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, 2009
Commission File No. 001-34061

HSN, INC.
(Exact name of registrant as specified in its charter)

Delaware	**26-2590893**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1 HSN Drive, St. Petersburg, Florida	**33729**
(Address of principal executive offices)	**(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 whether the registrant has submitted electronically and posted on its corporate Website, if any, an Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registration was required to submit and post such files). 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 ☒

The aggregate market value of the registrant's outstanding common stock held by non-affiliates as of June 30, 2009 (the registrant's most recently completed second fiscal quarter), was $594,104,269 (based on a closing price of $10.57 per share for the registrant's common stock on the NASDAQ Global Select Market).

As of March 1, 2010, the registrant had 56,912,318 shares of common stock, $0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2010 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 the following: 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 those described under “Risk Factors,” and the following: the depth and duration of the current recession, and the continued 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 internet growth; changes in the interest rate environment and developments in the overall credit markets; HSNi’s business prospects and strategy, including whether HSNi’s initiatives will be effective; changes in our relationships with pay television operators, vendors, manufacturers and other third parties; 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 is an interactive multi-channel retailer offering retail experiences on TV, online, in catalogs and in retail and outlet stores through its two operating segments, HSN and Cornerstone. HSN is a retailer and interactive lifestyle network offering a broad assortment of products through television home shopping programming on the HSN television network and through its business-to-consumer internet commerce site HSN.com. HSN strives to transform the shopping experience by incorporating experts, entertainment, inspiration, solutions, tips and ideas in connection with the sale of products. Cornerstone comprises home and lifestyle brands, including Frontgate, Ballard Designs, Garnet Hill, Smith+Noble, The Territory Ahead, TravelSmith and Improvements. Cornerstone distributes over 200 million catalogs annually, operates seven separate internet sites and operates 23 retail and outlet 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.

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, 2009, the HSN television network reached approximately 94.4 million homes in the United States.

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

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.

HSNi was incorporated in Delaware in May 2008 in connection with the spin-off of several businesses previously owned by IAC/InterActiveCorp, or IAC. HSNi was formed to hold HSN and Cornerstone, the businesses that previously comprised most of IAC's Retailing segment and are referred to herein as the "HSNi Businesses." The spin-off from IAC occurred after the close of The NASDAQ Stock Market on August 20, 2008 and occurred concurrent with the spin-offs from IAC of Interval Leisure Group, Inc., Ticketmaster Entertainment, Inc., and Tree.com, Inc. In this Annual Report, we refer to the separation transaction as the "spin-off" and each of these companies as "Spincos." Effective August 21, 2008, HSNi's shares began trading on The NASDAQ Global Select Market under the symbol "HSNI."

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's 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. Cornerstone primarily offers 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 or someone that we retain to aid in the sale of the goods. 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 two transponders (one for the high definition feed and the other for the standard definition feed) on the same satellite. The satellite transponders are leased on a full-time basis; one satellite transponder is leased through June 2011 and the other is leased through May 2019. Each satellite transponder lease provides 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, 2009 and 2008, the HSN television network reached approximately 94.4 million and 91.9 million, respectively, of the approximately 114.9 million and 114.5 million homes, respectively, in the United States with a television set. Television households reached by the HSN television network as of December 31, 2009 and 2008 primarily include approximately 64.6 million and 63.3 million households capable of receiving cable and/or broadcast transmissions and approximately 29.8 million and 28.6 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, DirecTV, Echostar/DISH and Time Warner. 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 2009.

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.

HSN typically negotiates multi-year agreements that require HSN to pay monthly or annual fees. The weighted average overall length of the terms of the multi-year distribution and affiliation agreements in effect as of December 31, 2009 is 4.6 years. All such agreements with major pay television operators are scheduled to expire between 2010 and 2011. 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. 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. This is currently the situation with a major cable pay television operator with which an agreement expired in 2005. 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.

Broadcast Television Distribution

As of December 31, 2009, HSN also had affiliation agreements with 47 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. HSNi’s subsidiary, Ventana Television, Inc. (“Ventana”) owns 27 of the 47 low power broadcast television stations that carry the HSN network on a full-time basis.

