chief Financial Officer and Employee accepts and agrees to such employment. During Employee's employment with the Company, Employee shall do and perform all services and acts necessary or advisable to fulfill the duties and responsibilities as are commensurate and consistent with Employee's position and shall render such services on the terms set forth herein. During Employee's employment with the Company, Employee shall report directly such person(s) as from time to time may be designated by the Company (hereinafter referred to as the "Reporting Officer"). Employee shall have such powers and duties with respect to the Company as may reasonably be assigned to Employee by the Reporting Officer, to the extent consistent with Employee's position and status. Employee agrees to devote all of Employee's working time, attention and efforts to the Company and to perform the duties of Employee's position in accordance with the Company's policies as in effect from time to time. Employee's principal place of employment shall be the Company's offices located in St. Petersburg, Florida. Employee shall not be obligated to travel away from St. Petersburg, Florida for more than 25 business days in each year of the Term of this Agreement.

2A. TERM OF AGREEMENT. The term ("Term") of this Agreement shall commence on the Effective Date and shall continue for two (2) years from the Effective Date, unless sooner terminated in accordance with the provisions of Section 1 of the Standard Terms and Conditions attached hereto.

3A. COMPENSATION.

(a) BASE SALARY. During the Term of this Agreement, the Company shall pay Employee an annual base salary of \$500,000 (the "Base Salary"), payable in equal biweekly installments or in accordance with the Company's payroll practice as in effect from time to time. For all purposes under this Agreement, the term "Base Salary" shall refer to Base Salary as in effect from time to time.

(b) DISCRETIONARY BONUS. During the Term, Employee shall be eligible to receive discretionary annual bonuses.

(c) BENEFITS. From the Effective Date through the date of termination of Employee's employment with the Company for any reason, Employee shall be entitled to participate in any welfare, health and life insurance and pension benefit and incentive programs as may be adopted from time to time by the Company on the same basis as that provided to similarly situated employees of the Company. Without limiting the generality of the foregoing, Employee shall be entitled to the following benefits:

(i) Reimbursement for Business Expenses. During the Term, the Company shall reimburse Employee for all reasonable and necessary expenses incurred by Employee in performing Employee's duties for the Company, on the same basis as similarly situated employees and in accordance with the Company's policies as in effect from time to time.

(ii) Paid Time Off ("PTO"). During the Term, Employee shall be entitled to paid time off per year, in accordance with the plans, policies, programs and practices of the Company applicable to similarly situated employees of the Company generally.

4A. NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by first-class mail, certified or registered with return receipt requested or hand delivery acknowledged in writing by the recipient personally, and shall be deemed to have been duly given three days after mailing or immediately upon duly acknowledged hand delivery to the respective persons named below:

If to the Company:	HSN General Partner LLC 1 HSN Drive St. Petersburg, FL 33729 Attention: General Counsel
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If to Employee:	Judy A. Schmeling 13624 Diamond Head Dr. Tampa, FL 33624
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Either party may change such party's address for notices by notice duly given pursuant hereto.

5A. GOVERNING LAW; JURISDICTION. This Agreement and the legal relations thus created between the parties hereto shall be governed by and construed under and in accordance with the internal laws of the State of Florida without reference to the principles of conflicts of laws. Any and all disputes between the parties which may arise pursuant to this Agreement will be heard and determined before an appropriate federal court in Pinellas or Hillsborough Counties or, if not maintainable therein, then in an appropriate Florida state court. The parties acknowledge that such courts have jurisdiction to interpret and enforce the provisions of this Agreement, and the parties consent to, and waive any and all objections that they may have as to, personal jurisdiction and/or venue in such courts.

6A. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument. Employee expressly understands and acknowledges that the

Standard Terms and Conditions attached hereto are incorporated herein by reference, deemed a part of this Agreement and are binding and enforceable provisions of this Agreement. References to "this Agreement" or the use of the term "hereof" shall refer to this Agreement and the Standard Terms and Conditions attached hereto, taken as a whole.

7A. SECTION 409A OF THE INTERNAL REVENUE CODE. This Agreement is not intended to constitute a "nonqualified deferred compensation plan" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations issued thereunder ("Section 409A"). Notwithstanding the foregoing, if this Agreement or any benefit paid to Employee hereunder is subject to Section 409A and if Employee is a "Specified Employee" (as defined under Section 409A) as of the date of Employee's termination of employment hereunder, then the payment of benefits, if any, scheduled to be paid by the Company to Employee hereunder during the first six (6) month period beginning the date of a termination of employment hereunder shall be delayed during such six (6) month period and shall commence immediately following the end of such six (6) month period (and the period in which such payments were scheduled to be made if not for such delay shall continue as scheduled). In no event shall the Company be required to pay Employee any "gross-up" or other payment with respect to any taxes or penalties imposed under Section 409A with respect to any benefit paid to Employee hereunder.

[The Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and delivered by its duly authorized officer, and Employee has executed and delivered this Agreement on October ____, 2008.

HSN, INC

/s/ Lisa Letizio

By: Lisa Letizio

Title: EVP Human Resources

/s/ Judy A. Schmeling

Judy A. Schmeling

STANDARD TERMS AND CONDITIONS

1. TERMINATION OF EMPLOYEE'S EMPLOYMENT.

(a) DEATH. In the event Employee's employment hereunder is terminated by reason of Employee's death, the Company shall pay Employee's designated beneficiary or beneficiaries, within 30 days of Employee's death in a lump sum in cash, Employee's Base Salary through the end of the month in which death occurs and any Accrued Obligations (as defined in paragraph 1(f) below).

(b) DISABILITY. If, as a result of Employee's incapacity due to physical or mental illness ("Disability"), Employee shall have been absent from the full-time performance of Employee's duties with the Company for a period of four consecutive months and, within 30 days after written notice is provided to Employee by the Company (in accordance with Section 6 hereof), Employee shall not have returned to the full-time performance of Employee's duties, Employee's employment under this Agreement may be terminated by the Company for Disability. During any period prior to such termination during which Employee is absent from the full-time performance of Employee's duties with the Company due to Disability, the Company shall continue to pay Employee's Base Salary at the rate in effect at the commencement of such period of Disability, offset by any amounts payable to Employee under any disability insurance plan or policy provided by the Company. Upon termination of Employee's employment due to Disability, the Company shall pay Employee within 30 days of such termination (i) Employee's Base Salary through the end of the month in which termination occurs in a lump sum in cash, offset by any amounts payable to Employee under any disability insurance plan or policy provided by the Company; and (ii) any Accrued Obligations (as defined in paragraph 1(f) below).

(c) TERMINATION FOR CAUSE. The Company may terminate Employee's employment under this Agreement for Cause at any time prior to the expiration of the Term. As used herein, "Cause" shall mean: (i) the plea of guilty or nolo contendere to, or conviction for, the commission of a felony offense by Employee; provided, however, that after indictment, the Company may suspend Employee from the rendition of services, but without limiting or modifying in any other way the Company's obligations under this Agreement; (ii) a material breach by Employee of a fiduciary duty owed to the Company; (iii) a material breach by Employee of any of the covenants made by Employee in Section 2 hereof; (iv) the willful or gross neglect by Employee of the material duties required by this Agreement; or (v) a violation of any Company policy pertaining to ethics, wrongdoing or conflicts of interest. In the event of Employee's termination for Cause, this Agreement shall terminate without further obligation by the Company, except for the payment of any Accrued Obligations (as defined in paragraph 1(f) below).

(d) TERMINATION BY THE COMPANY OTHER THAN FOR DEATH, DISABILITY OR CAUSE. If Employee's employment is terminated by the Company for any reason other than Employee's death or Disability or for Cause, then (i) the Company shall pay Employee the Base Salary through the end of the Term over the course of the then remaining Term; and (ii) the

Company shall pay Employee any Accrued Obligations (as defined in paragraph 1(f) below) in accordance with the terms of the plans, programs or arrangements under which such obligations arose. The payment to Employee of the severance benefits described in this Section 1(d) shall be subject to Employee's execution and non-revocation of a general release of the Company and its affiliates in a form substantially similar to that used for similarly situated executives of the Company and its affiliates.

(e) MITIGATION; OFFSET. In the event of termination of Employee's employment prior to the end of the Term, Employee shall use reasonable best efforts to seek other employment and to take other reasonable actions to mitigate the amounts payable under Section 1 hereof. If Employee obtains other employment during the Term, all future amounts payable by the Company to Employee during the remainder of the Term shall be offset by the amount earned by Employee from another employer. For purposes of this Section 1(e), Employee shall have an obligation to inform the Company regarding Employee's employment status following termination and during the period encompassing the Term.

(f) ACCRUED OBLIGATIONS. As used in this Agreement, "Accrued Obligations" shall mean the sum of any compensation previously earned but deferred by Employee (together with any interest or earnings thereon) that has not yet been paid under any plan, program or arrangements of the Company.

2. CONFIDENTIAL INFORMATION; NON-COMPETITION; NON-SOLICITATION; AND PROPRIETARY RIGHTS

(a) CONFIDENTIALITY. Employee acknowledges that while employed by the Company Employee will occupy a position of trust and confidence. Employee shall not, except as may be required to perform Employee's duties hereunder or as required by applicable law, without limitation in time or until such information shall have become public other than by Employee's unauthorized disclosure, disclose to others or use, whether directly or indirectly, any Confidential Information regarding the Company or any of its subsidiaries or affiliates. "Confidential Information" shall mean information about the Company or any of its subsidiaries or affiliates, and their clients and customers that is not disclosed by the Company or any of its subsidiaries or affiliates for financial reporting purposes and that was learned by Employee in the course of employment by the Company or any of its subsidiaries or affiliates, including (without limitation) any proprietary knowledge, trade secrets, data, formulae, information and client and customer lists and all papers, resumes, and records (including computer records) of the documents containing such Confidential Information. Employee acknowledges that such Confidential Information is specialized, unique in nature and of great value to the Company and its subsidiaries or affiliates, and that such information gives the Company and its subsidiaries or affiliates a competitive advantage. Employee agrees to deliver or return to the Company, at the Company's request at any time or upon termination or expiration of Employee's employment or as soon thereafter as possible, all documents, computer tapes and disks, records, lists, data, drawings, prints, notes and written information (and all copies thereof) furnished by the Company and its subsidiaries or affiliates or prepared by Employee in the course of Employee's employment by the Company and its subsidiaries or affiliates. As used in this Agreement, "subsidiaries" and "affiliates" shall mean any company controlled by, controlling or under common control with the Company.

(b) NON-COMPETITION. During Employee's employment with the Company and for twelve (12) months thereafter, Employee shall not, directly or indirectly, on behalf of Employee or on behalf of or with any other person, enterprise or entity, in any individual or representative capacity, engage or participate in any business, including its affiliated Internet entities, that is in competition with the Company or any subsidiary or affiliate of the Company in the United States of America in the field of television retailing, including, without limitation, QVC, Shop NBC (formerly called ValueVision), or World Shopping Source (aka WSS), or Jewelry Television, aka America's Collectibles Network, Inc., or ACNTV, as well as any company which subsequently enters the field of television retailing as its primary business (collectively, the "Competing Companies"). Employee's obligations under this Section shall continue during the Term and for the period after the Term set forth above and shall not, for any reason, cease upon termination of Employee's employment with the Company. Notwithstanding anything else contained in this Section, Employee may own, for investment purposes only, up to five percent (5%) of the stock of any Competing Company if it is a publicly-held corporation whose stock is either listed on a national stock exchange or on the NASDAQ National Market System and if Employee is not otherwise affiliated with or participating in such corporation. As used herein, "participate" means lending one's name to, acting as consultant or advisor to, being employed by or acquiring any direct or indirect interest in any business or enterprise, whether as a stockholder, partner, officer, director, employee, consultant or otherwise. In the event that (1) the Company or any of its subsidiaries or affiliates places, or has placed for it, all or substantially all of its assets up for sale within one (1) year after termination of Employee's employment hereunder or (2) Employee's employment is terminated in connection with the disposition of all or substantially all of such assets (whether by sale of assets, equity or otherwise), Employee agrees to be bound by, and to execute such additional instruments as may be necessary or desirable to evidence Employee's agreement to be bound by, the terms and conditions of any non-competition provisions relating to the purchase and sale agreement for such assets, without any consideration beyond that expressed in this Agreement, provided that the purchase and sale agreement is negotiated in good faith with customary terms and provisions and the transaction contemplated thereby is consummated. Notwithstanding the foregoing, in no event shall Employee be bound by, or obligated to enter into, any non-competition provisions referred to in this Section 2(b) which extend beyond twelve (12) months, in each case from the date of termination of Employee's employment hereunder or whose scope extends the scope of the non-competition provisions set forth in this Section 2(b). The twelve (12) month time period referred to above shall be tolled on a day-for-day basis for each day during which Employee participates in any activity in violation of this Section 2(b) so that Employee is restricted from engaging in the conduct referred to in this Section 2(b) for a full twelve (12) months.

(c) NON-SOLICITATION OF EMPLOYEES. Employee recognizes that he will possess confidential information about other employees of the Company and its subsidiaries or affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with suppliers to and customers of the Company and its subsidiaries or affiliates. Employee recognizes that the information he will possess about these other employees is not generally known, is of substantial value to the

Company and its subsidiaries or affiliates in developing their respective businesses and in securing and retaining customers, and will be acquired by Employee because of Employee's business position with the Company. Employee agrees that, during the Term (and for a period of 24 months beyond the expiration of the Term), Employee will not, directly or indirectly, solicit or recruit any employee of the Company or any of its subsidiaries or affiliates for the purpose of being employed by Employee or by any business, individual, partnership, firm, corporation or other entity on whose behalf Employee is acting as an agent, representative or employee and that Employee will not convey any such confidential information or trade secrets about other employees of the Company or any of its subsidiaries or affiliates to any other person except within the scope of Employee's duties hereunder.

(d) PROPRIETARY RIGHTS; ASSIGNMENT. All Employee Developments shall be made for hire by the Employee for the Company or any of its subsidiaries or affiliates. "Employee Developments" means any idea, discovery, invention, design, method, technique, improvement, enhancement, development, computer program, machine, algorithm or other work or authorship that (i) relates to the business or operations of the Company or any of its subsidiaries or affiliates, or (ii) results from or is suggested by any undertaking assigned to the Employee or work performed by the Employee for or on behalf of the Company or any of its subsidiaries or affiliates, whether created alone or with others, during or after working hours. All Confidential Information and all Employee Developments shall remain the sole property of the Company or any of its subsidiaries or affiliates. The Employee shall acquire no proprietary interest in any Confidential Information or Employee Developments developed or acquired during the Term. To the extent the Employee may, by operation of law or otherwise, acquire any right, title or interest in or to any Confidential Information or Employee Development, the Employee hereby assigns to the Company all such proprietary rights. The Employee shall, both during and after the Term, upon the Company's request, promptly execute and deliver to the Company all such assignments, certificates and instruments, and shall promptly perform such other acts, as the Company may from time to time in its discretion deem necessary or desirable to evidence, establish, maintain, perfect, enforce or defend the Company's rights in Confidential Information and Employee Developments.

(e) COMPLIANCE WITH POLICIES AND PROCEDURES. During the Term, Employee shall adhere to the policies and standards of professionalism set forth in the Company's Policies and Procedures as they may exist from time to time.

(f) REMEDIES FOR BREACH. Employee expressly agrees and understands that Employee will notify the Company in writing of any alleged breach of this Agreement by the Company, and the Company will have 30 days from receipt of Employee's notice to cure any such breach.

Employee expressly agrees and understands that the remedy at law for any breach by Employee of this Section 2 will be inadequate and that damages flowing from such breach are not usually susceptible to being measured in monetary terms. Accordingly, it is acknowledged that upon Employee's violation of any provision of this Section 2 the Company shall be entitled to obtain from any court of competent jurisdiction immediate injunctive relief and obtain a temporary order restraining any threatened or further breach

as well as an equitable accounting of all profits or benefits arising out of such violation. Nothing in this Section 2 shall be deemed to limit the Company's remedies at law or in equity for any breach by Employee of any of the provisions of this Section 2, which may be pursued by or available to the Company.

(g) **SURVIVAL OF PROVISIONS.** The obligations contained in this Section 2 shall, to the extent provided in this Section 2, survive the termination or expiration of Employee's employment with the Company and, as applicable, shall be fully enforceable thereafter in accordance with the terms of this Agreement. If it is determined by a court of competent jurisdiction in any state that any restriction in this Section 2 is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

3. **TERMINATION OF PRIOR AGREEMENTS.** This Agreement constitutes the entire agreement between the parties and terminates and supersedes any and all prior agreements and understandings (whether written or oral) between the parties with respect to the subject matter of this Agreement, including but not limited to, the Employment Agreement between Employee and HSN General Partner LLC with an effective date of April 1, 2007. Employee acknowledges and agrees that neither the Company nor anyone acting on its behalf has made, and is not making, and in executing this Agreement, the Employee has not relied upon, any representations, promises or inducements except to the extent the same is expressly set forth in this Agreement. Employee hereby represents and warrants that by entering into this Agreement, Employee will not rescind or otherwise breach an employment agreement with Employee's current employer prior to the natural expiration date of such agreement

4. **ASSIGNMENT; SUCCESSORS.** This Agreement is personal in its nature and none of the parties hereto shall, without the consent of the others, assign or transfer this Agreement or any rights or obligations hereunder, provided that, in the event of the merger, consolidation, transfer, or sale of all or substantially all of the assets of the Company with or to any other individual or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder, and all references herein to the "Company" shall refer to such successor.

5. **WITHHOLDING.** The Company shall make such deductions and withhold such amounts from each payment and benefit made or provided to Employee hereunder, as may be required from time to time by applicable law, governmental regulation or order.

6. **HEADING REFERENCES.** Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. References to "this Agreement" or the use of the term "hereof" shall refer to these Standard Terms and Conditions and the Employment Agreement attached hereto, taken as a whole.

7. WAIVER; MODIFICATION. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by each party hereto. Notwithstanding anything to the contrary herein, neither the assignment of Employee to a different Reporting Officer due to a reorganization or an internal restructuring of the Company or its affiliated companies nor a change in the title of the Reporting Officer shall constitute a modification or a breach of this Agreement.

8. SEVERABILITY. In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any law or public policy, only the portions of this Agreement that violate such law or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

9. INDEMNIFICATION. The Company shall indemnify and hold Employee harmless for acts and omissions in Employee's capacity as an officer, director or employee of the Company to the maximum extent permitted under applicable law; provided, however, that neither the Company, nor any of its subsidiaries or affiliates shall indemnify Employee for any losses incurred by Employee as a result of acts described in Section 1(c) of this Agreement.

ACKNOWLEDGED AND AGREED:

Date: October 24, 2008

HSN, INC

/s/ Lisa Letizio

By: Lisa Letizio
Title: EVP Human Resources

/s/ Judy A. Schmeling

Judy A. Schmeling

AMENDMENT TO EMPLOYMENT AGREEMENT

This AMENDMENT TO EMPLOYMENT AGREEMENT ("Amendment") is entered into by and between Judy Schmeling ("Employee") and HSN, Inc., a Delaware corporation (the "Company"), and is effective as of December 31, 2008 (the "Effective Date").

WHEREAS, Employee and the Company previously entered into an Employment Agreement dated as of October 27, 2008 (the "Employment Agreement"); and

WHEREAS, Employee and the Company now wish to amend that Employment Agreement with this Amendment.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Employee and the Company have agreed and do hereby agree as follows:

1. Capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Employment Agreement.

2. Section 7A of the Employment Agreement shall be amended and restated to read as follows:

7A. SECTION 409A OF THE INTERNAL REVENUE CODE. This Agreement is not intended to constitute a "nonqualified deferred compensation plan" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the rules and regulations issued thereunder ("Section 409A"), except as provided in Section 1(g) of the Standard Terms and Conditions. It is intended that the amounts payable under this Agreement and the Company's and Executive's exercise of authority or discretion hereunder shall comply with and avoid the imputation of any tax, penalty or interest under Section 409A of the Code. This Agreement shall be construed and interpreted consistent with that intent. In no event shall the Company be required to pay Employee any "gross up" or other payment with respect to any taxes or penalties imposed under Section 409A with respect to any benefit paid to Employee hereunder.

3. Section 1(d) of the Standard Terms and Conditions attached to the Employment Agreement and incorporated therein shall be amended and restated to read as follows:

(d) TERMINATION BY THE COMPANY OTHER THAN FOR DEATH, DISABILITY OR CAUSE If Employee's employment is terminated by the Company for any reason other than Employee's death or Disability or for Cause, then (i) the Company shall pay Employee the Base Salary through the end of the Term over the course of the then remaining Term; and (ii) the Company shall pay Employee any Accrued Obligations (as defined in paragraph 1(f) below) in accordance with the terms of the plans, programs or arrangements under which such obligations arose. The payment to Employee of the severance benefits described in this Section 1(d) shall be subject to Employee's execution and

nonrevocation of a general release of the Company and its affiliates in a form substantially similar to that used for similarly situated executives of the Company and its affiliates. Such release shall be furnished to Employee as soon as practical following the termination of employment, and shall be executed and promptly returned to the Company (and in no event later than 21 days following Executive's termination of employment, or such longer period as may be required by applicable law). All amounts of severance that would otherwise have been paid to Employee prior to the date upon which the revocation period provided for in such release shall be paid to Employee in a lump sum, without interest, as soon as practical after such revocation period expires, but not later than March 15 of the year following the year in which employment is terminated.

4. The following subsection (g) shall be added to Section 1. of the Standard Terms and Conditions:

(g) SECTION 409A. In order to satisfy the requirements of Section 409A, the following provisions shall apply:

- (i) Each payment to Employee of a portion of the Employee's Base Salary following his or termination of employment (a "Severance Payment") pursuant to paragraph 1(d) shall be treated as a separate payment for purposes of Section 409A.
- (ii) The Severance Payments that are considered payments of deferred compensation subject to 409A ("Section 409A Payments") shall consist only of those Severance Payments that are either (A) both (x) paid after March 15 of the year following the year in which Employee's employment is terminated and (y) exceed, on a cumulative basis and including only amounts paid after such March 15, two times the lesser of the limitation in effect under Section 410(a)(17) of the Code for the year that includes the termination of employment (the "Termination Year") or the Base Salary in effect at the end of the last year prior to the Termination Year, or, (B) are paid after the end of the second year following the termination year. For purposes of the limitation in subparagraph (A)(y), only Severance Payments paid after the total of all Severance Payments exceed such limitation on a cumulative basis shall be considered Section 409A Payments (including the portion of the Severance Payment that causes the total amount of Severance Payments to exceed such limitation).
- (iii) No Section 409A Payment shall be accelerated, or otherwise paid to Employee at any time other than as provided above, and no amount shall be paid to Employee in lieu of any Section 409A Payment, whether pursuant to an amendment to this Agreement, any separation agreement, or otherwise, except as permitted by Section 409A. No

Section 409A Payment shall be paid until Employee has a separation from service as defined in Section 409A or, if the Employee is a "specified employee" as defined in Section 409A, six (6) months after Employee's separation from service.

5. The Employment Agreement is reaffirmed and ratified in all respects, except as expressly provided herein. In the event of any conflict between the terms or provisions of this Amendment and the Employment Agreement, then this Amendment shall prevail in all respects. Otherwise, the provisions of the Employment Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and delivered by its duly authorized officer, and Employee has executed and delivered this Agreement on January , 2009.

HSN, INC

By: /s/ Lisa Letizio

Lisa Letizio

EVP Human Resources

/s/ Judy Schmeling

Judy Schmeling

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT ("Agreement") is entered into by and between Jim Warner ("Employee") and HSN, INC, a Delaware corporation (the "Company"), and is effective October 27, 2008 (the "Effective Date").

WHEREAS, the Company desires to establish its right to the services of Employee, in the capacity described below, on the terms and conditions hereinafter set forth, and Employee is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Employee and the Company have agreed and do hereby agree as follows:

1A. EMPLOYMENT. The Company agrees to employ Employee as EVP and General Counsel, and Employee accepts and agrees to such employment. During Employee's employment with the Company, Employee shall do and perform all services and acts necessary or advisable to fulfill the duties and responsibilities as are commensurate and consistent with Employee's position and shall render such services on the terms set forth herein. During Employee's employment with the Company, Employee shall report directly such person(s) as from time to time may be designated by the Company (hereinafter referred to as the "Reporting Officer"). Employee shall have such powers and duties with respect to the Company as may reasonably be assigned to Employee by the Reporting Officer, to the extent consistent with Employee's position and status. Employee agrees to devote all of Employee's working time, attention and efforts to the Company and to perform the duties of Employee's position in accordance with the Company's policies as in effect from time to time. Employee's principal place of employment shall be the Company's offices located in St. Petersburg, Florida.

2A. TERM OF AGREEMENT. The term ("Term") of this Agreement shall commence on the Effective Date and shall continue for two (2) years from the Effective Date, unless sooner terminated in accordance with the provisions of Section 1 of the Standard Terms and Conditions attached hereto. During the period that is 90-120 days prior to the expiration of the Term, Employee shall have the right to request, by written notice to the Reporting Officer, an extension of the Term. The Company shall have until the 60th day prior to the expiration of the Term to accept such request, and upon acceptance, the Agreement shall renew for one additional year, which additional year shall be added to and deemed part of the Term as defined in the first sentence of this Section 2A. Notwithstanding anything in this Section 2A to the contrary, nothing herein shall obligate either party to request an extension to the Term or agree to such an extension.

3A. COMPENSATION.

(a) BASE SALARY. During the Term of this Agreement, the Company shall pay Employee an annual base salary of \$350,000 (the "Base Salary"), payable in equal biweekly installments or in accordance with the Company's payroll practice as in effect from time to time. For all purposes under this Agreement, the term "Base Salary" shall refer to Base Salary as in effect from time to time.

(b) DISCRETIONARY BONUS. During the Term, Employee shall be eligible to receive discretionary annual bonuses.

(c) BENEFITS. From the Effective Date through the date of termination of Employee's employment with the Company for any reason, Employee shall be entitled to participate in any welfare, health and life insurance and pension benefit and incentive programs as may be adopted from time to time by the Company on the same basis as that provided to similarly situated employees of the Company. Without limiting the generality of the foregoing, Employee shall be entitled to the following benefits:

(i) Reimbursement for Business Expenses. During the Term, the Company shall reimburse Employee for all reasonable and necessary expenses incurred by Employee in performing Employee's duties for the Company, on the same basis as similarly situated employees and in accordance with the Company's policies as in effect from time to time.

(ii) Paid Time Off ("PTO"). During the Term, Employee shall be entitled to paid time off per year, in accordance with the plans, policies, programs and practices of the Company applicable to similarly situated employees of the Company generally.

4A. NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by first-class mail, certified or registered with return receipt requested or hand delivery acknowledged in writing by the recipient personally, and shall be deemed to have been duly given three days after mailing or immediately upon duly acknowledged hand delivery to the respective persons named below:

If to the Company: HSN General Partner LLC
1 HSN Drive
St. Petersburg, FL 33729
Attention: General Counsel

If to Employee: Jim Warner
834 S. Dakota
Tampa, Florida 33606

Either party may change such party's address for notices by notice duly given pursuant hereto.

5A. **GOVERNING LAW; JURISDICTION.** This Agreement and the legal relations thus created between the parties hereto shall be governed by and construed under and in accordance with the internal laws of the State of Florida without reference to the principles of conflicts of laws. Any and all disputes between the parties which may arise pursuant to this Agreement will be heard and determined before an appropriate federal court in Pinellas or Hillsborough Counties or, if not maintainable therein, then in an appropriate

Florida state court. The parties acknowledge that such courts have jurisdiction to interpret and enforce the provisions of this Agreement, and the parties consent to, and waive any and all objections that they may have as to, personal jurisdiction and/or venue in such courts.

6A. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument. Employee expressly understands and acknowledges that the Standard Terms and Conditions attached hereto are incorporated herein by reference, deemed a part of this Agreement and are binding and enforceable provisions of this Agreement. References to "this Agreement" or the use of the term "hereof" shall refer to this Agreement and the Standard Terms and Conditions attached hereto, taken as a whole.

7A. SECTION 409A OF THE INTERNAL REVENUE CODE. This Agreement is not intended to constitute a "nonqualified deferred compensation plan" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations issued thereunder ("Section 409A"). Notwithstanding the foregoing, if this Agreement or any benefit paid to Employee hereunder is subject to Section 409A and if Employee is a "Specified Employee" (as defined under Section 409A) as of the date of Employee's termination of employment hereunder, then the payment of benefits, if any, scheduled to be paid by the Company to Employee hereunder during the first six (6) month period beginning the date of a termination of employment hereunder shall be delayed during such six (6) month period and shall commence immediately following the end of such six (6) month period (and the period in which such payments were scheduled to be made if not for such delay shall continued as scheduled). In no event shall the Company be required to pay Employee any "gross-up" or other payment with respect to any taxes or penalties imposed under Section 409A with respect to any benefit paid to Employee hereunder.

[The Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and delivered by its duly authorized officer, and Employee has executed and delivered this Agreement on October __, 2008.

HSN, INC

/s/ Lisa Letizio

By: Lisa Letizio

Title: EVP Human Resources

/s/ Jim Warner

Jim Warner

STANDARD TERMS AND CONDITIONS

1. TERMINATION OF EMPLOYEE'S EMPLOYMENT.

(a) DEATH. In the event Employee's employment hereunder is terminated by reason of Employee's death, the Company shall pay Employee's designated beneficiary or beneficiaries, within 30 days of Employee's death in a lump sum in cash, Employee's Base Salary through the end of the month in which death occurs and any Accrued Obligations (as defined in paragraph 1(f) below).

(b) DISABILITY. If, as a result of Employee's incapacity due to physical or mental illness ("Disability"), Employee shall have been absent from the full-time performance of Employee's duties with the Company for a period of four consecutive months and, within 30 days after written notice is provided to Employee by the Company (in accordance with Section 6 hereof), Employee shall not have returned to the full-time performance of Employee's duties, Employee's employment under this Agreement may be terminated by the Company for Disability. During any period prior to such termination during which Employee is absent from the full-time performance of Employee's duties with the Company due to Disability, the Company shall continue to pay Employee's Base Salary at the rate in effect at the commencement of such period of Disability, offset by any amounts payable to Employee under any disability insurance plan or policy provided by the Company. Upon termination of Employee's employment due to Disability, the Company shall pay Employee within 30 days of such termination (i) Employee's Base Salary through the end of the month in which termination occurs in a lump sum in cash, offset by any amounts payable to Employee under any disability insurance plan or policy provided by the Company; and (ii) any Accrued Obligations (as defined in paragraph 1(f) below).

(c) TERMINATION FOR CAUSE. The Company may terminate Employee's employment under this Agreement for Cause at any time prior to the expiration of the Term. As used herein, "Cause" shall mean: (i) the plea of guilty or nolo contendere to, or conviction for, the commission of a felony offense by Employee; provided, however, that after indictment, the Company may suspend Employee from the rendition of services, but without limiting or modifying in any other way the Company's obligations under this Agreement; (ii) a material breach by Employee of a fiduciary duty owed to the Company; (iii) a material breach by Employee of any of the covenants made by Employee in Section 2 hereof; (iv) the willful or gross neglect by Employee of the material duties required by this Agreement; or (v) a material violation of any Company policy pertaining to ethics, wrongdoing or conflicts of interest that, in the case of the conduct described in clause (iii) or (iv) above, if curable, is not cured by Employee within ten (10) days after Employee is provided with written notice thereof. In the event of Employee's termination for Cause, this Agreement shall terminate without further obligation by the Company, except for the payment of any Accrued Obligations (as defined in paragraph 1(f) below).

(d) TERMINATION BY THE COMPANY OTHER THAN FOR DEATH, DISABILITY OR CAUSE If Employee's employment is terminated by the Company for any reason other than Employee's death or Disability or for Cause, then (i) the

Company shall pay Employee the Base Salary through the end of the Term over the course of the then remaining Term; and (ii) the Company shall pay Employee any Accrued Obligations (as defined in paragraph 1(f) below) in accordance with the terms of the plans, programs or arrangements under which such obligations arose. The payment to Employee of the severance benefits described in this Section 1(d) shall be subject to Employee's execution and non-revocation of a general release of the Company and its affiliates in a form substantially similar to that used for similarly situated executives of the Company and its affiliates.

(e) MITIGATION; OFFSET. In the event of termination of Employee's employment prior to the end of the Term, Employee shall use reasonable best efforts to seek other employment and to take other reasonable actions to mitigate the amounts payable under Section 1 hereof. If Employee obtains other employment during the Term, all future amounts payable by the Company to Employee during the remainder of the Term shall be offset by the amount earned by Employee from another employer. For purposes of this Section 1(e), Employee shall have an obligation to inform the Company regarding Employee's employment status following termination and during the period encompassing the Term.

(f) ACCRUED OBLIGATIONS. As used in this Agreement, "Accrued Obligations" shall mean the sum of any compensation previously earned but deferred by Employee (together with any interest or earnings thereon) that has not yet been paid under any plan, program or arrangements of the Company.

2. CONFIDENTIAL INFORMATION; NON-SOLICITATION; AND PROPRIETARY RIGHTS.

(a) CONFIDENTIALITY. Employee acknowledges that while employed by the Company Employee will occupy a position of trust and confidence. Employee shall not, except as may be required to perform Employee's duties hereunder or as required by applicable law, without limitation in time or until such information shall have become public other than by Employee's unauthorized disclosure, disclose to others or use, whether directly or indirectly, any Confidential Information regarding the Company or any of its subsidiaries or affiliates. "Confidential Information" shall mean information about the Company or any of its subsidiaries or affiliates, and their clients and customers that is not disclosed by the Company or any of its subsidiaries or affiliates for financial reporting purposes and that was learned by Employee in the course of employment by the Company or any of its subsidiaries or affiliates, including (without limitation) any proprietary knowledge, trade secrets, data, formulae, information and client and customer lists and all papers, resumes, and records (including computer records) of the documents containing such Confidential Information. Employee acknowledges that such Confidential Information is specialized, unique in nature and of great value to the Company and its subsidiaries or affiliates, and that such information gives the Company and its subsidiaries or affiliates a competitive advantage. Employee agrees to deliver or return to the Company, at the Company's request at any time or upon termination or expiration of Employee's employment or as soon thereafter as possible, all documents, computer tapes and disks, records, lists, data, drawings, prints, notes and written information (and all copies thereof) furnished by the Company and its subsidiaries or affiliates or prepared by Employee in the course of Employee's employment by the Company and its subsidiaries or affiliates. As used in this Agreement, "subsidiaries" and "affiliates" shall mean any company controlled by, controlling or under common control with the Company.

(b) NON-COMPETITION. During Employee's employment with the Company and for twelve (12) months thereafter, Employee shall not, directly or indirectly, on behalf of Employee or on behalf of or with any other person, enterprise or entity, in any individual or representative capacity, engage or participate in any business, including its affiliated Internet entities, that is in competition with the Company or any subsidiary or affiliate of the Company in the United States of America in the field of television retailing, including, without limitation, QVC, Shop NBC (formerly called ValueVision) or World Shopping Source (aka WSS), or Jewelry Television, aka America's Collectibles Network, Inc., or ACNTV, as well as any company which subsequently enters the field of television retailing as its primary business (collectively, the "Competing Companies"). Employee's obligations under this Section shall continue during the Term and for the period after the Term set forth above and shall not, for any reason, cease upon termination of Employee's employment with the Company. Notwithstanding anything else contained in this Section, Employee may own, for investment purposes only, up to five percent (5%) of the stock of any Competing Company if it is a publicly-held corporation whose stock is either listed on a national stock exchange or on the NASDAQ National Market System and if Employee is not otherwise affiliated with or participating in such corporation. As used herein, "participate" means lending one's name to, acting as consultant or advisor to, being employed by or acquiring any direct or indirect interest in any business or enterprise, whether as a stockholder, partner, officer, director, employee, consultant or otherwise. In the event that (1) the Company or any of its subsidiaries or affiliates places, or has placed for it, all or substantially all of its assets up for sale within one (1) year after termination of Employee's employment hereunder or (2) Employee's employment is terminated in connection with the disposition of all or substantially all of such assets (whether by sale of assets, equity or otherwise), Employee agrees to be bound by, and to execute such additional instruments as may be necessary or desirable to evidence Employee's agreement to be bound by, the terms and conditions of any non-competition provisions relating to the purchase and sale agreement for such assets, without any consideration beyond that expressed in this Agreement, provided that the purchase and sale agreement is negotiated in good faith with customary terms and provisions and the transaction contemplated thereby is consummated. Notwithstanding the foregoing, in no event shall Employee be bound by, or obligated to enter into, any non-competition provisions referred to in this Section 2(b) which extend beyond twelve (12) months, in each case from the date of termination of Employee's employment hereunder or whose scope extends the scope of the non-competition provisions set forth in this Section 2(b). The twelve (12) month time period referred to above shall be tolled on a day-for-day basis for each day during which Employee participates in any activity in violation of this Section 2(b) so that Employee is restricted from engaging in the conduct referred to in this Section 2(b) for a full twelve (12) months.

(c) NON-SOLICITATION OF EMPLOYEES. Employee recognizes that he will possess confidential information about other employees of the Company and its subsidiaries or affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with suppliers to and customers of the Company and its subsidiaries or affiliates. Employee

recognizes that the information he will possess about these other employees is not generally known, is of substantial value to the Company and its subsidiaries or affiliates in developing their respective businesses and in securing and retaining customers, and will be acquired by Employee because of Employee's business position with the Company. Employee agrees that, during the Term (and for a period of 12 months beyond the expiration of the Term), Employee will not, directly or indirectly, solicit or recruit any employee of the Company or any of its subsidiaries or affiliates for the purpose of being employed by Employee or by any business, individual, partnership, firm, corporation or other entity on whose behalf Employee is acting as an agent, representative or employee and that Employee will not convey any such confidential information or trade secrets about other employees of the Company or any of its subsidiaries or affiliates to any other person except within the scope of Employee's duties hereunder. Notwithstanding the foregoing, Employee is not precluded from soliciting any individual who (i) responds to any public advertisement or general solicitation or (ii) has been terminated by the Company or any of its subsidiaries or affiliates prior to the solicitation.

(d) PROPRIETARY RIGHTS; ASSIGNMENT. All Employee Developments shall be made for hire by the Employee for the Company or any of its subsidiaries or affiliates. "Employee Developments" means any idea, discovery, invention, design, method, technique, improvement, enhancement, development, computer program, machine, algorithm or other work or authorship that (i) relates to the business or operations of the Company or any of its subsidiaries or affiliates, or (ii) results from or is suggested by any undertaking assigned to the Employee or work performed by the Employee for or on behalf of the Company or any of its subsidiaries or affiliates, whether created alone or with others, during or after working hours. All Confidential Information and all Employee Developments shall remain the sole property of the Company or any of its subsidiaries or affiliates. The Employee shall acquire no proprietary interest in any Confidential Information or Employee Developments developed or acquired during the Term. To the extent the Employee may, by operation of law or otherwise, acquire any right, title or interest in or to any Confidential Information or Employee Development, the Employee hereby assigns to the Company all such proprietary rights. The Employee shall, both during and after the Term, upon the Company's request, promptly execute and deliver to the Company all such assignments, certificates and instruments, and shall promptly perform such other acts, as the Company may from time to time in its discretion deem necessary or desirable to evidence, establish, maintain, perfect, enforce or defend the Company's rights in Confidential Information and Employee Developments.

(e) COMPLIANCE WITH POLICIES AND PROCEDURES. During the Term, Employee shall adhere to the policies and standards of professionalism set forth in the Company's Policies and Procedures as they may exist from time to time.

(f) REMEDIES FOR BREACH. Employee expressly agrees and understands that Employee will notify the Company in writing of any alleged breach of this Agreement by the Company, and the Company will have 30 days from receipt of Employee's notice to cure any such breach.

Employee expressly agrees and understands that the remedy at law for any breach by Employee of this Section 2 may be inadequate and that damages flowing from such breach may not be susceptible to being measured in monetary terms. Accordingly, it

is acknowledged that upon Employee's violation of any provision of this Section 2 the Company may be entitled to obtain from any court of competent jurisdiction immediate injunctive relief and obtain a temporary order restraining any threatened or further breach as well as an equitable accounting of all profits or benefits arising out of such violation. Nothing in this Section 2 shall be deemed to limit the Company's remedies at law or in equity for any breach by Employee of any of the provisions of this Section 2, which may be pursued by or available to the Company.

(g) SURVIVAL OF PROVISIONS. The obligations contained in this Section 2 shall, to the extent provided in this Section 2, survive the termination or expiration of Employee's employment with the Company and, as applicable, shall be fully enforceable thereafter in accordance with the terms of this Agreement. If it is determined by a court of competent jurisdiction in any state that any restriction in this Section 2 is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

3. TERMINATION OF PRIOR AGREEMENTS. This Agreement constitutes the entire agreement between the parties and terminates and supersedes any and all prior agreements and understandings (whether written or oral) between the parties with respect to the subject matter of this Agreement, including but not limited to, the Employment Agreement between Employee and HSN General Partner LLC with an effective date of March 13, 2007. Employee acknowledges and agrees that neither the Company nor anyone acting on its behalf has made, and is not making, and in executing this Agreement, the Employee has not relied upon, any representations, promises or inducements except to the extent the same is expressly set forth in this Agreement. Employee hereby represents and warrants that by entering into this Agreement, Employee will not rescind or otherwise breach an employment agreement with Employee's current employer prior to the natural expiration date of such agreement

4. ASSIGNMENT; SUCCESSORS. This Agreement is personal in its nature and none of the parties hereto shall, without the consent of the others, assign or transfer this Agreement or any rights or obligations hereunder, provided that, in the event of the merger, consolidation, transfer, or sale of all or substantially all of the assets of the Company with or to any other individual or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder, and all references herein to the "Company" shall refer to such successor.

5. WITHHOLDING. The Company shall make such deductions and withhold such amounts from each payment and benefit made or provided to Employee hereunder, as may be required from time to time by applicable law, governmental regulation or order.

6. HEADING REFERENCES. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. References to "this Agreement" or the use of the term "hereof" shall refer to these Standard Terms and Conditions and the Employment Agreement attached hereto, taken as a whole.

7. WAIVER; MODIFICATION. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by each party hereto. Notwithstanding anything to the contrary herein, neither the assignment of Employee to a different Reporting Officer due to a reorganization or an internal restructuring of the Company or its affiliated companies nor a change in the title of the Reporting Officer shall constitute a modification or a breach of this Agreement.