HSN.com

HSN also includes HSN.com, a transactional internet 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 23 retail and outlet 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 2009 of more than 200 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 partners, typically under certain 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 partners 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 10% of HSNi's consolidated net sales in 2009, 2008 or 2007.

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. Also featured on HSN.com are over 12,000 video demonstrations of products available for sale.

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. Cornerstone also 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.

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 or through HSNi's common carriers, 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 and the Federal Communication Commission'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, or 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 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 our competitors and could decrease future sales.

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 identify improved proprietary technologies or inventions, 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 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, 2010, HSNi employed 4,907 full-time employees and 900 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

Our website is located at http://www.hsni.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.hsni.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

The risks and uncertainties described below are not the only risks that may have a material adverse effect on HSNi. Additional risks and uncertainties also could adversely affect our business and our results. If any of the following risks actually occur, our business, financial condition or results of operations could be negatively affected, and the market price for our shares could decline. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause the actual results of HSNi to differ materially from those expressed in any forward-looking statements made by or on behalf of HSNi.

Risks Related to Our Business

We depend on relationships with pay television operators and adverse changes in these relationships could result in an interruption, material decrease or even 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, DirecTV, Echostar/DISH and Time Warner. 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.

We typically seek to enter into long-term distribution and affiliation agreements with these major pay television operators; however, 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 agreement in place. We currently provide service to approximately 19% of our total subscribers pursuant to month-to-month contracts or contracts that have expired. In addition, another 77% of our subscribers are represented by contracts that expire within one year. Renewal and negotiation processes with pay television operators are typically lengthy. 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.

Macroeconomic conditions have negatively impacted our business and may continue to have additional negative impacts in the future.

Retailers generally are particularly sensitive to adverse 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. Beginning in 2008 and through 2009, we experienced weakness across business segments in connection with the deteriorating macroeconomic conditions. We are not able to predict the timing of any recovery. The current recessionary environment may continue through 2010. If macroeconomic conditions do not improve or 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 that we achieved prior to the recession.

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/or limit HSNi's ability to respond to business opportunities. The credit agreement relating to HSNi's credit facility and indenture with respect to the senior notes do include restrictive covenants, financial and non-financial.

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 channel placement for the HSN television network programming 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.

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 internet 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 usage grows, we may 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 experienced volatility 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 may 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 Federal Communication Commission, or 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 liability, including liability for past sales.

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.

In addition, certain states and local jurisdictions have attempted to collect sales and use tax from businesses without an obvious physical presence in that state but with customers located in that state. The successful assertion by one or more states that we should collect sales, use or other taxes on sales in states for which we do not currently collect taxes could raise substantial tax liabilities, decrease our ability to compete and otherwise harm our business.

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 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 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.

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.

Risks Related to Our Spin-Off from IAC

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 Spincos 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.

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. HSN leases the HSN fulfillment centers in Piney Flats, Tennessee, Fontana, California and Roanoke, Virginia, as well as 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 2010 through 2015. Cornerstone owns an office and storage facility in Franconia, New Hampshire. Otherwise, Cornerstone leases its properties, consisting of administrative offices, retail outlets and fulfillment centers in West Chester, Ohio, as well as 23 retail stores and outlets in various locations throughout the United States, all pursuant to leases with expiration dates ranging from 2010 to 2020.

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 arising out of our operations. These matters may relate to claims involving property, personal injury, contract, intellectual property, sales tax and other claims. At March 4, 2010, we are not a party to any legal proceedings that are reasonably expected to have a material adverse effect on our business, results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty and an unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition or cash flows.

ITEM 4. RESERVED

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 HSNI. 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 HSNi's common stock on The NASDAQ Global Select Market beginning August 12, 2008 and through December 31, 2009.