8. SEVERABILITY. In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any law or public policy, only the portions of this Agreement that violate such law or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

9. INDEMNIFICATION. The Company shall indemnify and hold Employee harmless for acts and omissions in Employee's capacity as an officer, director or employee of the Company to the maximum extent permitted under applicable law; provided, however, that neither the Company, nor any of its subsidiaries or affiliates shall indemnify Employee for any losses incurred by Employee as a result of acts described in Section 1(c) of this Agreement.

ACKNOWLEDGED AND AGREED:

Date: October 27, 2008

HSN, INC

/s/ Lisa Letizio

By: Lisa Letizio
Title: EVP Human Resources

/s/ Jim Warner

JIM WARNER

AMENDMENT TO EMPLOYMENT AGREEMENT

This AMENDMENT TO EMPLOYMENT AGREEMENT ("Amendment") is entered into by and between Jim Warner ("Employee") and HSN, Inc., a Delaware corporation (the "Company"), and is effective as of December 31, 2008 (the "Effective Date").

WHEREAS, Employee and the Company previously entered into an Employment Agreement dated as of October 27, 2008 (the "Employment Agreement"); and

WHEREAS, Employee and the Company now wish to amend that Employment Agreement with this Amendment.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Employee and the Company have agreed and do hereby agree as follows:

1. Capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Employment Agreement.

2. Section 7A of the Employment Agreement shall be amended and restated to read as follows:

7A. SECTION 409A OF THE INTERNAL REVENUE CODE. This Agreement is not intended to constitute a "nonqualified deferred compensation plan" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the rules and regulations issued thereunder ("Section 409A"), except as provided in Section 1(g) of the Standard Terms and Conditions. It is intended that the amounts payable under this Agreement and the Company's and Executive's exercise of authority or discretion hereunder shall comply with and avoid the imputation of any tax, penalty or interest under Section 409A of the Code. This Agreement shall be construed and interpreted consistent with that intent. In no event shall the Company be required to pay Employee any "gross up" or other payment with respect to any taxes or penalties imposed under Section 409A with respect to any benefit paid to Employee hereunder.

3. Section 1(d) of the Standard Terms and Conditions attached to the Employment Agreement and incorporated therein shall be amended and restated to read as follows:

(d) TERMINATION BY THE COMPANY OTHER THAN FOR DEATH, DISABILITY OR CAUSE If Employee's employment is terminated by the Company for any reason other than Employee's death or Disability or for Cause, then (i) the Company shall pay Employee the Base Salary through the end of the Term over the course of the then remaining Term; and (ii) the Company shall pay Employee any Accrued Obligations (as defined in paragraph 1(f) below) in accordance with the terms of the plans, programs or arrangements under which such obligations arose. The payment to Employee of the severance benefits described in this Section 1(d) shall be subject to Employee's execution and

nonrevocation of a general release of the Company and its affiliates in a form substantially similar to that used for similarly situated executives of the Company and its affiliates. Such release shall be furnished to Employee as soon as practical following the termination of employment, and shall be executed and promptly returned to the Company (and in no event later than 21 days following Executive's termination of employment, or such longer period as may be required by applicable law). All amounts of severance that would otherwise have been paid to Employee prior to the date upon which the revocation period provided for in such release shall be paid to Employee in a lump sum, without interest, as soon as practical after such revocation period expires, but not later than March 15 of the year following the year in which employment is terminated.

4. The following subsection (g) shall be added to Section 1. of the Standard Terms and Conditions:

(g) SECTION 409A. In order to satisfy the requirements of Section 409A, the following provisions shall apply:

- (i) Each payment to Employee of a portion of the Employee's Base Salary following his or termination of employment (a "Severance Payment") pursuant to paragraph 1(d) shall be treated as a separate payment for purposes of Section 409A.
- (ii) The Severance Payments that are considered payments of deferred compensation subject to 409A ("Section 409A Payments") shall consist only of those Severance Payments that are either (A) both (x) paid after March 15 of the year following the year in which Employee's employment is terminated and (y) exceed, on a cumulative basis and including only amounts paid after such March 15, two times the lesser of the limitation in effect under Section 410(a)(17) of the Code for the year that includes the termination of employment (the "Termination Year") or the Base Salary in effect at the end of the last year prior to the Termination Year, or, (B) are paid after the end of the second year following the termination year. For purposes of the limitation in subparagraph (A)(y), only Severance Payments paid after the total of all Severance Payments exceed such limitation on a cumulative basis shall be considered Section 409A Payments (including the portion of the Severance Payment that causes the total amount of Severance Payments to exceed such limitation).
- (iii) No Section 409A Payment shall be accelerated, or otherwise paid to Employee at any time other than as provided above, and no amount shall be paid to Employee in lieu of any Section 409A Payment, whether pursuant to an amendment to this Agreement, any separation agreement, or otherwise, except as permitted by Section 409A. No

Section 409A Payment shall be paid until Employee has a separation from service as defined in Section 409A or, if the Employee is a “specified employee” as defined in Section 409A, six (6) months after Employee’s separation from service.

5. The Employment Agreement is reaffirmed and ratified in all respects, except as expressly provided herein. In the event of any conflict between the terms or provisions of this Amendment and the Employment Agreement, then this Amendment shall prevail in all respects. Otherwise, the provisions of the Employment Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and delivered by its duly authorized officer, and Employee has executed and delivered this Agreement on January , 2009.

HSN, INC

By: /s/ Lisa Letizio

Lisa Letizio

EVP Human Resources

/s/ Jim Warner

JIM WARNER

HSN, INC.
AMENDED AND RESTATED
2008 STOCK AND ANNUAL INCENTIVE PLAN

Section 1. Purpose; Definition

The purpose of this Plan is (a) to give the Company a competitive advantage in attracting, retaining and motivating officers, employees, directors and/or consultants and to provide the Company and its Subsidiaries and Affiliates with a stock and incentive plan providing incentives directly linked to stockholder value and (b) to assume and govern other awards pursuant to the adjustment of awards granted under any IAC Long Term Incentive Plan (as defined in the Employee Matters Agreement) in accordance with the terms of the Employee Matters Agreement ("Adjusted Awards"). Certain terms used herein have definitions given to them in the first place in which they are used. In addition, for purposes of this Plan, the following terms are defined as set forth below:

- (a) "Affiliate" means a corporation or other entity controlled by, controlling or under common control with, the Company.
- (b) "Applicable Exchange" means Nasdaq or such other securities exchange as may at the applicable time be the principal market for the Common Stock.
- (c) "Award" means an Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, or other stock-based award granted or assumed pursuant to the terms of this Plan, including Adjusted Awards.
- (d) "Award Agreement" means a written or electronic document or agreement setting forth the terms and conditions of a specific Award.
- (e) "Beneficial Ownership" shall have the meaning given in Rule 13d-3 promulgated under the Exchange Act.
- (f) "Board" means the Board of Directors of the Company.
- (g) "Bonus Award" means a bonus award made pursuant to Section 9.
- (h) "Cause" means, unless otherwise provided in an Award Agreement, (i) "Cause" as defined in any Individual Agreement to which the applicable Participant is a party, or (ii) if there is no such Individual Agreement or if it does not define Cause: (A) the willful or gross neglect by a Participant of his employment duties; (B) the plea of guilty or nolo contendere to, or conviction for, the commission of a felony offense by a Participant; (C) a material breach by a Participant of a fiduciary duty owed to the Company or any of its subsidiaries; (D) a material breach by a Participant of any nondisclosure, non-solicitation or non-competition obligation owed to the Company or any of its Affiliates; or (E) before a Change in Control, such other events as shall be determined by the

Committee and set forth in a Participant's Award Agreement. Notwithstanding the general rule of Section 2(c), following a Change in Control, any determination by the Committee as to whether "Cause" exists shall be subject to de novo review.

(i) "Change in Control" has the meaning set forth in Section 10(c).

(j) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto, the Treasury Regulations thereunder and other relevant interpretive guidance issued by the Internal Revenue Service or the Treasury Department. Reference to any specific section of the Code shall be deemed to include such regulations and guidance, as well as any successor provision of the Code.

(k) "Commission" means the Securities and Exchange Commission or any successor agency.

(l) "Committee" has the meaning set forth in Section 2(a).

(m) "Common Stock" means common stock, par value \$0.01 per share, of the Company.

(n) "Company" means HSN, Inc., a Delaware corporation, or its successor.

(o) "Disability" means (i) "Disability" as defined in any Individual Agreement to which the Participant is a party, or (ii) if there is no such Individual Agreement or it does not define "Disability," (A) permanent and total disability as determined under the Company's long-term disability plan applicable to the Participant, or (B) if there is no such plan applicable to the Participant or the Committee determines otherwise in an applicable Award Agreement, "Disability" as determined by the Committee. Notwithstanding the above, with respect to an Incentive Stock Option, Disability shall mean Permanent and Total Disability as defined in Section 22(e)(3) of the Code and, with respect to all Awards, to the extent required by Section 409A of the Code, "disability" within the meaning of Section 409A of the Code.

(p) "Disaffiliation" means a Subsidiary's or Affiliate's ceasing to be a Subsidiary or Affiliate for any reason (including, without limitation, as a result of a public offering, or a spinoff or sale by the Company, of the stock of the Subsidiary or Affiliate) or a sale of a division of the Company and its Affiliates.

(q) "EBITA" means for any period, operating profit (loss) plus (i) amortization, including goodwill impairment, (ii) amortization of non-cash distribution and marketing expense and non-cash compensation expense, (iii) restructuring charges, (iv) non-cash write-downs of assets or goodwill, (v) charges relating to disposal of lines of business, (vi) litigation settlement amounts and (vii) costs incurred for proposed and completed acquisitions.

(r) “EBITDA” means for any period, operating profit (loss) plus (i) depreciation and amortization, including goodwill impairment, (ii) amortization of non-cash distribution and marketing expense and non-cash compensation expense, (iii) restructuring charges, (iv) non-cash write-downs of assets or goodwill, (v) charges relating to disposal of lines of business, (vi) litigation settlement amounts and (vii) costs incurred for proposed and completed acquisitions.

(s) “Eligible Individuals” means directors, officers, employees and consultants of the Company or any of its Subsidiaries or Affiliates, and prospective employees and consultants who have accepted offers of employment or consultancy from the Company or its Subsidiaries or Affiliates.

(t) “Employee Matters Agreement” means the Employee Matters Agreement by and among IAC, Ticketmaster, Interval Leisure Group, Inc., HSN, Inc. and Tree.com, Inc.

(u) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

(v) “Fair Market Value” means, unless otherwise determined by the Committee, the closing price of a share of Common Stock on the Applicable Exchange on the date of measurement, or if Shares were not traded on the Applicable Exchange on such measurement date, then on the next preceding date on which Shares were traded, all as reported by such source as the Committee may select. If the Common Stock is not listed on a national securities exchange, Fair Market Value shall be determined by the Committee in its good faith discretion, taking into account, to the extent appropriate, the requirements of Section 409A of the Code.

(w) “Free-Standing SAR” has the meaning set forth in Section 5(b).

(x) “Grant Date” means (i) the date on which the Committee by resolution selects an Eligible Individual to receive a grant of an Award and determines the number of Shares to be subject to such Award or the formula for earning a number of shares or cash amount, (ii) such later date as the Committee shall provide in such resolution or (iii) the initial date on which an Adjusted Award was granted under the IAC Long Term Incentive Plan.

(y) “Group” shall have the meaning given in Section 13(d)(3) and 14(d)(2) of the Exchange Act.

(z) “IAC” means IAC/InterActiveCorp, a Delaware corporation.

(aa) "Incentive Stock Option" means any Option that is designated in the applicable Award Agreement as an "incentive stock option" within the meaning of Section 422 of the Code, and that in fact so qualifies.

(bb) "Individual Agreement" means an employment, consulting or similar agreement between a Participant and the Company or one of its Subsidiaries or Affiliates.

(cc) "Nasdaq" means the National Association of Securities Dealers Inc. Automated Quotation System.

(dd) "Nonqualified Option" means any Option that is not an Incentive Stock Option.

(ee) "Option" means an Award granted under Section 5.

(ff) "Participant" means an Eligible Individual to whom an Award is or has been granted.

(gg) "Performance Goals" means the performance goals established by the Committee in connection with the grant of Restricted Stock, Restricted Stock Units or Bonus Awards or other stock-based awards. In the case of Qualified-Performance Based Awards, (i) such goals shall be based on the attainment of one or any combination of the following: specified levels of earnings per share from continuing operations, net profit after tax, EBITDA, EBITA, gross profit, cash generation, unit volume, market share, sales, asset quality, earnings per share, operating income, revenues, return on assets, return on operating assets, return on equity, profits, total stockholder return (measured in terms of stock price appreciation and/or dividend growth), cost saving levels, marketing-spending efficiency, core non-interest income, change in working capital, return on capital, and/or stock price, with respect to the Company or any Subsidiary, Affiliate, division or department of the Company and (ii) such Performance Goals shall be set by the Committee within the time period prescribed by Section 162(m) of the Code and related regulations. Such Performance Goals also may be based upon the attaining of specified levels of Company, Subsidiary, Affiliate or divisional performance under one or more of the measures described above relative to the performance of other entities, divisions or subsidiaries.

(hh) "Plan" means this HSN, Inc. 2008 Stock and Annual Incentive Plan, as set forth herein and as hereafter amended from time to time.

(ii) "Plan Year" means the calendar year or, with respect to Bonus Awards, the Company's fiscal year if different.

(jj) "Qualified Performance-Based Award" means an Award intended to qualify for the Section 162(m) Exemption, as provided in Section 11.

(kk) "Restricted Stock" means an Award granted under Section 6.

(ll) “Restricted Stock Units” means an Award granted under Section 7.

(mm) “Resulting Voting Power” shall mean the outstanding combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors (or equivalent governing body, if applicable) of the entity resulting from a Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries).

(nn) “Retirement” means retirement from active employment with the Company, a Subsidiary or Affiliate at or after the Participant’s attainment of age 65.

(oo) “Section 162(m) Exemption” means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code.

(pp) “Separation” has the meaning set forth in the Employee Matters Agreement.

(qq) “Share” means a share of Common Stock.

(rr) “Specified Employee” shall mean any individual who is a “key employee” (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) with respect to the Company and its affiliates, as determined by the Company in accordance with its uniform policy with respect to all arrangements subject to Section 409A of the Code, based upon the twelve (12) month period ending December 31st. All individuals who are determined to be key employees under Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (without regard to paragraph (5) thereof) on December 31st shall be treated as Specified Employees for purposes of the Plan during the twelve (12) month period that begins on the following April 1st.

(ss) “Stock Appreciation Right” has the meaning set forth in Section 5(b).

(tt) “Subsidiary” means any corporation, partnership, joint venture, limited liability company or other entity during any period in which at least a 50% voting or profits interest is owned, directly or indirectly, by the Company or any successor to the Company.

(uu) “Tandem SAR” has the meaning set forth in Section 5(b).

(vv) “Term” means the maximum period during which an Option or Stock Appreciation Right may remain outstanding, subject to earlier termination upon Termination of Employment or otherwise, as specified in the applicable Award Agreement.

(ww) "Termination of Employment" means the termination of the applicable Participant's employment with, or performance of services for, the Company and any of its Subsidiaries or Affiliates. Unless otherwise determined by the Committee, if a Participant's employment with, or membership on a board of directors of the Company and its Affiliates terminates but such Participant continues to provide services to the Company and its Affiliates in a non-employee director capacity or as an employee, as applicable, such change in status shall not be deemed a Termination of Employment. A Participant employed by, or performing services for, a Subsidiary or an Affiliate or a division of the Company and its Affiliates shall be deemed to incur a Termination of Employment if, as a result of a Disaffiliation, such Subsidiary, Affiliate, or division ceases to be a Subsidiary, Affiliate or division, as the case may be, and the Participant does not immediately thereafter become an employee of (or service provider for), or member of the board of directors of, the Company or another Subsidiary or Affiliate. Temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and its Subsidiaries and Affiliates shall not be considered Terminations of Employment. Notwithstanding the foregoing, with respect to any Award that constitutes "nonqualified deferred compensation" within the meaning of Section 409A of the Code, "Termination of Employment" shall mean a "separation from service" as defined under Section 409A of the Code. For the avoidance of doubt, the Separation shall not constitute a Termination of Employment for purposes of any Adjusted Award.

Section 2. Administration

(a) Committee. The Plan shall be administered by the Compensation Committee of the Board or such other committee of the Board as the Board may from time to time designate (the "Committee"), which shall be composed of not less than two directors, and shall be appointed by and serve at the pleasure of the Board. The Committee shall, subject to Section 11, have plenary authority to grant Awards pursuant to the terms of the Plan to Eligible Individuals. Among other things, the Committee shall have the authority, subject to the terms and conditions of the Plan and the Employee Matters Agreement (including the original terms of the grant of the Adjusted Award):

- (i) to select the Eligible Individuals to whom Awards may from time to time be granted;
- (ii) to determine whether and to what extent Incentive Stock Options, Nonqualified Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, other stock-based awards, or any combination thereof, are to be granted hereunder;
- (iii) to determine the number of Shares to be covered by each Award granted hereunder;

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- (iv) to determine the terms and conditions of each Award granted hereunder, based on such factors as the Committee shall determine;
 - (v) subject to Section 12, to modify, amend or adjust the terms and conditions of any Award;
 - (vi) to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable;
 - (vii) subject to Section 11, to accelerate the vesting or lapse of restrictions of any outstanding Award, based in each case on such considerations as the Committee in its sole discretion determines;
 - (viii) to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreement relating thereto);
 - (ix) to establish any "blackout" period that the Committee in its sole discretion deems necessary or advisable;
 - (x) to determine whether, to what extent, and under what circumstances cash, Shares, and other property and other amounts payable with respect to an Award under this Plan shall be deferred either automatically or at the election of the Participant;
 - (xi) to decide all other matters that must be determined in connection with an Award; and
 - (xii) to otherwise administer the Plan.

(b) Procedures.

(i) The Committee may act only by a majority of its members then in office, except that the Committee may, except to the extent prohibited by applicable law or the listing standards of the Applicable Exchange and subject to Section 11, allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it.

(ii) Subsection to Section 11(c), any authority granted to the Committee may also be exercised by the full Board. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.

(c) Discretion of Committee. Subject to Section 1(h), any determination made by the Committee or by an appropriately delegated officer pursuant to delegated authority under the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee or such delegate at the time of the grant of the Award or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee or any appropriately delegated officer pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company, Participants, and Eligible Individuals.

(d) Award Agreements. The terms and conditions of each Award, as determined by the Committee, shall be set forth in an Award Agreement, which shall be delivered to the Participant receiving such Award upon, or as promptly as is reasonably practicable following, the grant of such Award. The effectiveness of an Award shall not be subject to the Award Agreement's being signed by the Company and/or the Participant receiving the Award unless specifically so provided in the Award Agreement. Award Agreements may be amended only in accordance with Section 12 hereof. Notwithstanding the provisions of the Plan or an Award Agreement to the contrary, in the event that any term of any Award Agreement conflicts with any provision of the Plan that specifically pertains to Section 409A of the Code, the provision of the Plan shall govern.

Section 3. Common Stock Subject to Plan

(a) Plan Maximums. The maximum number of Shares that may be delivered pursuant to Awards under the Plan shall be the sum of (a) the number of Shares that may be issuable upon exercise or vesting of the Adjusted Awards and (b) 5,000,000. The maximum number of Shares that may be granted pursuant to Options intended to be Incentive Stock Options shall be 3,333,333 Shares. Shares subject to an Award under the Plan may be authorized and unissued Shares or may be treasury Shares.

(b) Individual Limits. No Participant may be granted Awards covering in excess of 3,333,333 Shares during the term of the Plan provided that Adjusted Awards shall not be subject to this limitation.

(c) Rules for Calculating Shares Delivered.

(i) With respect to Awards other than Adjusted Awards, to the extent that any Award is forfeited, or any Option and the related Tandem SAR (if any) or Free-Standing SAR terminates, expires or lapses without being exercised, or any Award is settled for cash, the Shares subject to such Awards not delivered as a result thereof shall again be available for Awards under the Plan.

(ii) With respect to Awards other than Adjusted Awards, if the exercise price of any Option and/or the tax withholding obligations relating to any Award are satisfied by delivering Shares to the Company (by either actual delivery or by attestation), only the number of Shares issued net of the Shares delivered or attested to shall be deemed delivered for

purposes of the limits set forth in Section 3(a). To the extent any Shares subject to an Award are withheld to satisfy the exercise price (in the case of an Option) and/or the tax withholding obligations relating to such Award, such Shares shall not be deemed to have been delivered for purposes of the limits set forth in Section 3(a).