	Sales Price	
Fiscal 2009	**High**	**Low**
Fourth Quarter	$ 20.90	$ 13.99
Third Quarter	$ 16.60	$ 8.25
Second Quarter	$ 12.09	$ 4.83
First Quarter	$ 7.55	$ 3.33
Fiscal 2008		
Fourth Quarter	$ 12.49	$ 1.40
Third Quarter (beginning August 12, 2008)	$ 16.54	$ 9.55

Holders

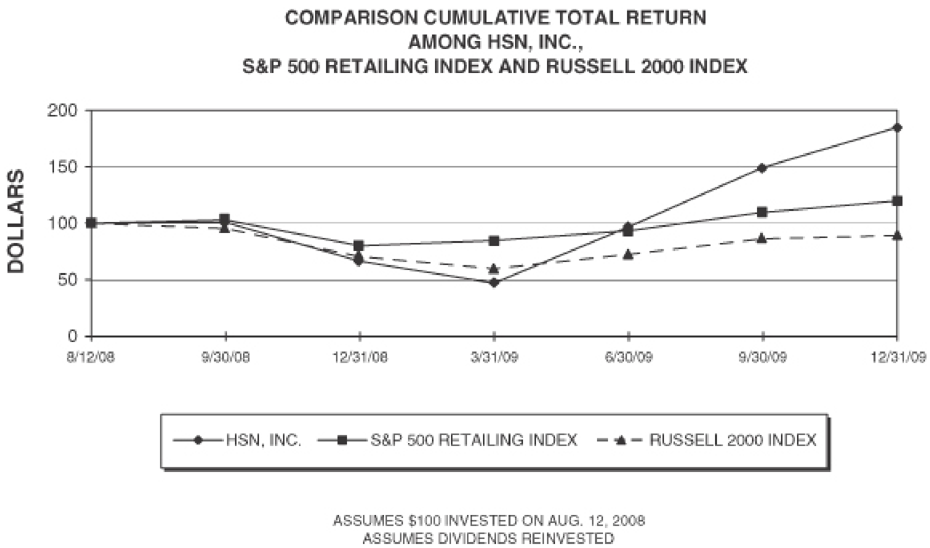
As of March 1, 2010, there were 2,049 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are not able to estimate the total number of beneficial stockholders represented by these record holders.

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.

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, 2009, the last day of our fiscal year.



	8/12/2008	9/30/2009	12/31/2008	3/31/2009	6/30/2009	9/30/2009	12/31/2009
HSN, Inc.	100.00	101.01	66.70	47.16	96.97	149.36	185.23
S&P 500 Retailing Index	100.00	103.36	80.07	84.66	93.38	109.73	119.94
Russell 2000 Index	100.00	95.36	70.45	59.92	72.31	86.25	89.60

Issuer Purchases of Equity Security

No purchases of our equity securities were made by or on behalf of us in fiscal 2009.

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 prior to the spin-off.

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

	Year Ended December 31,				
	2009	2008	2007	2006	2005 (1) (unaudited)
	(In thousands, except per share data)				
Statement of Operations Data:					
Net sales	$ 2,749,609	$ 2,823,593	$ 2,908,242	$ 2,877,954	$ 2,670,951
Asset impairments (2)	—	3,186,650	—	—	—
Operating income (loss)	155,654	(3,102,311)	169,791	213,196	195,152
Income (loss) from continuing operations	72,578	(2,387,478)	105,233	133,532	127,077
Net income (loss) (3)	72,488	(2,390,888)	164,804	122,817	223,221
Income (loss) from continuing operations per share:					
Basic	$ 1.29	$ (42.48)	$ 1.87	$ 2.38	$ 2.26
Diluted	$ 1.27	$ (42.48)	$ 1.86	$ 2.36	$ 2.24
Net income (loss) per share:					
Basic	$ 1.29	$ (42.54)	$ 2.93	$ 2.19	$ 3.97
Diluted	$ 1.26	$ (42.54)	$ 2.91	$ 2.17	$ 3.94
Shares used in computing earnings per share:					
Basic	56,383	56,208	56,206	56,206	56,206
Diluted	57,330	56,208	56,649	56,649	56,649
Dividends per common share	—	—	—	—	—
Balance Sheet Data (end of period):					
Working capital	$ 332,964	$ 306,354	$ 147,185	$ 340,592	$ 320,991
Total assets	1,218,650	1,152,457	4,220,631	4,458,167	4,527,376
Total debt, including current maturities	338,722	408,528	—	—	—
Other long-term liabilities, including deferred income taxes	90,372	96,392	828,902	846,280	845,840