(d) Adjustment Provision. In the event of a merger, consolidation, acquisition of property or shares, stock rights offering, liquidation, Disaffiliation, or similar event affecting the Company or any of its Subsidiaries (each, a “Corporate Transaction”), the Committee or the Board may in its discretion make such substitutions or adjustments as it deems appropriate and equitable to (i) the aggregate number and kind of Shares or other securities reserved for issuance and delivery under the Plan, (ii) the various maximum limitations set forth in Sections 3(a) and 3(b) upon certain types of Awards and upon the grants to individuals of certain types of Awards, (iii) the number and kind of Shares or other securities subject to outstanding Awards; and (iv) the exercise price of outstanding Options and Stock Appreciation Rights. In the event of a stock dividend, stock split, reverse stock split, separation, spinoff, reorganization, extraordinary dividend of cash or other property, share combination, or recapitalization or similar event affecting the capital structure of the Company (each, a “Share Change”), the Committee or the Board shall make such substitutions or adjustments as it deems appropriate and equitable to (i) the aggregate number and kind of Shares or other securities reserved for issuance and delivery under the Plan, (ii) the various maximum limitations set forth in Sections 3(a) and 3(b) upon certain types of Awards and upon the grants to individuals of certain types of Awards, (iii) the number and kind of Shares or other securities subject to outstanding Awards; and (iv) the exercise price of outstanding Options and Stock Appreciation Rights. In the case of Corporate Transactions, such adjustments may include, without limitation, (1) the cancellation of outstanding Awards in exchange for payments of cash, property or a combination thereof having an aggregate value equal to the value of such Awards, as determined by the Committee or the Board in its sole discretion (it being understood that in the case of a Corporate Transaction with respect to which stockholders of Common Stock receive consideration other than publicly traded equity securities of the ultimate surviving entity, any such determination by the Committee that the value of an Option or Stock Appreciation Right shall for this purpose be deemed to equal the excess, if any, of the value of the consideration being paid for each Share pursuant to such Corporate Transaction over the exercise price of such Option or Stock Appreciation Right shall conclusively be deemed valid); (2) the substitution of other property (including, without limitation, cash or other securities of the Company and securities of entities other than the Company) for the Shares subject to outstanding Awards; and (3) in connection with any Disaffiliation, arranging for the assumption of Awards, or replacement of Awards with new awards based on other property or other securities (including, without limitation, other securities of the Company and securities of entities other than the Company), by the affected Subsidiary, Affiliate, or division or by the entity that controls such Subsidiary, Affiliate, or division following such Disaffiliation (as well as any corresponding adjustments to Awards that remain based upon Company securities). The Committee may adjust in its sole discretion the Performance Goals applicable to any

Awards to reflect any Share Change and any Corporate Transaction and any unusual or non-recurring events and other extraordinary items, impact of charges for restructurings, discontinued operations, and the cumulative effects of accounting or tax changes, each as defined by generally accepted accounting principles or as identified in the Company's financial statements, notes to the financial statements, management's discussion and analysis or the Company's other SEC filings, provided that in the case of Performance Goals applicable to any Qualified Performance-Based Awards, such adjustment does not violate Section 162(m) of the Code. Any adjustment under this Section 3(d) need not be the same for all Participants.

(e) Section 409A. Notwithstanding the foregoing: (i) any adjustments made pursuant to Section 3(d) to Awards that are considered "deferred compensation" within the meaning of Section 409A of the Code shall be made in compliance with the requirements of Section 409A of the Code; (ii) any adjustments made pursuant to Section 3(d) to Awards that are not considered "deferred compensation" subject to Section 409A of the Code shall be made in such a manner as to ensure that after such adjustment, the Awards either (A) continue not to be subject to Section 409A of the Code or (B) comply with the requirements of Section 409A of the Code; and (iii) in any event, neither the Committee nor the Board shall have the authority to make any adjustments pursuant to Section 3(d) to the extent the existence of such authority would cause an Award that is not intended to be subject to Section 409A of the Code at the Grant Date to be subject thereto as of the Grant Date.

Section 4. Eligibility

Awards may be granted under the Plan to Eligible Individuals and, with respect to Adjusted Awards, in accordance with the terms of the Employee Matters Agreement; provided, however, that Incentive Stock Options may be granted only to employees of the Company and its subsidiaries or parent corporation (within the meaning of Section 424(f) of the Code) and, with respect to Adjusted Awards that are intended to qualify as incentive stock options within the meaning of Section 421 of the Code, in accordance with the terms of the Employee Matters Agreement.

Section 5. Options and Stock Appreciation Rights

With respect to Adjusted Awards, the provisions below will be applicable only to the extent that they are not inconsistent with the Employee Matters Agreement and the terms of the Adjusted Award assumed under the Employee Matters Agreement:

(a) Types of Options. Options may be of two types: Incentive Stock Options and Nonqualified Options. The Award Agreement for an Option shall indicate whether the Option is intended to be an Incentive Stock Option or a Nonqualified Option.

(b) Types and Nature of Stock Appreciation Rights. Stock Appreciation Rights may be "Tandem SARs," which are granted in conjunction with an Option, or "Free-Standing SARs," which are not granted in conjunction with an Option. Upon the exercise of a

Stock Appreciation Right, the Participant shall be entitled to receive an amount in cash, Shares, or both, in value equal to the product of (i) the excess of the Fair Market Value of one Share over the exercise price of the applicable Stock Appreciation Right, multiplied by (ii) the number of Shares in respect of which the Stock Appreciation Right has been exercised. The applicable Award Agreement shall specify whether such payment is to be made in cash or Common Stock or both, or shall reserve to the Committee or the Participant the right to make that determination prior to or upon the exercise of the Stock Appreciation Right.

(c) Tandem SARs. A Tandem SAR may be granted at the Grant Date of the related Option. A Tandem SAR shall be exercisable only at such time or times and to the extent that the related Option is exercisable in accordance with the provisions of this Section 5, and shall have the same exercise price as the related Option. A Tandem SAR shall terminate or be forfeited upon the exercise or forfeiture of the related Option, and the related Option shall terminate or be forfeited upon the exercise or forfeiture of the Tandem SAR.

(d) Exercise Price. The exercise price per Share subject to an Option or Free-Standing SAR shall be determined by the Committee and set forth in the applicable Award Agreement, and shall not be less than the Fair Market Value of a share of the Common Stock on the applicable Grant Date. In no event may any Option or Free-Standing SAR granted under this Plan be amended, other than pursuant to Section 3(d), to decrease the exercise price thereof, be cancelled in conjunction with the grant of any new Option or Free-Standing SAR with a lower exercise price or otherwise be subject to any action that would be treated, for accounting purposes, as a “repricing” of such Option or Free-Standing SAR, unless such amendment, cancellation, or action is approved by the Company’s stockholders.

(e) Term. The Term of each Option and each Free-Standing SAR shall be fixed by the Committee, but shall not exceed ten years from the Grant Date.

(f) Vesting and Exercisability. Except as otherwise provided herein, Options and Free-Standing SARs shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee. If the Committee provides that any Option or Free-Standing SAR will become exercisable only in installments, the Committee may at any time waive such installment exercise provisions, in whole or in part, based on such factors as the Committee may determine. In addition, the Committee may at any time accelerate the exercisability of any Option or Free-Standing SAR.

(g) Method of Exercise. Subject to the provisions of this Section 5, Options and Free-Standing SARs may be exercised, in whole or in part, at any time during the applicable Term by giving written notice of exercise to the Company or through the procedures established with the Company’s appointed third-party Option administrator specifying the number of Shares as to which the Option or Free-Standing SAR is being exercised; provided, however, that, unless otherwise permitted by the Committee, any such exercise

must be with respect to a portion of the applicable Option or Free-Standing SAR relating to no less than the lesser of the number of Shares then subject to such Option or Free-Standing SAR or 100 Shares. In the case of the exercise of an Option, such notice shall be accompanied by payment in full of the purchase price (which shall equal the product of such number of Shares multiplied by the applicable exercise price) by certified or bank check or such other instrument as the Company may accept. If approved by the Committee, payment, in full or in part, may also be made as follows:

(i) Payments may be made in the form of unrestricted Shares (by delivery of such Shares or by attestation) of the same class as the Common Stock subject to the Option already owned by the Participant (based on the Fair Market Value of the Common Stock on the date the Option is exercised); provided, however, that, in the case of an Incentive Stock Option, the right to make a payment in the form of already owned Shares of the same class as the Common Stock subject to the Option may be authorized only at the time the Option is granted.

(ii) To the extent permitted by applicable law, payment may be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if requested, the amount of any federal, state, local or foreign withholding taxes. To facilitate the foregoing, the Company may, to the extent permitted by applicable law, enter into agreements for coordinated procedures with one or more brokerage firms. To the extent permitted by applicable law, the Committee may also provide for Company loans to be made for purposes of the exercise of Options.

(iii) Payment may be made by instructing the Company to withhold a number of Shares having a Fair Market Value (based on the Fair Market Value of the Common Stock on the date the applicable Option is exercised) equal to the product of (A) the exercise price multiplied by (B) the number of Shares in respect of which the Option shall have been exercised.

(h) Delivery; Rights of Stockholders. No Shares shall be delivered pursuant to the exercise of an Option until the exercise price therefor has been fully paid and applicable taxes have been withheld. The applicable Participant shall have all of the rights of a stockholder of the Company holding the class or series of Common Stock that is subject to the Option or Stock Appreciation Right (including, if applicable, the right to vote the applicable Shares and the right to receive dividends), when the Participant (i) has given written notice of exercise, (ii) if requested, has given the representation described in Section 14(a), and (iii) in the case of an Option, has paid in full for such Shares.

(i) Terminations of Employment. Subject to Section 10, a Participant's Options and Stock Appreciation Rights shall be forfeited upon such Participant's Termination of Employment, except as set forth below:

(i) Upon a Participant's Termination of Employment by reason of death, any Option or Stock Appreciation Right held by the Participant that was exercisable immediately before the Termination of Employment may be exercised at any time until the earlier of (A) the first anniversary of the date of such death and (B) the expiration of the Term thereof;

(ii) Upon a Participant's Termination of Employment by reason of Disability or Retirement, any Option or Stock Appreciation Right held by the Participant that was exercisable immediately before the Termination of Employment may be exercised at any time until the earlier of (A) the first anniversary of such Termination of Employment and (B) the expiration of the Term thereof;

(iii) Upon a Participant's Termination of Employment for Cause, any Option or Stock Appreciation Right held by the Participant shall be forfeited, effective as of such Termination of Employment;

(iv) Upon a Participant's Termination of Employment for any reason other than death, Disability, Retirement or for Cause, any Option or Stock Appreciation Right held by the Participant that was exercisable immediately before the Termination of Employment may be exercised at any time until the earlier of (A) the 90th day following such Termination of Employment and (B) expiration of the Term thereof; and

(v) Notwithstanding the above provisions of this Section 5(i), if a Participant dies after such Participant's Termination of Employment but while any Option or Stock Appreciation Right remains exercisable as set forth above, such Option or Stock Appreciation Right may be exercised at any time until the later of (A) the earlier of (1) the first anniversary of the date of such death and (2) expiration of the Term thereof and (B) the last date on which such Option or Stock Appreciation Right would have been exercisable, absent this Section 5(i)(v).

Notwithstanding the foregoing, the Committee shall have the power, in its discretion, to apply different rules concerning the consequences of a Termination of Employment; provided, however, that if such rules are less favorable to the Participant than those set forth above, such rules are set forth in the applicable Award Agreement. If an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Option will thereafter be treated as a Nonqualified Option.

(j) Nontransferability of Options and Stock Appreciation Rights. No Option or Free-Standing SAR shall be transferable by a Participant other than (i) by will or by the laws of descent and distribution, or (ii) in the case of a Nonqualified Option or Free-Standing SAR, pursuant to a qualified domestic relations order or as otherwise expressly permitted by the Committee including, if so permitted, pursuant to a transfer to the Participant's family members or to a charitable organization, whether directly or indirectly or by means of a trust or partnership or otherwise. For purposes of this Plan, unless otherwise determined by the Committee, "family member" shall have the meaning given to such term in General Instructions A.1(a)(5) to Form S-8 under the Securities Act of 1933, as amended, and any successor thereto. A Tandem SAR shall be transferable only with the related Option as permitted by the preceding sentence. Any Option or Stock Appreciation Right shall be exercisable, subject to the terms of this Plan, only by the applicable Participant, the guardian or legal representative of such Participant, or any person to whom such Option or Stock Appreciation Right is permissibly transferred pursuant to this Section 5(j), it being understood that the term "Participant" includes such guardian, legal representative and other transferee; provided, however, that the term "Termination of Employment" shall continue to refer to the Termination of Employment of the original Participant.

Section 6. Restricted Stock

With respect to Adjusted Awards, the provisions below will be applicable only to the extent that they are not inconsistent with the Employee Matters Agreement and the terms of the Adjusted Award assumed under the Employee Matters Agreement:

(a) Nature of Awards and Certificates. Shares of Restricted Stock are actual Shares issued to a Participant, and shall be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of one or more stock certificates. Any certificate issued in respect of Shares of Restricted Stock shall be registered in the name of the applicable Participant and, in the case of Restricted Stock, shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award, substantially in the following form:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the HSN, Inc. 2008 Stock and Annual Incentive Plan and an Award Agreement. Copies of such Plan and Agreement are on file at the offices of HSN, Inc., 1 HSN Drive, St. Petersburg, Florida 33729."

The Committee may require that the certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed and that, as a condition of any Award of Restricted Stock, the applicable Participant shall have delivered a stock power, endorsed in blank, relating to the Common Stock covered by such Award.

(b) Terms and Conditions. Shares of Restricted Stock shall be subject to the following terms and conditions:

(i) The Committee shall, prior to or at the time of grant, condition the vesting or transferability of an Award of Restricted Stock upon the continued service of the applicable Participant or the attainment of Performance Goals, or the attainment of Performance Goals and the continued service of the applicable Participant. In the event that the Committee conditions the grant or vesting of an Award of Restricted Stock upon the attainment of Performance Goals or the attainment of Performance Goals and the continued service of the applicable Participant, the Committee may, prior to or at the time of grant, designate such an Award as a Qualified Performance-Based Award. The conditions for grant, vesting, or transferability and the other provisions of Restricted Stock Awards (including without limitation any Performance Goals) need not be the same with respect to each Participant.

(ii) Subject to the provisions of the Plan and the applicable Award Agreement, during the period, if any, set by the Committee, commencing with the date of such Restricted Stock Award for which such vesting restrictions apply and until the expiration of such vesting restrictions (the "Restriction Period"), the Participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber Shares of Restricted Stock.

(iii) Except as provided in this Section 6 and in the applicable Award Agreement, the applicable Participant shall have, with respect to the Shares of Restricted Stock, all of the rights of a stockholder of the Company holding the class or series of Common Stock that is the subject of the Restricted Stock, including, if applicable, the right to vote the Shares and the right to receive any cash dividends. If so determined by the Committee in the applicable Award Agreement and subject to Section 14(e), (A) cash dividends on the class or series of Common Stock that is the subject of the Restricted Stock Award shall be automatically deferred and reinvested in additional Restricted Stock, held subject to the vesting of the underlying Restricted Stock, and (B) subject to any adjustment pursuant to Section 3(d), dividends payable in Common Stock shall be paid in the form of Restricted Stock of the same class as the Common Stock with which such dividend was paid, held subject to the vesting of the underlying Restricted Stock.

(iv) Except as otherwise set forth in the applicable Award Agreement, upon a Participant's Termination of Employment for any reason during the Restriction Period, all Shares of Restricted Stock still subject to restriction shall be forfeited by such Participant; provided, however, that subject to Section 11(b), the Committee shall have the discretion to waive, in whole or in part, any or all remaining restrictions with respect to any or all of such Participant's Shares of Restricted Stock.

(v) If and when any applicable Performance Goals are satisfied and the Restriction Period expires without a prior forfeiture of the Shares of Restricted Stock for which legended certificates have been issued, unlegended certificates for such Shares shall be delivered to the Participant upon surrender of the legended certificates.

Section 7. Restricted Stock Units

With respect to Adjusted Awards, the provisions below will be applicable only to the extent that they are not inconsistent with the Employee Matters Agreement and the terms of the Adjusted Award assumed under the Employee Matters Agreement:

(a) Nature of Awards. Restricted Stock Units are Awards denominated in Shares that will be settled, subject to the terms and conditions of the Restricted Stock Units, in an amount in cash, Shares or both, based upon the Fair Market Value of a specified number of Shares.

(b) Terms and Conditions. Restricted Stock Units shall be subject to the following terms and conditions:

(i) The Committee shall, prior to or at the time of grant, condition the grant, vesting, or transferability of Restricted Stock Units upon the continued service of the applicable Participant or the attainment of Performance Goals, or the attainment of Performance Goals and the continued service of the applicable Participant. In the event that the Committee conditions the grant or vesting of Restricted Stock Units upon the attainment of Performance Goals or the attainment of Performance Goals and the continued service of the applicable Participant, the Committee may, prior to or at the time of grant, designate such Awards as Qualified Performance-Based Awards. The conditions for grant, vesting or transferability and the other provisions of Restricted Stock Units (including without limitation any Performance Goals) need not be the same with respect to each Participant. An Award of Restricted Stock Units shall be settled as and when the Restricted Stock Units vest or at a later time specified by the Committee or in accordance with an election of the Participant, if the Committee so permits.

(ii) Subject to the provisions of the Plan and the applicable Award Agreement, during the period, if any, set by the Committee, commencing with the date of such Restricted Stock Units for which such vesting restrictions apply and until the expiration of such vesting restrictions (the "Restriction Period"), the Participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber Restricted Stock Units.

(iii) The Award Agreement for Restricted Stock Units shall specify whether, to what extent and on what terms and conditions the applicable Participant shall be entitled to receive current or deferred payments of cash, Common Stock or other property corresponding to the dividends payable on the Common Stock (subject to Section 14(e) below).

(iv) Except as otherwise set forth in the applicable Award Agreement, upon a Participant's Termination of Employment for any reason during the Restriction Period, all Restricted Stock Units still subject to restriction shall be forfeited by such Participant; provided, however, that subject to Section 11(b), the Committee shall have the discretion to waive, in whole or in part, any or all remaining restrictions with respect to any or all of such Participant's Restricted Stock Units, provided, however, if any of such Participant's Restricted Stock Units constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code, settlement of such Restricted Stock Units shall not occur until the date such Restricted Stock Units would otherwise be settled pursuant to the terms of the Award Agreement.

Section 8. Other Stock-Based Awards

Other Awards of Common Stock and other Awards that are valued in whole or in part by reference to, or are otherwise based upon or settled in, Common Stock, including (without limitation), unrestricted stock, performance units, dividend equivalents, and convertible debentures, may be granted under the Plan.

Section 9. Bonus Awards

(a) Determination of Awards. The Committee shall determine the total amount of Bonus Awards for each Plan Year or such shorter performance period as the Committee may establish in its sole discretion. Prior to the beginning of the Plan Year or such shorter performance period as the Committee may establish in its sole discretion (or such later date as may be prescribed by the Internal Revenue Service under Section 162(m) of the Code), the Committee shall establish Performance Goals for Bonus Awards for the Plan Year or such shorter period; provided, that such Performance Goals may be established at a later date for Participants who are not "covered employees" (within the meaning of Section 162(m)(3) of the Code). Bonus amounts payable to any individual Participant with respect to a Plan Year will be limited to a maximum of \$10 million. For performance periods that are shorter than a Plan Year, such \$10 million maximum may be pro-rated if so determined by the Committee.

(b) Payment of Awards. Bonus Awards under the Plan shall be paid in cash or in shares of Common Stock (valued at Fair Market Value as of the date of payment) as determined by the Committee, as soon as practicable following the close of the Plan Year or such shorter performance period as the Committee may establish. It is intended that a Bonus Award will be paid no later than the fifteenth (15th) day of the third month following the later of: (i) the end of the Participant's taxable year in which the requirements for

such Bonus Award have been satisfied by the Participant or (ii) the end of the Company's fiscal year in which the requirements for such Bonus Award have been satisfied by the Participant. The Committee may at its option establish procedures pursuant to which Participants are permitted to defer the receipt of Bonus Awards payable hereunder (provided such plan complies with Section 409A of the Code). The Bonus Award for any Plan Year or such shorter performance period to any Participant may be reduced or eliminated by the Committee in its discretion.

Section 10. Change in Control Provisions

(a) Adjusted Awards. With respect to all Adjusted Awards, subject to Sections 3(d), 3(e), 10(e) and 14(k), unless otherwise provided in the applicable Award Agreement, notwithstanding any other provision of this Plan to the contrary, upon a Participant's Termination of Employment, during the two-year period following a Change in Control, by the Company other than for Cause or Disability or by the Participant for Good Reason (as defined below):

(i) any Options outstanding as of such Termination of Employment which were outstanding as of the date of such Change in Control shall be fully exercisable and vested and shall remain exercisable until the later of (i) the last date on which such Option would be exercisable in the absence of this Section 10(a) and (ii) the earlier of (A) the first anniversary of such Change in Control and (B) expiration of the Term of such Option;

(ii) the restrictions and deferral limitations applicable to any Restricted Stock shall lapse, and such Restricted Stock outstanding as of such Termination of Employment which were outstanding as of the date of such Change in Control shall become free of all restrictions and become fully vested and transferable; and

(iii) all Restricted Stock Units outstanding as of such Termination of Employment which were outstanding as of the date of such Change in Control shall be considered to be earned and payable in full, and any restrictions shall lapse and such Restricted Stock Units shall be settled as promptly as is practicable in the form set forth in the applicable Award Agreement; provided, however, that with respect to any Restricted Stock Unit that constitutes "nonqualified deferred compensation" within the meaning of Section 409A of the Code, the settlement of such Restricted Stock Units pursuant to this Section 10(a)(iii) shall only occur upon the Change in Control if such Change in Control constitutes a "change in the ownership of the corporation," a "change in effective control of the corporation: or a "change in the ownership of a substantial portion of the assets of the corporation," within the meaning of Section 409A(a)(2)(v) of the Code.