(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

HSNi was incorporated in Delaware in May 2008 in connection with the spin-off of several businesses previously owned by IAC/InterActiveCorp, or IAC. The spin-off from IAC occurred after the close of The NASDAQ Stock Market on August 20, 2008 and occurred concurrent with the spin-offs from IAC of Interval Leisure Group, Inc., Ticketmaster Entertainment, Inc., and Tree.com, Inc. In this Annual Report, we refer to the separation transaction as the "spin-off" and each of these companies as "Spincos." Effective August 21, 2008, HSNi's shares began trading on The NASDAQ Global Select Market under the symbol "HSNI."

HSNi was formed to hold HSN and Cornerstone, the businesses that previously comprised most of IAC's retailing segment. 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. 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 and outlet 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 prior to the spin-off.

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; (iii) websites, which consist primarily of HSN.com and the seven branded websites operated by Cornerstone; (iv) retail stores; and (v) mobile handheld devices. HSNi's television home shopping business and related internet commerce is referred to herein as "HSN" and all catalog operations, including related internet commerce and retail stores, 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, the HSN.com website and through mobile handheld devices. 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 through its assortment of catalogs, internet sites and retail stores. Cornerstone brands consist of Frontgate, Ballard Designs, Garnet Hill, Smith+Noble, The Territory Ahead, TravelSmith and Improvements.

Products

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 an interactive 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 in 2007.

Discontinued Operations

On June 19, 2007, HSNi sold Home Shopping Europe GMbH & Co. KG, and its affiliated station HSE24 (“HSE”). Accordingly, HSE and HSNi’s other international subsidiaries are 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

During 2009, HSNi’s business was impacted by the recession. Cornerstone’s business was particularly challenged, reporting a year-over-year net sales decline of 14%; although top line sales improved during the fourth quarter with a sales decline of 2%. HSN’s net sales grew 3% during the year, supported by fourth quarter sales growth of 12%.

Throughout the recession, HSNi has taken steps to reduce the impact of the U.S. economic environment on its results in the form of cost cutting initiatives, working capital improvements and organizational changes. The benefits of several of these initiatives have been realized during 2009 and are evident in the form of lower operating costs and improved gross margins and cash flow.

Going forward, we believe that the recessionary environment will continue to impact HSNi. We believe that consumers will continue to approach discretionary spending cautiously; in particular, we believe that the unemployment rate in the U.S. will need to improve before consumers' discretionary spending increases in any significant fashion. Throughout the duration of the recession, we believe that HSNi's opportunities for sales growth will be realized through market share gains rather than an expansion of consumers' spending habits.

Therefore, we continue to rely upon our business strategies of product assortment, innovation and brand development to grow market share. Concurrently, we will continue to manage our expenses and working capital judiciously.

Results of Operations

Net Sales

	Year Ended December 31,				
	2009	% Change	2008	% Change	2007
			(Dollars in thousands)		
HSN	$2,007,897	3%	$1,956,871	3%	$1,892,582
Cornerstone	741,712	(14)%	866,722	(15)%	1,015,660
Total net sales	$2,749,609	(3)%	$2,823,593	(3)%	$2,908,242

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 to pre-established time restrictions and, in some cases, restocking fees.

HSNi net sales in 2009 decreased 3% or $74.0 million as compared to the same period in 2008 due to a 14% decline at Cornerstone, partially offset by growth of 3% at HSN. Internet sales continued to grow in 2009 representing 37.4% of HSNi net sales as compared to 35.9% in the prior year. The number of units shipped in 2009 decreased less than 1% to 50.7 million from 50.9 million, and the average price point decreased to $60.49 from $61.99 in the prior year.

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 grew 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 50.9 million from 53.3 million; however, this was offset by the 2% increase in the average price point to $61.99 as compared to the prior year.