(b) Impact of Event on Awards other than Adjusted Awards. Subject to paragraph (e) of this Section 10, and paragraph (d) of Section 12, unless otherwise provided in any applicable Award Agreement and except as otherwise provided in paragraph (a) of this Section 10, in connection with a Change of Control, the Committee may make such adjustments and/or settlements of outstanding

Awards as it deems appropriate and consistent with the Plan's purposes, including, without limitation, the acceleration of vesting of Awards either upon a Change of Control or upon various terminations of employment following a Change of Control. The Committee may provide for such adjustments as a term of the Award or may make such adjustments following the granting of the Award.

(c) Definition of Change in Control. For purposes of the Plan, unless otherwise provided in an option agreement or other agreement relating to an Award, a "Change in Control" shall mean the happening of any of the following events:

(i) The acquisition by any individual, entity or Group (a "Person"), other than the Company, of Beneficial Ownership of equity securities of the Company representing more than 50% of the voting power of the then outstanding equity securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that any acquisition that would constitute a Change in Control under this subsection (i) that is also a Business Combination shall be determined exclusively under subsection (iii) below; or

(ii) Individuals who, as of the Effective Date, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date, whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the Incumbent Directors at such time shall become an Incumbent Director, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Consummation of a reorganization, merger, consolidation, sale or other disposition of all or substantially all of the assets of the Company, the purchase of assets or stock of another entity, or other similar corporate transaction (a "Business Combination"), in each case, unless immediately following such Business Combination, (A) more than 50% of the Resulting Voting Power shall reside in Outstanding Company Voting Securities retained by the Company's stockholders in the Business Combination and/or voting securities received by such stockholders in the Business Combination on account of Outstanding Company Voting Securities, and (B) at least a majority of the members of the board of directors (or equivalent governing body, if applicable) of the entity resulting from such Business Combination were Incumbent Directors at the time of the initial agreement, or action of the Board, providing for such Business Combination; or

(iv) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

Notwithstanding the foregoing, the Separation shall not constitute a Change in Control. For the avoidance of doubt, with respect to Adjusted Awards, any reference in an Award Agreement or the applicable IAC Long Term Incentive Plan to a “change in control,” “change of control” or similar definition shall be deemed to refer to a Change of Control hereunder.

(d) For purposes of this Section 10, “Good Reason” means (i) “Good Reason” as defined in any Individual Agreement or Award Agreement to which the applicable Participant is a party, or (ii) if there is no such Individual Agreement or if it does not define Good Reason, without the Participant’s prior written consent: (A) a material reduction in the Participant’s rate of annual base salary from the rate of annual base salary in effect for such Participant immediately prior to the Change in Control, (B) a relocation of the Participant’s principal place of business more than 35 miles from the city in which such Participant’s principal place of business was located immediately prior to the Change in Control or (C) a material and demonstrable adverse change in the nature and scope of the Participant’s duties from those in effect immediately prior to the Change in Control. In order to invoke a Termination of Employment for Good Reason, a Participant shall provide written notice to the Company of the existence of one or more of the conditions described in clauses (A) through (C) within 90 days following the Participant’s knowledge of the initial existence of such condition or conditions, and the Company shall have 30 days following receipt of such written notice (the “Cure Period”) during which it may remedy the condition. In the event that the Company fails to remedy the condition constituting Good Reason during the Cure Period, the Participant must terminate employment, if at all, within 90 days following the Cure Period in order for such Termination of Employment to constitute a Termination of Employment for Good Reason.

(e) Notwithstanding the foregoing, if any Award is subject to Section 409A of the Code, this Section 10 shall be applicable only to the extent specifically provided in the Award Agreement and as permitted pursuant to Section 14(k).

Section 11. Qualified Performance-Based Awards; Section 16(b)

(a) The provisions of this Plan are intended to ensure that all Options and Stock Appreciation Rights granted hereunder to any Participant who is or may be a “covered employee” (within the meaning of Section 162(m)(3) of the Code) in the tax year in which such Option or Stock Appreciation Right is expected to be deductible to the Company qualify for the Section 162(m) Exemption, and all such Awards shall therefore be considered Qualified Performance-Based Awards and this Plan shall be interpreted and operated consistent with that intention (including, without limitation, to require that all such Awards be granted by a committee composed solely of members who satisfy the requirements for being “outside directors” for purposes of the Section 162(m) Exemption (“Outside Directors”)). When granting any Award other than an Option or Stock Appreciation Right, the Committee may designate

such Award as a Qualified Performance-Based Award, based upon a determination that (i) the recipient is or may be a “covered employee” (within the meaning of Section 162(m)(3) of the Code) with respect to such Award, and (ii) the Committee wishes such Award to qualify for the Section 162(m) Exemption, and the terms of any such Award (and of the grant thereof) shall be consistent with such designation (including, without limitation, that all such Awards be granted by a committee composed solely of Outside Directors).

(b) Each Qualified Performance-Based Award (other than an Option or Stock Appreciation Right) shall be earned, vested and payable (as applicable) only upon the achievement of one or more Performance Goals (as certified in writing by the Committee, except if compensation is attributable solely to the increase in the value of the Common Stock), together with the satisfaction of any other conditions, such as continued employment, as the Committee may determine to be appropriate, and no Qualified Performance-Based Award may be amended, nor may the Committee exercise any discretionary authority it may otherwise have under this Plan with respect to a Qualified Performance-Based Award under this Plan, in any manner that would cause the Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption; provided, however, that (i) the Committee may provide, either in connection with the grant of the applicable Award or by amendment thereafter, that achievement of such Performance Goals will be waived upon the death or Disability of the Participant or under any other circumstance with respect to which the existence of such possible waiver will not cause the Award to fail to qualify for the Section 162(m) Exemption as of the Grant Date, and (ii) the provisions of Section 10 shall apply notwithstanding this Section 11(b).

(c) The full Board shall not be permitted to exercise authority granted to the Committee to the extent that the grant or exercise of such authority would cause an Award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption.

(d) The provisions of this Plan are intended to ensure that no transaction under the Plan is subject to (and not exempt from) the short-swing recovery rules of Section 16(b) of the Exchange Act (“Section 16(b)”). Accordingly, the composition of the Committee shall be subject to such limitations as the Board deems appropriate to permit transactions pursuant to this Plan to be exempt (pursuant to Rule 16b-3 promulgated under the Exchange Act) from Section 16(b), and no delegation of authority by the Committee shall be permitted if such delegation would cause any such transaction to be subject to (and not exempt from) Section 16(b).

Section 12. Term, Amendment and Termination

(a) Effectiveness. The Plan shall be effective as of the date (the “Effective Date”) it is adopted by the Board, subject to the approval by the holders of at least a majority of the voting power represented by outstanding capital stock of the Company that is entitled generally to vote in the election of directors.

(b) Termination. The Plan will terminate on the tenth anniversary of the Effective Date. Awards outstanding as of such date shall not be affected or impaired by the termination of the Plan.

(c) Amendment of Plan. The Board may amend, alter, or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would materially impair the rights of the Participant with respect to a previously granted Award without such Participant's consent, except such an amendment made to comply with applicable law, including without limitation Section 409A of the Code, stock exchange rules or accounting rules. In addition, no such amendment shall be made without the approval of the Company's stockholders to the extent such approval is required by applicable law or the listing standards of the Applicable Exchange.

(d) Amendment of Awards. Subject to Section 5(d), the Committee may unilaterally amend the terms of any Award theretofore granted, but no such amendment shall cause a Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption or without the Participant's consent materially impair the rights of any Participant with respect to an Award, except such an amendment made to cause the Plan or Award to comply with applicable law, stock exchange rules or accounting rules.

Section 13. Unfunded Status of Plan

It is presently intended that the Plan constitute an "unfunded" plan for incentive and deferred compensation. Solely to the extent permitted under Section 409A, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or make payments; *provided, however*, that the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan. Notwithstanding any provision of this Plan to the contrary, with respect to any Award that constitutes "nonqualified deferred compensation" within the meaning of Section 409A of the Code, no trust shall be funded with respect to any such Award if such funding would result in taxable income to the Participant by reason of Section 409A(b) of the Code and in no event shall any such trust assets at any time be located or transferred outside of the United States, within the meaning of Section 409A(b) of the Code.

Section 14. General Provisions

(a) Conditions for Issuance. The Committee may require each person purchasing or receiving Shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the Shares without a view to the distribution thereof. The certificates for such Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. Notwithstanding any other provision of the Plan or agreements made pursuant thereto, the Company shall not be required to issue or deliver any certificate or certificates for Shares under the Plan prior to fulfillment of all of the following conditions: (i) listing or approval for listing upon notice of issuance, of such Shares on the Applicable Exchange; (ii) any registration or other qualification

of such Shares of the Company under any state or federal law or regulation, or the maintaining in effect of any such registration or other qualification which the Committee shall, in its absolute discretion upon the advice of counsel, deem necessary or advisable; and (iii) obtaining any other consent, approval, or permit from any state or federal governmental agency which the Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.

(b) Additional Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Subsidiary or Affiliate from adopting other or additional compensation arrangements for its employees.

(c) No Contract of Employment. The Plan shall not constitute a contract of employment, and adoption of the Plan shall not confer upon any employee any right to continued employment, nor shall it interfere in any way with the right of the Company or any Subsidiary or Affiliate to terminate the employment of any employee at any time.

(d) Required Taxes. No later than the date as of which an amount first becomes includible in the gross income of a Participant for federal, state, local or foreign income or employment or other tax purposes with respect to any Award under the Plan, such Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. If determined by the Company, withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to such Participant. The Committee may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with Common Stock.

(e) Limitation on Dividend Reinvestment and Dividend Equivalents. Reinvestment of dividends in additional Restricted Stock at the time of any dividend payment, and the payment of Shares with respect to dividends to Participants holding Awards of Restricted Stock Units, shall only be permissible if sufficient Shares are available under Section 3 for such reinvestment or payment (taking into account then outstanding Awards). In the event that sufficient Shares are not available for such reinvestment or payment, such reinvestment or payment shall be made in the form of a grant of Restricted Stock Units equal in number to the Shares that would have been obtained by such payment or reinvestment, the terms of which Restricted Stock Units shall provide for settlement in cash and for dividend equivalent reinvestment in further Restricted Stock Units on the terms contemplated by this Section 14(e).

(f) Designation of Death Beneficiary. The Committee shall establish such procedures as it deems appropriate for a Participant to designate a beneficiary to whom any amounts payable in the event of such Participant's death are to be paid or by whom any rights of such eligible Individual, after such Participant's death, may be exercised.

(g) Subsidiary Employees. In the case of a grant of an Award to any employee of a Subsidiary of the Company, the Company may, if the Committee so directs, issue or transfer the Shares, if any, covered by the Award to the Subsidiary, for such lawful consideration as the Committee may specify, upon the condition or understanding that the Subsidiary will transfer the Shares to the employee in accordance with the terms of the Award specified by the Committee pursuant to the provisions of the Plan. All Shares underlying Awards that are forfeited or canceled should revert to the Company.

(h) Governing Law and Interpretation. The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Plan are not part of the provisions hereof and shall have no force or effect.

(i) Non-Transferability. Except as otherwise provided in Section 5(j) or by the Committee, Awards under the Plan are not transferable except by will or by laws of descent and distribution.

(j) Foreign Employees and Foreign Law Considerations. The Committee may grant Awards to Eligible Individuals who are foreign nationals, who are located outside the United States or who are not compensated from a payroll maintained in the United States, or who are otherwise subject to (or could cause the Company to be subject to) legal or regulatory provisions of countries or jurisdictions outside the United States, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes, the Committee may make such modifications, amendments, procedures, or subplans as may be necessary or advisable to comply with such legal or regulatory provisions.

(k) Section 409A of the Code. It is the intention of the Company that no Award shall be “deferred compensation” subject to Section 409A of the Code, unless and to the extent that the Committee specifically determines otherwise as provided in this Section 14(k), and the Plan and the terms and conditions of all Awards shall be interpreted accordingly. The terms and conditions governing any Awards that the Committee determines will be subject to Section 409A of the Code, including any rules for elective or mandatory deferral of the delivery of cash or Shares pursuant thereto and any rules regarding treatment of such Awards in the event of a Change in Control, shall be set forth in the applicable Award Agreement, and shall comply in all respects with Section 409A of the Code. Notwithstanding any other provision of the Plan to the contrary, with respect to any Award that constitutes a “nonqualified deferred compensation plan” subject to Section 409A of the Code, any payments (whether in cash, Shares or other property) to be made with respect to the Award upon the Participant’s Termination of Employment shall be delayed until the earlier of (A) the first day of the seventh month following the Participant’s Termination of Employment if the Participant is a “specified employee” within the meaning of Section 409A of the Code, and (B) the Participant’s death.

(l) Employee Matters Agreement. Notwithstanding anything in this Plan to the contrary, to the extent that the terms of this Plan are inconsistent with the terms of an Adjusted Award, the terms of the Adjusted Award shall be governed by the Employee Matters Agreement, the applicable IAC Long-Term Incentive Plan and the award agreement entered into thereunder.

HSN, Inc.

Amended and Restated Deferred Compensation Plan for Non-Employee Directors

1. Purpose. The purpose of the HSN, Inc. Amended and Restated Deferred Compensation Plan for Non-Employee Directors (the "Plan") is to provide non-employee directors of HSN, Inc. (or any successor thereto) (the "Company") with an opportunity to defer Director Fees (as defined in paragraph 4(b) below).

2. Effective Date. The Plan became effective August 20, 2008, and was amended and restated, pursuant to Section 13 of the Plan, effective December 22, 2008.

3. Eligibility. Any member of the Board of Directors (the "Board") of the Company who is not an employee of the Company or of any subsidiary or affiliate of the Company is eligible to participate in the Plan.

4. Election to Defer Compensation.

(a) Time of Eligibility. An election to defer Director Fees by a newly elected director shall be made by such director within the 30-day period following his or her election to the Board, which election shall apply only to Director Fees earned for services performed *after* the date of such election. A director who has either (i) not previously elected to defer Director Fees or (ii) discontinued (or wishes to modify) a prior election to defer Director Fees may elect to defer Director Fees (or modify an existing deferral election) by giving written notice to the Company on or prior to November 1 of each year (or such other date as may be determined from time to time by the Secretary of the Company in accordance with paragraph 10 of the Plan and in compliance with applicable law). Any such election shall only apply to Director Fees earned for services performed during the calendar year *following* such written notice. The effectiveness of a given election shall continue until the participant's Separation from Service, as defined in Section 14 of the Plan, or until the end of the calendar year during which the director gives the Company written notice of its discontinuance or modification, whichever shall occur first. Any notice of discontinuance or modification shall operate prospectively from the first day of the calendar year following the receipt of such written notice by the Secretary of the Company, and Director Fees payable during any subsequent calendar year shall either be paid (absent any timely future deferral election) or deferred in accordance with the terms of the discontinuance or modified election, as applicable; *provided, however*, that Director Fees theretofore deferred shall continue to be withheld and shall be paid in accordance with the notice of election pursuant to which they were withheld. All written notices regarding deferral elections and/or the discontinuance or modification of prior deferral elections shall be made on a form prescribed by the Company.

(b) Amount of Deferral. A participant may elect to defer receipt of all or a specified portion of the cash fees receivable by such participant for services performed as a director of the Company (which amounts shall include fees for services as a member of one or more Committee(s) of the Board and meeting attendance fees, if any (among other fees), as and if applicable from time to time) that are otherwise payable to the director in cash (the "Director Fees").

(c) Manner of Electing Deferral. A participant shall elect to defer Director Fees by giving written notice to the Company in a form prescribed by the Company. Such notice shall include:

(i) the percentage or amount of Director Fees to be deferred (the “Deferred Fees”);

(ii) the allocation of the Deferred Fees between the “Cash Fund” or “Share Units,” and

(iii) in the case of a participant’s initial election only, an election of a lump-sum payment or of a number of annual installments (not to exceed five) for the payment of the Deferred Fees (plus the amounts (if any) credited under Section 5), with such lump-sum payment or the first installment payment occurring on the later of (A) the calendar year following the calendar year in which the participant’s Separation from Service occurs (but not earlier than January 15th of such year) or (B) the first day of the seventh month following the date on which the participant’s Separation from Service occurs (and otherwise in compliance with applicable law), with any successive annual installment payments to be made not earlier than January 15th of each such year. Any payment election made by a participant in connection with his or her initial election to participate in the Plan shall apply to all Deferred Fees, whether covered by the initial deferral election or a subsequent deferral election; *provided, however*, that this paragraph 4(c)(iii) shall not preclude subsequent modifications to the payment election described immediately above that are made in connection with a participant’s Separation from Service and in compliance with paragraph (d) below.

(d) Manner of Amending Deferral. A participant may change his or her payment election in accordance with the following requirements:

(i) Subject to clauses (ii) and (iii) of this paragraph (d), such election may not take effect until the twelve (12) month anniversary of the date the election is made and filed with the Secretary of the Company using a form prescribed by the Company;

(ii) Such lump-sum payment or the first installment payment shall not be made less than five (5) years after the date that the participant’s Deferred Fees (plus the amounts (if any) credited under Section 5) would have been paid pursuant to paragraph (c)(iii) above (or such later year if a prior modification was made pursuant to this paragraph); and

(iii) Any new election shall not be effective unless made at least twelve (12) months prior to the year in which the payment of the Deferred Fees (plus the amounts (if any) credited under Section 5) would otherwise commence.

5. Deferred Compensation Account. The Company shall establish a book-entry account for each participant to record the participant's Deferred Fees (the "Account").

(a) For Deferred Fees allocated by the participant to the Cash Fund:

(i) at the time the Director Fees would otherwise have been payable, the Account will be credited with the amount of the Deferred Fees, receipt of which the participant has elected to defer, and

(ii) at the end of each calendar year or terminal portion of a year, the Account will be credited with deemed interest, at an annual rate equivalent to the weighted average prime or base lending rate of JP Morgan Chase Bank (including any successor thereto or such other financial institution that may be selected from time to time by the Secretary of the Company in accordance with paragraph 10 of the Plan and in accordance with applicable law) for the relevant year or portion thereof (the "Interest Equivalents"), upon the average daily balance in the Account during such year or portion thereof.

(b) For Deferred Fees allocated by the participant to Share Units:

(i) at the time the Director Fees would otherwise have been payable, (A) the Account will be credited with the amount of the Deferred Fees, receipt of which the participant has elected to defer and (B) such amount of Deferred Fees shall be converted on such date in book entry to a number of "Share Units" (computed to the nearest 1/1000 of a share) equal to the number of shares of common stock, par value \$.01 per share ("Common Stock"), of the Company that theoretically could have been purchased on such date with such amount of Deferred Fees, using the closing price for the Common Stock on such date (or, if such date is not a trading day, on the next preceding trading day) on The Nasdaq Stock Market's National Market System ("Nasdaq") or, if the Common Stock is not then listed or quoted on Nasdaq, the principal stock exchange on which the Common Stock is then traded;

(ii) on each date on which a dividend is paid on the Common Stock, the Account will be credited with the number of Share Units (computed to the nearest 1/1000 of a share) which theoretically could have been purchased with the amount of dividends payable on the number of shares of Common Stock equal to the number of Share Units in the participant's Account immediately prior to the payment of such dividend; the number of additional Share Units shall be calculated as in paragraph 5(b)(i) above, provided that, with respect to dividends paid in kind, the amount of such dividend shall be determined based on the fair market value of such dividend on the date of the dividend distribution (which, if such

dividend is a security that is then traded on a stock exchange, the fair market value of such security shall be the closing price on such date of the security on the principal stock exchange on which the security is then traded (or, if such date is not a trading day, on the next trading day); and

(iii) on the date of the occurrence of any event described in paragraph 7(d) below, the Account will be credited with the number of Shares Units necessary for an equitable adjustment, which adjustment shall be determined in accordance with paragraphs 7(d) and 10 of the Plan and in accordance with applicable law.

(c) Unless otherwise determined by the Secretary of the Company in accordance with paragraph 10 of the Plan and in accordance with applicable law, Deferred Fees shall be payable (and related amounts credited to participant Accounts) on a quarterly basis. Each payment shall be classified as a "separate payment" under Section 409A of the Code.

6. Value of Deferred Compensation Accounts. The value of each participant's Account on any date shall consist of (a) in the case of the Cash Fund, the sum of the Deferred Fees credited in accordance with paragraph 5 above and the Interest Equivalents credited through such date, if any, and (b) in the case of the Share Units, the market value of the corresponding number of shares of Common Stock on such date, determined using the closing price for the Common Stock on such date (or, if such date is not a trading day, on the next preceding trading day) on Nasdaq, or if the Common Stock is not then listed or quoted on Nasdaq, the principal stock exchange on which the Common Stock is then traded. A participant's Account shall be credited with Interest Equivalents or additional Share Units, if any, as applicable for so long as there is an outstanding balance credited to the Participant's Account.

7. Payment of Deferred Compensation. No payment shall be made from a participant's Account except as follows:

(a) The balance of Deferred Fees and Interest Equivalents in a participant's Account credited to the Cash Fund shall be paid in cash in the manner elected in accordance with the provisions of paragraph 4(c) above. If annual installments are elected, the amount of the first payment shall be a fraction of the balance in the participant's Account as of the December 31 of the year preceding such payment, the numerator of which is one and the denominator of which is the total number of annual installments elected. The amount of each subsequent payment shall be a fraction of the balance in the participant's Account as of December 31 of the year preceding each subsequent payment, the numerator of which is one and the denominator of which is the total number of installments elected minus the number of installments previously paid. Each payment pursuant to this paragraph 7(a) shall include Interest Equivalents, but only on the amount being paid, from the preceding December 31 to the date of payment.

(b) The balance in a participant's Account credited to Share Units shall be paid in the number of actual shares of Common Stock equal to the whole number of Share Units in the participant's Account. If annual installments are elected, the whole

number of shares of Common Stock in the first payment shall be a fraction of the number of Share Units in the participant's Account as of December 31 of the year preceding such payment, the numerator of which is one and the denominator of which is the total number of annual installments elected. The whole number of shares of Common Stock in each subsequent payment shall be a fraction of the Share Units in the participant's Account as of December 31 of the year preceding each subsequent payment, the numerator of which is one and the denominator of which is the total number of installments elected minus the number of installments previously paid. If annual installments are elected, cash payments in lieu of fractional shares of Common Stock issuable in respect of fractional Share Units, if applicable, shall be made with the last payment.

(c) Notwithstanding the election of the participant pursuant to paragraph 4(c), in the event of a participant's death, failure to comply with ethics or "conflict of interest" laws in accordance with Treasury Regulation Section 1.409A-3(j)(4)(iii) (a "Conflict Event"), or Disability, as defined in Section 14 of the Plan, the balance in the participant's Account (in the case of the Cash Fund, including Interest Equivalents in relation to the elapsed portion of a year in which the participant's death, Disability or Conflict Event occurs, if any) shall be determined as of such date of death, Conflict Event or Disability, and such balance shall be paid in one lump-sum payment in cash in the case of the Cash Fund or in actual shares of Common Stock in the case of Share Units to the participant or the participant's estate, as the case may be, as soon as reasonably practicable thereafter (and otherwise in compliance with applicable law) but in no event later than the later of the last day of such calendar year in which the death, Conflict Event or Disability occurred or ninety (90) days following the occurrence of the death, Conflict Event or Disability.

(d) In the event of any merger, consolidation, acquisition of property or shares, stock rights offering, liquidation, disaffiliation, or similar event affecting the Company or any of its subsidiaries, the Board or the Compensation and Human Resources Committee (or such other Committee as the Board may from time to time designate) (the "Committee") may make such equitable substitutions or adjustments in the aggregate number of Share Units in a participant's Account, in the form or type of property represented by such Share Units and in the number and kind of shares reserved for issuance as the Board or the Committee deems appropriate. In the event of a stock dividend, stock split, reverse stock split, separation, spinoff, reorganization, extraordinary dividend of cash or other property, share combination, or recapitalization or similar event affecting the capital structure of the Company, the Committee or the Board shall make such substitutions or adjustments as it deems appropriate and equitable to the aggregate number of Share Units in a participant's Account, in the form or type of property represented by such Share Units and in the number and kind of shares reserved for issuance. Any successor corporation or other acquirer of the Company shall be required to assume the Company's obligations hereunder and substitute an appropriate number of shares of stock or other equity measure of such successor entity for Share Units.

8. Participant's Rights Unsecured. The right of a participant to receive any unpaid portion of the participant's Account, whether the Cash Fund or Share Units, shall be an unsecured claim against the general assets of the Company.

9. Nonassignability. The right of a participant to receive any unpaid portion of the participant's Account shall not be assigned, transferred, pledged or encumbered or be subject in any manner to alienation or anticipation.

10. Administration. This Plan shall be administered by the Secretary of the Company, who shall have the authority to adopt rules and regulations for carrying out the Plan and to interpret, construe and implement the provisions thereof.

11. Stock Subject to Plan. The total number of Share Units that may be credited to the Accounts of all eligible directors, and the total number of shares of Common Stock reserved and available for issuance, under the Plan shall be 100,000.

12. Conditions Upon Issuance of Common Stock. Shares of Common Stock shall not be issued pursuant to the Plan unless the issuance and delivery of such shares pursuant hereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares of Common Stock may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

13. Amendment and Termination. This Plan may be amended, modified or terminated at any time by the Committee or the Board *provided, however*, that no such amendment, modification or termination shall, without the consent of a participant, adversely affect such participant's rights with respect to amounts theretofore accrued to the participant's Account and any amendment or termination of the Plan shall be effected in accordance with the requirements of Section 409A of the Code.

14. Section 409A of the Code.

(a) The terms and conditions of the Plan are intended to comply (and shall be interpreted in accordance) with Section 409A of the Code and the regulations thereunder.

(b) For purposes of this Plan, "Separation from Service" shall mean a "separation from service" as defined in Section 409A of the Code.

(c) No action shall be taken under the Plan that will cause any Account to fail to comply in any respect with Section 409A of the Code without the written consent of the participant.

(d) Any adjustments to Share Units and/or cash payments made pursuant to paragraph 7(d) shall be made (i) in compliance with the requirements of Section 409A of the Code and (ii) in such a manner as to ensure that after such adjustment and/or cash payment, the Share Units or Deferred Fees to be paid comply with the requirements of Section 409A of the Code.

(e) Notwithstanding any other provision of this Plan to the contrary, if the participant is a Specified Employee at the time of his or her Separation from Service, any payment to be made to a participant upon his or her Separation from Service shall be delayed until the earlier of (i) the first day of the seventh month following his or her Separation from Service, or (ii) death. For purposes of this Plan, "Specified Employee" shall mean any participant who is a "key employee" (as defined in Code Section 416(i) without regard to paragraph (5) thereof), as determined by the Company in accordance with its uniform policy with respect to all arrangements subject to Code Section 409A, based upon the twelve (12) month period ending on each December 31st. All participants who are determined to be key employees under Code Section 416(i)(1(A)(i), (ii) or (iii) (without regard to paragraph (5) thereof) on December 31st shall be treated as Specified Employees for purposes of the Plan during the twelve (12) month period that begins on the following April 1st.

(f) For purposes of this Plan, "Disability" shall mean a disability within the meaning of Section 409A of the Code.

AMENDMENT TO EMPLOYMENT AGREEMENT

This AMENDMENT TO EMPLOYMENT AGREEMENT ("Amendment") is entered into by and between Mark Ethier ("Employee") and HSN, Inc., a Delaware corporation (the "Company"), and is effective as of December 31, 2008 (the "Effective Date").

WHEREAS, Employee and the Company previously entered into an Employment Agreement dated as of December 1, 2004 and a First Amendment to Employment Agreement on July 9, 2007 between Employee and HSN General Partner LLC (collectively the "Employment Agreement"); and

WHEREAS, Employee and the Company now wish to amend that Employment Agreement with this Amendment.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Employee and the Company have agreed and do hereby agree as follows:

1. Capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Employment Agreement.

2. The following section shall be added as Section 7A of the Employment Agreement:

7A. SECTION 409A OF THE INTERNAL REVENUE CODE. This Agreement is not intended to constitute a "nonqualified deferred compensation plan" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the rules and regulations issued thereunder ("Section 409A"), except as provided in Section 1(g) of the Standard Terms and Conditions. It is intended that the amounts payable under this Agreement and the Company's and Executive's exercise of authority or discretion hereunder shall comply with and avoid the imputation of any tax, penalty or interest under Section 409A of the Code. This Agreement shall be construed and interpreted consistent with that intent. In no event shall the Company be required to pay Employee any "gross up" or other payment with respect to any taxes or penalties imposed under Section 409A with respect to any benefit paid to Employee hereunder.

3. Sections 1(d) (e) and (f) of the Standard Terms and Conditions attached to the Employment Agreement and incorporated therein shall be amended and restated to read as follows:

(d) TERMINATION BY THE COMPANY OTHER THAN FOR DEATH, DISABILITY OR CAUSE If Employee's employment is terminated by the Company for any reason other than Employee's death or Disability or for Cause, then

(i) the Company shall pay Employee the Base Salary through the end of the Term over the course of the then remaining Term; and (ii) the Company shall pay Employee any Accrued Obligations (as defined in paragraph 1(f) below) in accordance with the terms of the plans, programs or arrangements under which such obligations arose. The payment to Employee of the severance benefits described in this Section 1(d) shall be subject to Employee's execution and non-revocation of a general release of the Company and its affiliates in a form substantially similar to that used for similarly situated executives of the Company and its affiliates. Such release shall be furnished to Employee as soon as practical following the termination of employment, and shall be executed and promptly returned to the Company (and in no event later than 21 days following Executive's termination of employment, or such longer period as may be required by applicable law). All amounts of severance that would otherwise have been paid to Employee prior to the date upon which the revocation period provided for in such release shall be paid to Employee in a lump sum, without interest, as soon as practical after such revocation period expires, but not later than March 15 of the year following the year in which employment is terminated.

- (e) MITIGATION; OFFSET. In the event of termination of Employee's employment prior to the end of the Term, Employee shall use reasonable best efforts to seek other employment and to take other reasonable actions to mitigate the amounts payable under Section 1 hereof. If Employee obtains other employment during the Term, all future amounts payable by the Company to Employee during the remainder of the Term shall be offset by the amount earned by Employee from another employer. For purposes of this Section 1(e), Employee shall have an obligation to inform the Company regarding Employee's employment status following termination and during the period encompassing the Term.
- (f) ACCRUED OBLIGATIONS. As used in this Agreement, "Accrued Obligations" shall mean the sum of any compensation previously earned but deferred by Employee (together with any interest or earnings thereon) under any plan, program or arrangements of the Company that has not been paid.

4. The following subsection (g) shall be added to Section 1. of the Standard Terms and Conditions:

- (g) SECTION 409A. In order to satisfy the requirements of Section 409A, the following provisions shall apply:
- (i) Each payment to Employee of a portion of the Employee's Base Salary following his or termination of employment (a "Severance Payment") pursuant to paragraph 1(d) shall be treated as a separate payment for purposes of Section 409A.
- (ii) The Severance Payments that are considered payments of deferred compensation subject to 409A ("Section 409A Payments") shall consist only of those Severance Payments that are either (A) both (x) paid after March 15 of the

year following the year in which Employee's employment is terminated and (y) exceed, on a cumulative basis and including only amounts paid after such March 15, two times the lesser of the limitation in effect under Section 410(a)(17) of the Code for the year that includes the termination of employment (the "Termination Year") or the Base Salary in effect at the end of the last year prior to the Termination Year, or, (B) are paid after the end of the second year following the termination year. For purposes of the limitation in subparagraph (A)(y), only Severance Payments paid after the total of all Severance Payments exceed such limitation on a cumulative basis shall be considered Section 409A Payments (including the portion of the Severance Payment that causes the total amount of Severance Payments to exceed such limitation).

- (iii) No Section 409A Payment shall be accelerated, or otherwise paid to Employee at any time other than as provided above, and no amount shall be paid to Employee in lieu of any Section 409A Payment, whether pursuant to an amendment to this Agreement, any separation agreement, or otherwise, except as permitted by Section 409A. No Section 409A Payment shall be paid until Employee has a separation from service as defined in Section 409A or, if the Employee is a "specified employee" as defined in Section 409A, six (6) months after Employee's separation from service.

5. Section 3 of the Standard Terms and Conditions attached to the Employment Agreement shall be amended and restated to read as follows:

3. TERMINATION OF PRIOR AGREEMENTS. This Agreement constitutes the entire agreement between the parties and terminates and supersedes any and all prior agreements and understandings (whether written or oral) between the parties with respect to the subject matter of this Agreement, including but not limited to, the Employment Agreement between Employee and HSN General Partner LLC with an effective date of December 1, 2004 and a First Amendment to Employment Agreement on July 9, 2007. Employee acknowledges and agrees that neither the Company nor anyone acting on its behalf has made, and is not making, and in executing this Agreement, the Employee has not relied upon, any representations, promises or inducements except to the extent the same is expressly set forth in this Agreement. Employee hereby represents and warrants that by entering into this Agreement, Employee will not rescind or otherwise breach an employment agreement with Employee's current employer prior to the natural expiration date of such agreement

6. The Employment Agreement is reaffirmed and ratified in all respects, except as expressly provided herein. In the event of any conflict between the terms or provisions of this Amendment and the Employment Agreement, then this Amendment shall prevail in all respects. Otherwise, the provisions of the Employment Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and delivered by its duly authorized officer, and Employee has executed and delivered this Agreement on January , 2009.

HSN, INC

By: /s/ Lisa Letizio

Lisa Letizio

EVP Human Resources

/s/ Mark Ethier

Mark Ethier

FORM OF STOCK APPRECIATION RIGHT AGREEMENT

THIS STOCK APPRECIATION RIGHT AGREEMENT (this “Agreement”), dated as of «date» is between HSN, Inc., a Delaware corporation (the “Corporation”), and «grantee» (the “Grantee”).

1. Award and Vesting of SARs

(a) Subject to the terms, definitions, and provisions of this Agreement and the Company’s Amended and Restated 2008 Stock and Annual Incentive Plan (the “Plan”), the Corporation hereby grants to the Grantee as of the Award Date a stock appreciation right with respect to the total number of shares of common stock, par value \$0.01 per share (“Common Stock”), and at the exercise price per share set forth in the Summary of Award (the “SARs”). Reference is also made to the “Summary of Award” that was delivered simultaneously with this Agreement and can be found on the Smith Barney Benefit Access System at www.benefitaccess.com. Your Summary of Award, which sets forth the Award Date, the number of SARs granted to you by the Corporation and the exercise price for such SARs (among other information), is hereby incorporated by reference to, and shall be read as part and parcel of, this Agreement. Any defined terms not defined in this Agreement or the Summary of Award shall have the meaning ascribed to it in the Plan.

(b) Subject to the terms and conditions of this Agreement and the provisions of the Plan, the SARs shall vest and no longer be subject to any restriction in accordance with the Vesting Period described in the Summary of Award.

(c) Notwithstanding the provisions of Section 1(b) and except as provided in Section 5 of this Agreement, in the event of termination of the Grantee’s service with the Corporation during the Vesting Period for any reason, all remaining unvested SARs shall be forfeited by the Grantee and canceled in their entirety effective immediately upon such termination.

(d) Unless earlier terminated pursuant to the terms of this Agreement or the Plan, the SARs will expire on the tenth anniversary of the Award Date.

(e) Nothing in this Agreement shall confer upon the Grantee any right to continue in the employ or service of the Corporation or any of its affiliates or interfere in any way with the right of the Corporation or any such Affiliates to terminate the Grantee’s service at any time, with or without cause.

2. Exercise

(a) The vested portion of the SARs shall be exercisable by delivery to the Corporation of a written notice stating the number of whole shares of Common Stock in respect of which this SAR is being exercised. The SARs may not be exercised at any one time as to fewer than 100 shares (or such number of shares as to which the SARs are then exercisable if less than 100). Fractional share interests shall be disregarded except they may be accumulated.

(b) Upon exercise of this SAR pursuant to this Section 2, Grantee will receive a payment equal to the difference between the aggregate Fair Market Value of the shares of Common Stock with respect to which this SAR is exercised and determined as of the exercise date and the aggregate Exercise Price. Payment shall be made, in the sole discretion of the Company, in either cash or shares of Common Stock (either in book-entry form or otherwise), and shall be net of any amounts required to satisfy the Company's withholding obligations. Any fractional share due to Grantee upon exercise shall be rounded up to the next full share of Common Stock.

3. Non-Transferability of the SARs

During the Vesting Period and until such time as the SARs are ultimately settled as provided in Section 2 above, the SARs shall not be transferable by the Grantee by means of sale, assignment, exchange, encumbrance, pledge, hedge or otherwise.

4. Rights as a Stockholder

Except as otherwise specifically provided in this Agreement until the SARs are exercised and only to the extent the Grantee receives and owns shares of Common Stock, the Grantee shall not be entitled to any rights of a stockholder with respect to the SARs. Notwithstanding the foregoing, if the Corporation declares and pays dividends on the Common Stock during the Vesting Period, the Grantee will be credited with additional amounts for each SAR equal to the dividend that would have been paid with respect to such SAR if it had been an actual share of Common Stock, which amount shall remain subject to restrictions (and as determined by the Committee may be reinvested in SARs or may be held in kind as restricted property) and shall vest concurrently with the vesting of the SARs upon which such dividend equivalent amounts were paid. Notwithstanding the foregoing, dividends and distributions other than regular quarterly cash dividends, if any, may result in an adjustment pursuant to Section 5.

5. Adjustment in the Event of Change in Stock; Change in Control

(a) In the event of any change in corporate capitalization (including, but not limited to, a change in the number of shares of Common Stock outstanding), such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Corporation (including any extraordinary cash or stock dividend), any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Corporation, the number of SARs and the shares underlying such SARs shall be equitably adjusted by the Committee (including, in its discretion, providing for other property to be held as restricted property) as it may deem appropriate in its sole discretion. The determination of the Committee regarding any such adjustment will be final and conclusive.

(b) With respect to the awards evidenced by this Agreement, subject to paragraph (e) of Section 10 of the Plan, notwithstanding any provision of the Plan to the contrary, upon Grantee's Termination of Employment, during the one-year period following a Change in Control, by the Company for other than Cause or Disability or by the Grantee for Good Reason:

(i) any SARs outstanding as of such date of Termination of Employment which were outstanding as of the date of such Change in Control shall be fully exercisable and vested and shall remain exercisable until the later of (i) the last date on which such SAR would be exercisable in the absence of this Section 5(b) and (ii) the earlier of (A) the first anniversary of such Change in Control and (B) the expiration of the term of the SARs.

(ii) the restrictions and deferral limitations applicable to any SARs shall lapse, and such SAR outstanding as of such date of Termination of Employment which were outstanding as of the date of such Change in Control shall become free of all restrictions and become fully vested and transferable.

6. Payment of Transfer Taxes, Fees and Other Expenses

The Corporation agrees to pay any and all original issue taxes and stock transfer taxes that may be imposed on the issuance of shares received by an Grantee in connection with the SARs, together with any and all other fees and expenses necessarily incurred by the Corporation in connection therewith.

7. Other Restrictions

(a) The SARs shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, then in any such event, the award of SARs shall not be effective unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The Grantee acknowledges that the Grantee is subject to the Corporation's policies regarding compliance with securities laws, including but not limited to its Securities Trading Policy (as in effect from time to time and any successor policies), and, pursuant to these policies, if the Grantee is on the Corporation's insider list, the Grantee shall be required to obtain pre-clearance from the Corporation's General Counsel prior to purchasing or selling any of the Corporation's securities, including any shares issued upon vesting of the SARs, and may be prohibited from selling such shares other than during an open trading window. The Grantee further acknowledges that, in its discretion, the Corporation may prohibit the Grantee from selling such shares even during an open trading window if the Corporation has concerns over the potential for insider trading.

8. Notices

All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by facsimile, overnight courier, or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Grantee: at the address last provided by the Grantee to the Corporation's Human Resources Department.

If to the Corporation:

HSN, Inc.
1 HSN Drive
St. Petersburg, FL 33729
Attention: General Counsel
Facsimile: (727) 872-1000

or to such other address or facsimile number as any party shall have furnished to the other in writing in accordance with this Section 8. Notice and communications shall be effective when actually received by the addressee. Notwithstanding the foregoing, the Grantee consents to electronic delivery of documents required to be delivered by the Corporation under the securities laws.

9. Effect of Agreement

Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Corporation.

10. Laws Applicable to Construction; Consent to Jurisdiction

The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware without reference to principles of conflict of laws, as applied to contracts executed in and performed wholly within the State of Delaware. In addition to the terms and conditions set forth in this Agreement and the Summary of Award, the SARs are subject to the terms and conditions of the Plan, which are hereby incorporated by reference.

Any and all disputes arising under or out of this Agreement, including without limitation any issues involving the enforcement or interpretation of any of the provisions of this Agreement, shall be resolved by the commencement of an appropriate action in the state or federal courts located within the State of Delaware, which shall be the exclusive jurisdiction for the resolution of any such disputes. The Grantee hereby agrees and consents to the personal jurisdiction of said courts over the Grantee for purposes of the resolution of any and all such disputes.

11. Severability

The invalidity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

12. Conflicts and Interpretation

In the event of any conflict between this Agreement and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan.

In the event of any (i) conflict between the Summary of Award (or any other information posted on the Smith Barney Benefit Access System) and this Agreement, the Plan and/or the books and records of the Corporation, or (ii) ambiguity in the Summary of Award (or any other information posted on the Smith Barney Benefit Access System), this Agreement, the Plan and/or the books and records of the Corporation, as applicable, shall control.

13. Amendment

The Corporation may modify, amend or waive the terms of the SAR award, prospectively or retroactively, but no such modification, amendment or waiver shall impair the rights of the Grantee without his or her consent, except as required by applicable law, NASDAQ or stock exchange rules, tax rules or accounting rules. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

14. Headings

The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.

15. Counterparts

This Agreement may be executed in counterparts, which together shall constitute one and the same original.

16. Data Protection

The Grantee authorizes the release from time to time to the Corporation (and any of its subsidiaries or affiliated companies) and to the Agent (together, the "Relevant Companies") of any and all personal or professional data that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). Without limiting the above, Grantee permits his or her employing company to collect, process, register and transfer to the Relevant Companies all Relevant Information (including any professional and personal data that may be useful or necessary for the purposes of the administration of the Plan and/or this Agreement and/or to implement or structure any further grants of equity awards (if any)). Grantee hereby authorizes the Relevant Information to be transferred to any jurisdiction in which the Corporation, his or her employing company or the Agent considers appropriate. Grantee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

IN WITNESS WHEREOF, as of the date first above written, the Corporation has caused this Agreement to be executed on its behalf by a duly authorized officer. Electronic acceptance of this Agreement pursuant to the Corporation's instructions to Grantee (including through an online acceptance process managed by the Agent) is acceptable.