HSN

HSN net sales increased 3% to $2.0 billion in 2009 as compared to the prior year. HSN.com net sales grew 9% and represented 30% of HSN's net sales. The growth in net sales is attributable to the 5% increase in units shipped to 38.8 million from 36.9 million, offset by the 2% decrease in average price point to $58.63 from $60.13. The decrease in the average price point is primarily a result of changes in merchandise offerings, sales of key items at lower price points and product mix. 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.

HSN net sales increased 3% to $2.0 billion in 2008 as compared to the prior year, highlighted by HSN.com net sales which increased 16% and represented 28% of HSN's net sales. HSN's 12-month active customer file increased 3% from the prior year. The increase in net sales was attributable to the increase in the average price point to $60.13 from $57.29, offset by the 2% decrease in units shipped to 36.9 million from 37.6 million. The increase in the average price point was primarily a result of a shift in product mix to the home & other division, particularly electronics, housewares, health and fitness. These merchandise categories generally carry a higher average price point than fashion and beauty merchandise offerings.

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

	Year Ended December 31,		
	2009	2008	2007
Jewelry	15.2%	16.2%	17.9%
Fashion (apparel & accessories)	11.5%	12.7%	13.4%
Health & beauty	18.5%	19.0%	19.2%
Home & other	54.8%	52.1%	49.5%
Total	100.0%	100.0%	100.0%

Cornerstone

Cornerstone's net sales for 2009 decreased 14% or $125.0 million from the prior year. The decrease was primarily the result of continued softness in consumer demand, particularly in the first half of the year, for luxury home furnishings, outdoor products and apparel. The decrease is also attributable to the 24% strategic reduction in catalog circulation. The average price point and the number of units shipped decreased less than 1% and 15%, respectively.

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.

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,				
	2009	% Change	2008	% Change	2007
			(Dollars in thousands)		
Gross profit:					
HSN	$678,717	7%	$633,186	(1)%	$ 640,915
HSN gross profit margin	33.8%	145 bp	32.4%	(151 bp)	33.9%
Cornerstone	$302,597	(14)%	$352,244	(21)%	$ 447,279
Cornerstone gross profit margin	40.8%	16 bp	40.6%	(340 bp)	44.0%
HSNi	$981,314	(0)%	$985,430	(9)%	$1,088,194
HSNi gross profit margin	35.7%	79 bp	34.9%	(252 bp)	37.4%

bp = basis points

HSN

HSN gross profit margin was 33.8% in 2009, a 145 bp increase from the prior year. The improvement in the gross profit margin was primarily attributable to improved product margins due to less promotional activity, lower procurement costs and warehouse productivity improvements. Gross profit margin also benefited from a reduction in inventory reserves due to lower aged inventory levels. Continued efforts on aligning inventory purchases with sales demand and reducing aged inventory resulted in an 11% decrease in inventory, or $24.9 million.

HSN gross profit margin was 32.4% in 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 was 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.

Cornerstone

Gross profit margin for Cornerstone was 40.8% in 2009 as compared to 40.6% in the previous year. The increase in the gross profit margin was principally due to lower shipping and fulfillment costs and improved return rates, offset slightly by promotional pricing in the first half of the year. Continued focus on cash flow resulted in a 22% or $25.1 million reduction in inventories compared to the prior year.

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.

Selling and Marketing Expense

	Year Ended December 31,				
	2009	% Change	2008	% Change	2007
			(Dollars in thousands)		
HSN	$275,296	2%	$270,016	(1)%	$272,896
As a percentage of HSN net sales	14%	(9 bp)	14%	(62 bp)	14%
Cornerstone	$232,273	(22)%	$297,289	(8)%	$323,015
As a percentage of Cornerstone net sales	31%	(298 bp)	34%	250 bp	32%
HSNi	$507,569	(11)%	$567,305	(5)%	$595,911
As a percentage of HSNi net sales	18%	(163 bp)	20%	(40 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 2009 decreased 11% or $59.7 million from 2008. This decrease is primarily due to a $54.9 million decline in catalog costs associated with a 24% planned reduction in catalog circulation. The decrease is also attributable to a $4.9 million decline in compensation and other employee-related costs in 2009 primarily due to headcount reductions at Cornerstone. These decreases within selling and marketing expense were partially offset by an increase in on-air distribution costs. The increase in on-air distribution costs was due to a $5.0 million reduction of a liability in 2008 resulting from settlement of certain key contract conditions with a vendor.