HSN, INC.

By: _____
Lisa Letizio
Executive Vice President –
Human Resources

FORM OF STOCK OPTION AGREEMENT

THIS STOCK OPTION AGREEMENT (this “Agreement”), dated as of «award date» is between HSN, Inc., a Delaware corporation (the “Corporation”), and «grantee» (the “Grantee”).

1. Award and Vesting of Stock Options

(a) Subject to the terms, definitions and provisions of this Agreement and the Company’s Amended and Restated 2008 Stock and Annual Incentive Plan (the “Plan”), the Corporation hereby grants to the Grantee as of the Award Date options to purchase the number of shares of common stock, par value \$0.01 per share (“Common Stock”), set forth on the Summary of Award, at the exercise price per share set forth in the Summary of Award (the “Stock Options”). Reference is also made to the “Summary of Award” that was delivered simultaneously with this Agreement and that can be found on the Smith Barney Benefit Access System at www.benefitaccess.com. Your Summary of Award, which sets forth the Award Date, the number of Stock Options granted to you by the Corporation and the exercise price for such Stock Options (among other information), is hereby incorporated by reference to, and shall be read as part and parcel of, this Agreement. Any defined terms not defined in the Agreement or the Summary of Award shall have the same meaning ascribed to it in the Plan.

(b) Subject to the terms and conditions of this Agreement and the provisions of the Plan, the Stock Options shall vest and no longer be subject to any restriction in accordance with the Vesting Period described in the Summary of Award.

(c) Notwithstanding the provisions of Section 1(b) and except as provided in Section 5 of this Agreement, in the event of termination of the Grantee’s service with the Corporation during the Vesting Period for any reason, all remaining unvested Stock Options shall be forfeited by the Grantee and canceled in their entirety effective immediately upon such termination.

(d) Unless earlier terminated pursuant to the terms of this Agreement or the Plan, the Stock Options will expire on the tenth anniversary of the Award Date.

(e) Nothing in this Agreement shall confer upon the Grantee any right to continue in the employ or service of the Corporation or any of its affiliates or interfere in any way with the right of the Corporation or any such Affiliates to terminate the Grantee’s service at any time, with or without cause.

2. Method of Exercise

(a) The vested portion of the Stock Options shall be exercisable by delivery to the Corporation of a written notice stating the number of whole shares to be purchased pursuant to this Agreement and accompanied by payment of the full purchase price of the shares of Common Stock to be purchased. The Stock Options may not be exercised at any one time as to fewer than 100 shares (or such number of shares as to which the Stock Options are then exercisable if less than 100). Fractional share interests shall be disregarded except they may be accumulated.

(b) The exercise price of the Stock Options shall be paid: (i) in cash or by certified check or bank draft payable to the order of the Corporation; (ii) by exchange (or attestation) of shares of unrestricted Common Stock already owned by the Optionee and having an aggregate Fair Market Value equal to the aggregate purchase price, provided, that the Optionee represents and warrants to the Corporation that the Optionee holds the shares of Common Stock free and clear of liens and encumbrances; (iii) unless the Committee determines otherwise, by withholding a number of shares of Common Stock having a Fair Market Value equal to the aggregate purchase price; or (iv) by any other procedure approved by the Committee, or by a combination of the foregoing.

3. Non-Transferability of the Stock Options

During the Vesting Period and until such time as the Stock Options are ultimately exercised as provided in Section 2 above, the Stock Options shall not be transferable by the Grantee by means of sale, assignment, exchange, encumbrance, pledge, hedge or otherwise.

4. Rights as a Stockholder

Except as otherwise specifically provided in this Agreement, until the Stock Options are exercised the Grantee shall not be entitled to any rights of a stockholder with respect to the Stock Options. Notwithstanding the foregoing, if the Corporation declares and pays dividends on the Common Stock during the Vesting Period, the Grantee will be credited with additional amounts for each Stock Option equal to the dividend that would have been paid with respect to such Stock Option if it had been an actual share of Common Stock, which amount shall remain subject to restrictions (and as determined by the Committee may be reinvested in Stock Options or may be held in kind as restricted property) and shall vest concurrently with the vesting of the Stock Options upon which such dividend equivalent amounts were paid. Notwithstanding the foregoing, dividends and distributions other than regular quarterly cash dividends, if any, may result in an adjustment pursuant to Section 5.

5. Adjustment in the Event of Change in Stock; Change in Control

(a) In the event of any change in corporate capitalization (including, but not limited to, a change in the number of shares of Common Stock outstanding), such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Corporation (including any extraordinary cash or stock dividend), any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Corporation, the number of Stock Options and the shares underlying such Stock Options shall be equitably adjusted by the Committee (including, in its discretion, providing for other property to be held as restricted property) as it may deem appropriate in its sole discretion. The determination of the Committee regarding any such adjustment will be final and conclusive.

(b) With respect to the awards evidenced by this Agreement, subject to paragraph (e) of Section 10 of the Plan, notwithstanding any provision of the Plan to the contrary, upon Grantee's Termination of Employment, during the one-year period following a Change in Control, by the Company for other than Cause or Disability or by the Grantee for Good Reason:

(i) any Stock Options outstanding as of such date of Termination of Employment which were outstanding as of the date of such Change in Control shall be fully exercisable and vested and shall remain exercisable until the later of (i) the last date on which such Stock Option would be exercisable in the absence of this Section 5(b) and (ii) the earlier of (A) the first anniversary of such Change in Control and (B) the expiration of the term of the Options; and

(ii) the restrictions and deferral limitations applicable to any Stock Option shall lapse, and such Stock Option outstanding as of such date of Termination of Employment which were outstanding as of the date of such Change in Control shall become free of all restrictions and become fully vested and exercisable.

6. Payment of Transfer Taxes, Fees and Other Expenses

The Corporation agrees to pay any and all original issue taxes and stock transfer taxes that may be imposed on the issuance of shares received by an Grantee in connection with the Stock Options, together with any and all other fees and expenses necessarily incurred by the Corporation in connection therewith.

7. Other Restrictions

(a) The Stock Options shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, then in any such event, the award of Stock Options shall not be effective unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The Grantee acknowledges that the Grantee is subject to the Corporation's policies regarding compliance with securities laws, including but not limited to its Securities Trading Policy (as in effect from time to time and any successor policies), and, pursuant to these policies, if the Grantee is on the Corporation's insider list, the Grantee shall be required to obtain pre-clearance from the Corporation's General Counsel prior to purchasing or selling any of the Corporation's securities, including any shares issued upon vesting of the Stock Options, and may be prohibited from selling such shares other than during an open trading window. The Grantee further acknowledges that, in its discretion, the Corporation may prohibit the Grantee from selling such shares even during an open trading window if the Corporation has concerns over the potential for insider trading.

8. Notices

All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by facsimile, overnight courier, or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Grantee: at the address last provided by the Grantee to the Corporation's Human Resources Department.

If to the Corporation:

HSN, Inc.
1 HSN Drive
St. Petersburg, FL 33729
Attention: General Counsel
Facsimile: (727) 872-1000

or to such other address or facsimile number as any party shall have furnished to the other in writing in accordance with this Section 8. Notice and communications shall be effective when actually received by the addressee. Notwithstanding the foregoing, the Grantee consents to electronic delivery of documents required to be delivered by the Corporation under the securities laws.

9. Effect of Agreement

Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Corporation.

10. Laws Applicable to Construction; Consent to Jurisdiction

The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware without reference to principles of conflict of laws, as applied to contracts executed in and performed wholly within the State of Delaware. In addition to the terms and conditions set forth in this Agreement and the Summary of Award, the Stock Options are subject to the terms and conditions of the Plan, which are hereby incorporated by reference.

Any and all disputes arising under or out of this Agreement, including without limitation any issues involving the enforcement or interpretation of any of the provisions of this Agreement, shall be resolved by the commencement of an appropriate action in the state or federal courts located within the State of Delaware, which shall be the exclusive jurisdiction for the resolution of any such disputes. The Grantee hereby agrees and consents to the personal jurisdiction of said courts over the Grantee for purposes of the resolution of any and all such disputes.

11. Severability

The invalidity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

12. Conflicts and Interpretation

In the event of any conflict between this Agreement and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan.

In the event of any (i) conflict between the Summary of Award (or any other information posted on the Smith Barney Benefit Access System) and this Agreement, the Plan and/or the books and records of the Corporation, or (ii) ambiguity in the Summary of Award (or any other information posted on the Smith Barney Benefit Access System), this Agreement, the Plan and/or the books and records of the Corporation, as applicable, shall control.

13. Amendment

The Corporation may modify, amend or waive the terms of the Stock Option award, prospectively or retroactively, but no such modification, amendment or waiver shall impair the rights of the Grantee without his or her consent, except as required by applicable law, NASDAQ or stock exchange rules, tax rules or accounting rules. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

14. Headings

The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.

15. Counterparts

This Agreement may be executed in counterparts, which together shall constitute one and the same original.

16. Data Protection

The Grantee authorizes the release from time to time to the Corporation (and any of its subsidiaries or affiliated companies) and to the Agent (together, the "Relevant Companies") of any and all personal or professional data that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). Without limiting the above, Grantee permits his or her employing company to collect, process, register and transfer to the Relevant Companies all Relevant Information (including any professional and personal data that may be useful or necessary for the purposes of the administration of the Plan and/or this Agreement and/or to implement or structure any further grants of equity awards (if any)). Grantee hereby authorizes the Relevant

Information to be transferred to any jurisdiction in which the Corporation, his or her employing company or the Agent considers appropriate. Grantee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

IN WITNESS WHEREOF, as of the date first above written, the Corporation has caused this Agreement to be executed on its behalf by a duly authorized officer. Electronic acceptance of this Agreement pursuant to the Corporation's instructions to Grantee (including through an online acceptance process managed by the Agent) is acceptable.

HSN, INC.

By: _____
Lisa Letizio
Executive Vice President –
Human Resources

FORM OF RESTRICTED STOCK UNIT AGREEMENT

THIS RESTRICTED STOCK UNIT AGREEMENT (this “Agreement”), dated as of «date» is between HSN, Inc., a Delaware corporation (the “Corporation”), and «grantee» (the “Grantee”).

1. Award and Vesting of RSUs

(a) Subject to the terms, definitions and provisions of this Agreement and the Company’s Amended and Restated 2008 Stock and Annual Incentive Plan (the “Plan”), the Corporation hereby grants to the Grantee restricted stock units set forth in the Summary of Award (the “RSUs”). Reference is made to the “Summary of Award” that was delivered simultaneously with this Agreement and that can be found on the Smith Barney Benefit Access System at www.benefitaccess.com. Your Summary of Award, which sets forth the number of RSUs granted to you by the Corporation and the Award Date (among other information), is hereby incorporated by reference to, and shall be read as part and parcel of, this Agreement. Any defined terms not defined in this Agreement or the Summary of Award shall have the meaning ascribed to it in the Plan.

(b) Subject to the terms and conditions of this Agreement and the provisions of the Plan, the RSUs shall vest and no longer be subject to any restriction in accordance with the Vesting Period described in the Summary of Award.

(c) Notwithstanding the provisions of Section 1(b) and except as provided in Section 5 of this Agreement, in the event of termination of the Grantee’s service with the Corporation during the Vesting Period for any reason, all remaining unvested RSUs shall be forfeited by the Grantee and canceled in their entirety effective immediately upon such termination.

(d) Nothing in this Agreement shall confer upon the Grantee any right to continue in the employ or service of the Corporation or any of its affiliates or interfere in any way with the right of the Corporation or any such Affiliates to terminate the Grantee’s service at any time, with or without cause.

2. Settlement of RSUs

As soon as practicable after any RSUs have vested and are no longer subject to the Vesting Period, such RSUs shall be settled. Subject to Section 14(d) of the Plan (pertaining to the withholding of taxes), for each RSU settled pursuant to this Section 2, the Corporation shall (i) if the Grantee is employed within the United States, issue (either in book-entry form or otherwise) one share of Common Stock for each RSU vesting at such time and cause to be delivered to the Grantee one or more unlegended, freely-transferable stock certificates in respect of such shares issued upon settlement of the vesting RSUs or (ii) if the Grantee is employed outside the United States, pay, or cause to be paid, to the Grantee an amount of cash equal to the Fair Market Value of one share of Common Stock for each RSU vesting at such time. Notwithstanding the foregoing, the Corporation shall be entitled to hold the shares or cash issuable upon settlement of RSUs that have vested until the Corporation or the agent selected by the Corporation to manage

the Plan under which the RSUs have been issued (the "Agent") shall have received from the Grantee a duly executed Form W-9 or W-8, as applicable.

3. Non-Transferability of the RSUs

During the Vesting Period and until such time as the RSUs are ultimately settled as provided in Section 2 above, the RSUs shall not be transferable by the Grantee by means of sale, assignment, exchange, encumbrance, pledge, hedge or otherwise.

4. Rights as a Stockholder

Except as otherwise specifically provided in this Agreement, the Grantee shall not be entitled to any rights of a stockholder with respect to the RSUs. Notwithstanding the foregoing, if the Corporation declares and pays dividends on the Common Stock during the Vesting Period, the Grantee will be credited with additional amounts for each RSU equal to the dividend that would have been paid with respect to such RSU if it had been an actual share of Common Stock, which amount shall remain subject to restrictions (and as determined by the Committee may be reinvested in RSUs or may be held in kind as restricted property) and shall vest concurrently with the vesting of the RSUs upon which such dividend equivalent amounts were paid. Notwithstanding the foregoing, dividends and distributions other than regular quarterly cash dividends, if any, may result in an adjustment pursuant to Section 5.

5. Adjustment in the Event of Change in Stock; Change in Control

(a) In the event of any change in corporate capitalization (including, but not limited to, a change in the number of shares of Common Stock outstanding), such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Corporation (including any extraordinary cash or stock dividend), any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Corporation, the number of RSUs and the shares underlying such RSUs shall be equitably adjusted by the Committee (including, in its discretion, providing for other property to be held as restricted property) as it may deem appropriate in its sole discretion. The determination of the Committee regarding any such adjustment will be final and conclusive.

(b) With respect to the awards evidenced by this Agreement, subject to paragraph (e) of Section 10 of the Plan, notwithstanding any provision of the Plan to the contrary, upon Grantee's Termination of Employment, during the one-year period following a Change in Control, by the Company for other than Cause or Disability or by the Grantee for Good Reason:

(i) any RSUs outstanding as of such date of Termination of Employment which were outstanding as of the date of such Change in Control shall be fully exercisable and vested and shall remain exercisable until the later of (i) the last date on which such RSU would be exercisable in the absence of this Section 5(b) and (ii) the first anniversary of such Change in Control;

(ii) the restrictions and deferral limitations applicable to any RSU shall lapse, and such RSU outstanding as of such date of Termination of Employment which were outstanding as of the date of such Change in Control shall become free of all restrictions and become fully vested and transferable; and

(iii) all RSUs outstanding as of such date of Termination of Employment which were outstanding as of the date of such Change in Control shall be considered to be earned and payable in full, and any restrictions shall lapse and such RSUs shall be settled as promptly as is practicable in the form set forth in this Agreement and the Plan.

6. Payment of Transfer Taxes, Fees and Other Expenses

The Corporation agrees to pay any and all original issue taxes and stock transfer taxes that may be imposed on the issuance of shares received by an Grantee in connection with the RSUs, together with any and all other fees and expenses necessarily incurred by the Corporation in connection therewith.

7. Other Restrictions

(a) The RSUs shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, then in any such event, the award of RSUs shall not be effective unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The Grantee acknowledges that the Grantee is subject to the Corporation's policies regarding compliance with securities laws, including but not limited to its Securities Trading Policy (as in effect from time to time and any successor policies), and, pursuant to these policies, if the Grantee is on the Corporation's insider list, the Grantee shall be required to obtain pre-clearance from the Corporation's General Counsel prior to purchasing or selling any of the Corporation's securities, including any shares issued upon vesting of the RSUs, and may be prohibited from selling such shares other than during an open trading window. The Grantee further acknowledges that, in its discretion, the Corporation may prohibit the Grantee from selling such shares even during an open trading window if the Corporation has concerns over the potential for insider trading.

8. Notices

All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by facsimile, overnight courier, or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Grantee: at the address last provided by the Grantee to the Corporation's Human Resources Department.

If to the Corporation:

HSN, Inc.
1 HSN Drive
St. Petersburg, FL 33729
Attention: General Counsel
Facsimile: (727) 872-1000

or to such other address or facsimile number as any party shall have furnished to the other in writing in accordance with this Section 8. Notice and communications shall be effective when actually received by the addressee. Notwithstanding the foregoing, the Grantee consents to electronic delivery of documents required to be delivered by the Corporation under the securities laws.

9. Effect of Agreement

Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Corporation.

10. Laws Applicable to Construction; Consent to Jurisdiction

The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware without reference to principles of conflict of laws, as applied to contracts executed in and performed wholly within the State of Delaware. In addition to the terms and conditions set forth in this Agreement and the Summary of Award, the RSUs are subject to the terms and conditions of the Plan, which are hereby incorporated by reference.

Any and all disputes arising under or out of this Agreement, including without limitation any issues involving the enforcement or interpretation of any of the provisions of this Agreement, shall be resolved by the commencement of an appropriate action in the state or federal courts located within the State of Delaware, which shall be the exclusive jurisdiction for the resolution of any such disputes. The Grantee hereby agrees and consents to the personal jurisdiction of said courts over the Grantee for purposes of the resolution of any and all such disputes.

11. Severability

The invalidity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

12. Conflicts and Interpretation

In the event of any conflict between this Agreement and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan.

In the event of any (i) conflict between the Summary of Award (or any other information posted on the Smith Barney Benefit Access System) and this Agreement, the Plan and/or the books and records of the Corporation, or (ii) ambiguity in the Summary of Award (or any other information posted on the Smith Barney Benefit Access System), this Agreement, the Plan and/or the books and records of the Corporation, as applicable, shall control.

13. Amendment

The Corporation may modify, amend or waive the terms of the RSU award, prospectively or retroactively, but no such modification, amendment or waiver shall impair the rights of the Grantee without his or her consent, except as required by applicable law, NASDAQ or stock exchange rules, tax rules or accounting rules. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

14. Headings

The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.

15. Counterparts

This Agreement may be executed in counterparts, which together shall constitute one and the same original.

16. Data Protection

The Grantee authorizes the release from time to time to the Corporation (and any of its subsidiaries or affiliated companies) and to the Agent (together, the "Relevant Companies") of any and all personal or professional data that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). Without limiting the above, Grantee permits his or her employing company to collect, process, register and transfer to the Relevant Companies all Relevant Information (including any professional and personal data that may be useful or necessary for the purposes of the administration of the Plan and/or this Agreement and/or to implement or structure any further grants of equity awards (if any)). Grantee hereby authorizes the Relevant Information to be transferred to any jurisdiction in which the Corporation, his or her employing company or the Agent considers appropriate. Grantee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

IN WITNESS WHEREOF, as of the date first above written, the Corporation has caused this Agreement to be executed on its behalf by a duly authorized officer. Electronic acceptance of this Agreement pursuant to the Corporation's instructions to Grantee (including through an online acceptance process managed by the Agent) is acceptable.

HSN, INC.

By: _____
Lisa Letizio
Executive Vice President –
Human Resources

FORM OF RESTRICTED STOCK UNIT AGREEMENT

THIS RESTRICTED STOCK UNIT AGREEMENT (this “Agreement”), dated as of «date» (the “Award Date”) is between HSN, Inc., a Delaware corporation (the “Corporation”), and «grantee» (the “Grantee”).

1. Award and Vesting of RSUs

(a) Subject to the terms, definitions and provisions of this Agreement and the Company’s Amended and Restated 2008 Stock and Annual Incentive Plan (the “Plan”), the Corporation hereby grants to the Grantee «number» restricted stock units (the “RSUs”). Any defined terms not defined in this Agreement shall have the meaning ascribed to it in the Plan.

(b) Subject to the terms and conditions of this Agreement and the provisions of the Plan, the RSUs shall vest and no longer be subject to any restriction in two equal annual installments commencing on the first anniversary of the Award Date (the “Vesting Period”).

(c) Notwithstanding the provisions of Section 1(b) and except as provided in Section 5 of this Agreement, in the event of termination of the Grantee’s service with the Corporation during the Vesting Period for any reason, all remaining unvested RSUs shall be forfeited by the Grantee and canceled in their entirety effective immediately upon such termination.

(d) Nothing in this Agreement shall confer upon the Grantee any right to continue in the service of the Corporation or any of its affiliates or interfere in any way with the right of the Corporation or any such Affiliates to terminate the Grantee’s service at any time, with or without cause.

2. Settlement of RSUs

As soon as practicable after any RSUs have vested and are no longer subject to the Vesting Period, such RSUs shall be settled. Subject to Section 14(d) of the Plan (pertaining to the withholding of taxes), for each RSU settled pursuant to this Section 2, the Corporation shall issue (either in book-entry form or otherwise) one share of Common Stock for each RSU vesting at such time and cause to be delivered to the Grantee one or more unlegended, freely-transferable stock certificates in respect of such shares issued upon settlement of the vesting RSUs. Notwithstanding the foregoing, the Corporation shall be entitled to hold the shares or cash issuable upon settlement of RSUs that have vested until the Corporation or the agent selected by the Corporation to manage the Plan under which the RSUs have been issued (the “Agent”) shall have received from the Grantee a duly executed Form W-9 or W-8, as applicable.

3. Non-Transferability of the RSUs

During the Vesting Period and until such time as the RSUs are ultimately settled as provided in Section 2 above, the RSUs shall not be transferable by the Grantee by means of sale, assignment, exchange, encumbrance, pledge, hedge or otherwise.

4. Rights as a Stockholder

Except as otherwise specifically provided in this Agreement, during the Vesting Period the Grantee shall not be entitled to any rights of a stockholder with respect to the RSUs. Notwithstanding the foregoing, if the Corporation declares and pays dividends on the Common Stock during the Vesting Period, the Grantee will be credited with additional amounts for each RSU equal to the dividend that would have been paid with respect to such RSU if it had been an actual share of Common Stock, which amount shall remain subject to restrictions (and as determined by the Committee may be reinvested in RSUs or may be held in kind as restricted property) and shall vest concurrently with the vesting of the RSUs upon which such dividend equivalent amounts were paid. Notwithstanding the foregoing, dividends and distributions other than regular quarterly cash dividends, if any, may result in an adjustment pursuant to Section 5.

5. Adjustment in the Event of Change in Stock; Change in Control

(a) In the event of any change in corporate capitalization (including, but not limited to, a change in the number of shares of Common Stock outstanding), such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Corporation (including any extraordinary cash or stock dividend), any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Corporation, the number of RSUs and the shares underlying such RSUs shall be equitably adjusted by the Committee (including, in its discretion, providing for other property to be held as restricted property) as it may deem appropriate in its sole discretion. The determination of the Committee regarding any such adjustment will be final and conclusive.

(b) With respect to the awards evidenced by this Agreement, subject to paragraph (e) of Section 10 of the Plan, notwithstanding any provision of the Plan to the contrary, upon Grantee's termination of service as a Director of the Corporation, during the one-year period following a Change in Control, by the Company for other than Cause or Disability or by the Grantee for Good Reason:

(i) any RSUs outstanding as of such date of termination of service which were outstanding as of the date of such Change in Control shall be fully exercisable and vested and shall remain exercisable until the later of (i) the last date on which such RSU would be exercisable in the absence of this Section 5(b) and (ii) the first anniversary of such Change in Control;

(ii) the restrictions and deferral limitations applicable to any RSU shall lapse, and such RSU outstanding as of such date of termination which were outstanding as of the date of such Change in Control shall become free of all restrictions and become fully vested and transferable; and

(iii) all RSUs outstanding as of such date of termination which were outstanding as of the date of such Change in Control shall be considered to be earned and payable in full, and any restrictions shall lapse and such RSUs shall be settled as promptly as is practicable in the form set forth in this Agreement and the Plan.

6. Payment of Transfer Taxes, Fees and Other Expenses

The Corporation agrees to pay any and all original issue taxes and stock transfer taxes that may be imposed on the issuance of shares received by an Grantee in connection with the RSUs, together with any and all other fees and expenses necessarily incurred by the Corporation in connection therewith.

7. Other Restrictions

(a) The RSUs shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, then in any such event, the award of RSUs shall not be effective unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The Grantee acknowledges that the Grantee is subject to the Corporation's policies regarding compliance with securities laws, including but not limited to its Securities Trading Policy (as in effect from time to time and any successor policies), and, pursuant to these policies, if the Grantee is on the Corporation's insider list, the Grantee shall be required to obtain pre-clearance from the Corporation's General Counsel prior to purchasing or selling any of the Corporation's securities, including any shares issued upon vesting of the RSUs, and may be prohibited from selling such shares other than during an open trading window. The Grantee further acknowledges that, in its discretion, the Corporation may prohibit the Grantee from selling such shares even during an open trading window if the Corporation has concerns over the potential for insider trading.

8. Notices

All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by facsimile, overnight courier, or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Grantee: at the address last provided by the Grantee to the Corporation.

If to the Corporation:

HSN, Inc.
1 HSN Drive
St. Petersburg, FL 33729
Attention: General Counsel
Facsimile: (727) 872-1000

or to such other address or facsimile number as any party shall have furnished to the other in writing in accordance with this Section 8. Notice and communications shall be effective when actually received by the addressee. Notwithstanding the foregoing, the Grantee consents to electronic delivery of documents required to be delivered by the Corporation under the securities laws.

9. Effect of Agreement

Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Corporation.

10. Laws Applicable to Construction; Consent to Jurisdiction

The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware without reference to principles of conflict of laws, as applied to contracts executed in and performed wholly within the State of Delaware. In addition to the terms and conditions set forth in this Agreement, the RSUs are subject to the terms and conditions of the Plan, which are hereby incorporated by reference.

Any and all disputes arising under or out of this Agreement, including without limitation any issues involving the enforcement or interpretation of any of the provisions of this Agreement, shall be resolved by the commencement of an appropriate action in the state or federal courts located within the State of Delaware, which shall be the exclusive jurisdiction for the resolution of any such disputes. The Grantee hereby agrees and consents to the personal jurisdiction of said courts over the Grantee for purposes of the resolution of any and all such disputes.

11. Severability

The invalidity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

12. Conflicts and Interpretation

In the event of any conflict between this Agreement and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan.

13. Amendment

The Corporation may modify, amend or waive the terms of the RSU award, prospectively or retroactively, but no such modification, amendment or waiver shall impair the rights of the Grantee without his or her consent, except as required by applicable law, NASDAQ or stock exchange rules, tax rules or accounting rules. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

14. Headings

The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.

15. Counterparts

This Agreement may be executed in counterparts, which together shall constitute one and the same original.

16. Data Protection

The Grantee authorizes the release from time to time to the Corporation (and any of its subsidiaries or affiliated companies) and to the Agent (together, the “Relevant Companies”) of any and all personal or professional data that is necessary or desirable for the administration of the Plan and/or this Agreement (the “Relevant Information”). Without limiting the above, Grantee permits his or her employing company to collect, process, register and transfer to the Relevant Companies all Relevant Information (including any professional and personal data that may be useful or necessary for the purposes of the administration of the Plan and/or this Agreement and/or to implement or structure any further grants of equity awards (if any)). Grantee hereby authorizes the Relevant Information to be transferred to any jurisdiction in which the Corporation, his or her employing company or the Agent considers appropriate. Grantee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

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

HSN, INC.

By: _____
James P. Warner, Executive Vice President

«grantee»

HSN, Inc.

Computation of Ratio of Earnings to Fixed Charges

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(unaudited)				
	(In thousands, except ratios)				
(Loss) income from continuing operations before income taxes	\$ (3,118,251)	\$ 169,787	\$ 212,742	\$ 193,387	\$ 132,309
Fixed charges:					
Interest expense (a)	16,420	—	—	992	—
Estimated interest portion of rental expense	8,382	9,669	9,471	8,283	3,494
Total fixed charges	24,802	9,669	9,471	9,275	3,494
(Loss) income from continuing operations before income taxes and fixed charges	(3,093,449)	179,456	222,213	202,662	135,803
Ratio of earnings to fixed charges	(b)	18.56	23.46	21.85	38.87

Note: The Ratio of Earnings to Fixed Charges should be read in conjunction with the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K.

- (a) Includes interest on debt and amortization of debt issuance costs. Excludes interest income and interest associated with unrecognized tax benefit liabilities, which is recorded within income tax expense.
- (b) Income for the year ended December 31, 2008 was inadequate to cover fixed charges. Additional income of \$3.1 billion would have been necessary to bring the respective ratio to 1.0.



HUMAN RESOURCES POLICY

Policy Topic: Code of Business Conduct and Ethics

Effective Date: 8/12/08

INTRODUCTION:

This Code of Business Conduct and Ethics (“Code of Ethics” or “Code”) reflects the commitment of HSN, Inc. (“HSNi” or the “Company”) to conduct its business affairs in accordance with not only the requirements of law but also standards of ethical conduct that will maintain and foster the Company’s reputation for honest and straightforward business dealings. The standards in this Code may be further explained or implemented through policy memoranda. If a law conflicts with a policy in this Code, you must comply with the law. This Code and related memoranda are available on the Intranet.

PURPOSE:

Every employee of the Company is subject to and must abide by this Code of Ethics. References in this Code to employees of the Company include members of the Company’s Board of Directors (the “Board”) as well as the officers of the Company. All such persons are hereinafter referred to as “covered persons”.

Those who violate the standards in this Code may be subject to disciplinary action, up to and including termination.

For questions relating to conflicts of interest, whether you can accept certain gifts or favors from vendors/business partners or the proper handling of samples, you are strongly encouraged to consult with your business leader, your Human Resources Business Partner or any member of the Ethics Review Committee. The contact information for the Ethics Committee is – Ethicscommittee@hsn.net.

Anyone who learns of information indicating a violation in relation to the Company’s disclosure, accounting and financial reporting, as discussed further below in Section 5, shall immediately report the facts to the Company’s General Counsel in the Legal Department via one of the following methods: (a) dedicated hotline at 866-254-0302 (which can be anonymous); (b) online at www.Openboard.info/hsni/index/; or (c) email at HSNi@Openboard.info.

POLICY:

1. Honest, Lawful and Ethical Conduct

The conduct of covered persons in performing their duties on behalf of the Company must in all situations, as to all matters and at all times, be honest, lawful and in accordance with high ethical and professional standards.

In addition, the conduct of all covered persons must at all times be respectful of the rights of others and, in keeping with their duty of loyalty to the Company, must at all times be in the best interests of the Company.

The requirement of honest, lawful, and ethical conduct is broad and therefore must be stated in general terms. As such, this Code does not cover every issue that may arise, but instead sets out basic principles to guide all employees of the Company.

2. Conflicts of Interest

Employees, officers and directors owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises. A “conflict of interest” exists when a person’s personal or private interest improperly interferes with the interests of the Company. A conflict situation can arise when an employee, officer or director takes actions or has interests that may make it difficult to perform his or her work for the Company objectively and effectively. Conflicts of interest may also arise when any such covered person, or



HUMAN RESOURCES POLICY

Policy Topic: Code of Business Conduct and Ethics

Effective Date: 8/12/08

any member of his or her family, receives improper personal benefits as a result of his or her position in the Company. As a result, you may not have a financial interest, position or relationship with any person or entity that does business with the Company that would influence, or be regarded as influencing your actions for the Company. This applies to spouses, children or any relative residing in your home, as well as close personal relationships.

Simultaneous Employment

The Company respects the privacy of its employees and their right to engage in outside activities that do not conflict with the interests of, do not interfere with the performance of their duties on behalf of, and do not reflect poorly on the Company. The Company nonetheless has the right and obligation to determine whether conflicts of interest exist and to take appropriate action to address them.

It is almost always a conflict of interest for a covered person to work simultaneously for a competitor, customer or vendor/business partner. The best policy is to avoid any material business connection with our customers, vendors/business partners or competitors, except when acting on the Company's behalf. Additionally, you may not accept employment with any other company that would interfere with your full-time employment with the Company and/or impact your effective performance as an employee of the Company.

Before engaging in any material transaction or relationship that reasonably could give rise to an actual or apparent conflict of interest, each covered person must provide full and fair disclosure of all relevant facts and circumstances to, and receive the approval of, in the case of a Board member or executive officer, the Board or a committee thereof or, in the case of any other covered person, the Ethics Review Committee. Further, you are obligated to correct any existing conflicts of interest promptly. In addition, if a covered person's spouse or other close family member works for a firm that does business with or competes against the Company, the Ethics Review Committee should be advised of the situation in writing. Conflicts of interest may not always be clear cut, so if you have a question, you should consult with your business leader, your Human Resources Business Partner or the Ethics Review Committee.

3. Compliance with Laws, Rules and Regulations

Complying with the law is the foundation on which the Company's ethical standards are built. It is the Company's policy to be a good "corporate citizen". All covered persons must comply with applicable governmental laws, rules and regulations. Reasons such as "everyone does it" are unacceptable excuses for violating this requirement of the Code.

Although not all covered persons are expected to know the details of these laws, it is important to know enough to determine when to seek advice from supervisors/managers, Human Resources, the Ethics Review Committee or other appropriate personnel. Any suspected or actual violation of any applicable law, rule or regulation should be reported immediately to your business leader, your Human Resources Business Partner or any member of the Ethics Review Committee.

4. Insider Trading

Covered persons who, as a result of their employment at or other association with the Company, are in possession of material, non-public information about any publicly traded corporation, including the Company, may not engage in transactions in the securities of such corporations and should not share such information with anyone who might engage in such transactions. To do so is not only unethical but also illegal and could expose you to civil and criminal penalties.



HUMAN RESOURCES POLICY

Policy Topic: Code of Business Conduct and Ethics

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Please read and familiarize yourself with the “HSNi Securities Trading Policy”.

5. Disclosure, Financial Reporting, and Accounting

The Company is committed to providing full, fair, accurate, timely and understandable disclosure in all reports and documents filed with or submitted to the Securities and Exchange Commission (“SEC”) and in all other public communications made by the Company. All of the Company’s books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the Company’s transactions and must conform both to applicable legal requirements and to the Company’s system of internal controls. Unrecorded or “off the books” funds or assets should not be maintained unless permitted by applicable law or regulation and brought to the attention of the Company’s controller.

Any covered person of the Company who learns of any material information affecting or potentially affecting the accuracy or adequacy of the disclosures made by the Company in its SEC filings or other public statements shall bring the matter promptly to the attention of a member of the HSNi Disclosure Committee (the “Disclosure Committee”). The Disclosure Committee consists of the General Counsel of the Company, the Chief Financial Officer of the Company and such other employees of the Company as may be designated from time to time.

Senior management of the Company shall report financial results in a way that enables the Company to fairly present the consolidated financial position and the consolidated results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States, applied on a consistent basis.

Any covered person who learns of any information concerning (i) significant deficiencies or material weaknesses in the design or operation of internal controls which could adversely affect the Company’s ability to record, process, summarize and report financial data accurately, or (ii) any fraud, whether or not material, involving management or other employees who have a significant role in the Company’s financial reporting, disclosures or internal controls, shall bring the matter promptly to the attention of a member of the Disclosure Committee.

Upon receipt of any such information, the Disclosure Committee shall investigate the matter, consult with senior management as warranted, confer with the Audit Committee of the Board of Directors if appropriate, and ensure that any necessary corrective action is taken.

See Employee Complaint Procedures for Accounting and Auditing Matters for related information on this topic.

6. Confidentiality

Covered persons must maintain the confidentiality of confidential information entrusted to them by the Company or its customers or vendors/business partners, except when disclosure is authorized by the Legal Department of your business, required by laws or regulations or ordinary and necessary in the course of carrying out your responsibilities as an employee, officer or director of the Company. Confidential information includes all non-public information that might be of use to competitors, or harmful to the Company or its customers or suppliers, if disclosed. It also includes information that suppliers and customers have entrusted to us. The obligation to preserve confidential information continues even after employment ends.

7. Waivers of the Code of Business Conduct and Ethics

Any waiver of this Code for executive officers or directors of the Company may be made only by the Board of Directors or a properly authorized Board committee and will be promptly disclosed to shareholders along with reasons for such waiver as required by law or NASDAQ regulation.

8. Compliance Procedures

We must all work to ensure prompt and consistent action in response to violations of this Code. However, in some situations it is difficult to know right from wrong. Since we cannot anticipate every situation that will arise, it is important that we have a way to approach a new question or problem. These are the steps to keep in mind:

- *Make sure you have all the facts.* In order to reach the right solutions, we must be as fully informed as possible.
- *Ask yourself: What specifically am I being asked to do?* Does it seem unethical or improper? This will enable you to focus on the specific question you are faced with, and the alternatives you have. Use your judgment and common sense; if something seems unethical or improper, it probably is.
- *Clarify your responsibility and role.* In most situations, there is shared responsibility. Are your colleagues informed? It may help to get others involved and discuss the problem.
- *Discuss the problem with your supervisor.* This is the basic guidance for all situations. In many cases, your supervisor will be more knowledgeable about the question, and will appreciate being brought into the decision-making process. Remember that it is your supervisor's responsibility to help solve problems.
- *Ask first, act later:* If you are unsure of what to do in any situation, seek guidance before you act.

9. Enforcement

The Company is committed to full, prompt, and fair enforcement of the provisions of this Code of Ethics.

Reporting Violations. For questions relating to this Code of Ethics (other than as to the Disclosure, Financial Reporting and Accounting provisions referenced in the next paragraph) you are strongly encouraged to consult with your business leader, your Human Resources Business Partner or any member of the Ethics Review Committee. The contact information for the Ethics Committee is – Ethicscommittee@hsn.net.

Any person who learns of information indicating that a violation in relation to the Company's obligations under the Disclosure, Financial Reporting and Accounting provision of this Code of Ethics has been or is about to be committed shall immediately report the facts to the Company's General Counsel in the Legal Department via the dedicated "hotline" number (866-254-0302); online at www.Openboard.info/hsni/index/; or email at HSNi@openboard.info. The failure to report a violation of this Code of Ethics may itself be a violation of the Code.



HUMAN RESOURCES POLICY

Policy Topic: Code of Business Conduct and Ethics

Effective Date: 8/12/08

Protection for Reporting Violations. It is prohibited, and is a violation of this Code of Ethics, for anyone associated with the Company to retaliate in any way against anyone who has reported to the Company in good faith information indicating that a violation of the Code may have occurred or may be about to occur.

Prohibited forms of retaliation include adverse employment actions (such as termination, suspension, and demotion), the creation of a hostile work environment, and any other type of reprisal for the good-faith reporting of a possible violation of this Code of Ethics.

Investigating Reports of Violations. Upon receipt of a report of a possible violation of this Code of Ethics, the General Counsel shall promptly initiate an investigation to gather the relevant facts.

- All lawful and appropriate investigative means and methods may be utilized in the conduct of the investigation.
- All covered persons shall cooperate in the investigation when called upon to do so. A failure to cooperate may itself constitute a violation of the Code.
- In conducting and monitoring investigations, the General Counsel/Legal Department shall consult and coordinate as appropriate with senior management, the Internal Audit Department, the Human Resources Department and the Audit Committee, and shall seek to ensure that the provisions of this Code of Ethics are applied and enforced consistently across the Company.

Sanctions for Violations. Appropriate disciplinary action shall be determined upon completion of the investigation, if the Company's General Counsel concludes that a violation of the Code of Ethics has been committed and disciplinary action is warranted. Any violation of this Code may result in serious sanctions by the Company, which may include dismissal, suspension without pay, loss of pay or bonus, loss of benefits, demotion or other sanctions.

Any disciplinary action to be taken against an employee shall be subject to the approval of senior management, and shall be carried out by the Human Resources Department.

HSN, Inc. Subsidiaries
March 11, 2009

Name	Jurisdiction of Organization
AST LLC	DE
AST Sub, Inc.	DE
Ballard Designs, Inc.	GA
Cinmar, Inc.	OH
Cinmar, L.P.	DE
Cornerstone Brands, Inc.	DE
Cornerstone Consolidated Services Group, Inc.	DE
Cornerstone Real Estate Company I, LLC	DE
Exception Management Services LP	DE
Garnet Hill, Inc.	NH
H.O.T. Networks Holdings (Delaware) LLC	DE
Home Shopping Network En Espanol, L.P.	DE
Home Shopping Network En Espanol, L.L.C.	DE
HSN Catalog Services, Inc.	DE
HSN Direct LLC	DE
HSN Fulfillment LLC	DE
HSN Holding Corp.	DE
HSN Improvements LLC	DE
HSN Interactive LLC	DE
HSN LP	DE
HSN of Nevada LLC	DE
HSN Realty LLC	DE
HSNAutomatic LLC	DE
Ingenious Designs LLC	DE
Shopblinds.com, Inc.	DE
Short Shopping LLC	DE
Smith & Noble, LLC	DE
The Cornerstone Brands Group, Inc.	DE
The Cornerstone Holdings Group, Inc.	DE
The Territory Ahead, Inc.	DE
TravelSmith Outfitters, Inc.	CA
United Independent, Inc.	DE
Barama S.A.	Belgium
H.O.T. Home Order Television Belgium S.A.	Belgium
Home Shopping Espanol (Mexico) S. De. R.L. De. CV	Mexico
Home Shopping Espanol Servicios (Mexico) S. De. R.L. De. CV	Mexico
Home Shopping Europe en Francais S.A	Belgium
Home Shopping Europe en het Nederlands N.V.	Dutch

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mindy Grossman, certify that:

1. I have reviewed this Annual Report on Form 10-K of HSN, Inc.;
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: March 31, 2009

By: /s/ Mindy Grossman
Mindy Grossman
Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Judy A. Schmeling, certify that:

1. I have reviewed this Annual Report on Form 10-K of HSN, Inc.;
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: March 31, 2009

By: /s/ Judy A. Schmeling
Judy A. Schmeling
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mindy Grossman, certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

(1) the Annual Report of HSNi, Inc. on Form 10-K for the fiscal year ended December 31, 2008 of HSN, Inc. (the "Report"), which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSN, Inc.

Date: March 31, 2009

By: /s/ Mindy Grossman
Mindy Grossman
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Judy A. Schmeling, certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

(1) the Annual Report of HSNi, Inc. on Form 10-K for the fiscal year ended December 31, 2008 of HSN, Inc. (the "Report"), which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSN, Inc.

Date: March 31, 2009

By: /s/ Judy A. Schmeling
Judy A. Schmeling
Chief Financial Officer