HSNi's selling and marketing expense in 2008 decreased 5% or $28.6 million from 2007. This decrease was primarily due to a $29.8 million reduction in catalog costs at Cornerstone and an $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 was primarily due to the $5.0 million adjustment to a previously recorded accrued liability discussed above, elimination of distribution costs associated with America's Store and other miscellaneous items. The increase in compensation and other employee-related costs in 2008 was primarily due to headcount additions and a $0.9 million increase in stock-based compensation expense due to the modification of existing stock-based compensation awards in connection with the spin-off.

General and Administrative Expense

	Year Ended December 31,				
	2009	% Change	2008	% Change	2007
			(Dollars in thousands)		
HSN	$159,869	1%	$158,218	12%	$141,379
As a percentage of HSN net sales	8%	(12 bp)	8%	62 bp	7%
Cornerstone	$ 62,595	0%	$ 62,426	(12)%	$ 70,576
As a percentage of Cornerstone net sales	8%	124 bp	7%	25 bp	7%
HSNi	$222,464	1%	$220,644	4%	$211,955
As a percentage of HSNi net sales	8%	28 bp	8%	53 bp	7%

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, bad debts, facilities costs and fees for professional services.

HSNi's general and administrative expense in 2009 increased less than 1% or $1.8 million compared to the prior year. The increase was driven by an increase in compensation and other employee-related costs primarily due to performance driven incentives, offset by an $8.2 million decrease in stock-based compensation expense. The decrease in stock-based compensation expense is primarily due to the charge recognized in 2008 related to the modification of existing stock-based compensation awards in connection with the spin-off.

HSNi's general and administrative expense in 2008 increased 4% or $8.7 million compared to the prior year. This increase was primarily due to a $6.6 million increase in stock-based 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, partially offset by other cost reductions. HSN increased its bad debt provision in anticipation of write-offs 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.

Production and Programming Expense

	Year Ended December 31,				
	2009	% Change	2008	% Change	2007
			(Dollars in thousands)		
Production and programming expense	$57,090	(5)%	$60,217	2%	$59,051
As a percentage of HSN net sales	3%	(23 bp)	3%	(4 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 2009 decreased 5% to $57.1 million compared to $60.2 million in the prior year. The $3.1 million decline in production and programming costs is primarily due to a decrease in labor costs due to lower headcount.

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 was 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 was 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.

Depreciation

	Year Ended December 31,				
	2009	% Change	2008	% Change	2007
			(Dollars in thousands)		
HSN	$28,666	5%	$27,348	8%	$25,404
Cornerstone	9,309	(8)%	10,090	13%	8,959
HSNi	$37,975	1%	$37,438	9%	$34,363
As a percentage of HSNi net sales	1%	6 bp	1%	14 bp	1%

Depreciation for 2009 and 2008 increased $0.5 million and $3.1 million, respectively, as compared to the respective prior year, primarily due to the incremental depreciation associated with recent capital expenditures, partially offset by certain fixed assets becoming fully depreciated during the periods. The capital expenditures were primarily at HSN in 2009 and were for investments in equipment relating to high-definition television programming, campus renovations and other information technology and broadcast-related investments. The capital expenditures in 2008 were also primarily at HSN and were for campus renovations, information technology and broadcast-related expenditures.

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,				
	2009	% Change	2008	% Change	2007
			(Dollars in thousands)		
HSN	$196,139	22%	$160,279	(8)%	$174,397
As a percentage of HSN net sales	10%	158 bp	8%	(102 bp)	9%
Cornerstone	$ 9,998	NM	$ (1,375)	NM	$ 59,316
As a percentage of Cornerstone net sales	1%	151 bp	0%	(600 bp)	6%
HSNi	$206,137	30%	$158,904	(32)%	$233,713
As a percentage of HSNi net sales	7%	187 bp	6%	(241 bp)	8%

HSNi's Adjusted EBITDA in 2009 increased 30% or $47.2 million from 2008 primarily driven by an increase in productivity at Cornerstone from the reduced catalog circulation, resulting in a $54.9 million reduction in catalog costs. These cost reductions were offset by an $8.9 million increase in HSNi's compensation and other employee-related costs. Adjusted EBITDA margins for HSNi increased 187 basis points to 7.5% from 5.6% in the prior year. HSN's Adjusted EBITDA increased 22% or $35.9 million primarily due to the $45.5 million increase in gross profit, offset by a $10.5 million increase in compensation and other employee-related costs. Cornerstone's Adjusted EBITDA increased $11.4 million primarily as a result of productivity improvements from the 24% planned reduction in catalog circulation, offset by a $49.6 million decrease in gross profit.

HSNi's Adjusted EBITDA in 2008 decreased 32% or $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 $60.7 million to a loss of $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.

Operating Income (Loss)

	Year Ended December 31,				
	2009	% Change	2008	% Change	2007
			(Dollars in thousands)		
HSN	$157,233	NM	$(2,332,789)	NM	$135,298
As a percentage of HSN net sales	8%	NM	(119)%	NM	7%
Cornerstone	$ (1,579)	NM	$ (769,522)	NM	$ 34,493
As a percentage of Cornerstone net sales	0%	NM	(89)%	NM	3%
HSNi	$155,654	NM	$(3,102,311)	NM	$169,791
As a percentage of HSNi net sales	6%	NM	(110)%	NM	6%

NM = not meaningful

HSNi's operating income for 2009 was $155.7 million as compared to $3.1 billion of operating loss in 2008. The increase in operating income is primarily attributable to the $3.2 billion in asset impairment charges at HSN and Cornerstone during 2008, a decrease in catalog costs at Cornerstone related to the 24% reduction in circulation, a $14.9 million decrease in amortization of non-cash marketing and intangible assets, a $9.0 million reduction in stock-based compensation expense, offset by an $8.9 million increase in HSNi's compensation and other employee-related costs.

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.

The decrease in amortization of intangible assets is due to the impairment of customer lists recognized in the fourth quarter of 2008 and certain intangibles becoming fully amortized during 2008. 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 a transaction with Vivendi Universal Entertainment, LLLP ("VUE"). The decrease in stock-based compensation expense as compared to the previous year is primarily due to the charge recognized in 2008 related to the modification of stock-based compensation awards in connection with the spin-off.

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 attributable to the $3.2 billion in asset impairment charges at HSN and Cornerstone during 2008, the decline in gross profit for the reasons discussed previously under the heading "Adjusted EBITDA," and the $8.1 million increase in stock-based compensation expense. Stock-based compensation expense increased $8.1 million compared to the previous year due to the modification of stock-based compensation awards in connection with the spin-off.

Other Income (Expense)

	Year Ended December 31,				
	2009	% Change	2008	% Change	2007
	(Dollars in thousands)				
Interest income	$ 343	(29)%	$ 480	90%	$ 252
Interest expense	(35,283)	115%	(16,420)	NM	—
Other income (expense)	—	NM	—	NM	(256)
Other (expense) income, net	$(34,940)	119%	$(15,940)	NM	$ (4)
As a percentage of HSNi net sales	(1)%	(71 bp)	(1)%	(56 bp)	0%

Interest expense for the years ended December 31, 2009 and 2008 primarily relate 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. The increase in the interest expense in 2009 compared to 2008 is due to the longer period in which the debt was outstanding, offset slightly by the lower interest rate on the term loan in 2009.

Income Tax Provision

For the year ended December 31, 2009, HSNi recorded a tax provision from continuing operations of $48.1 million, which represents an effective tax rate of 39.9%. The 2009 tax rate is higher than the federal statutory rate of 35% due principally to state income taxes.

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 23.4%. 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 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. The remaining deferred tax liability represents future taxes that could be owed upon a sale of the HSN and/or Cornerstone business operations.

In 2007, HSNi recorded an income tax provision for continuing operations of $64.6 million which represents an effective tax rate of 38%. This tax rate is 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”) which was sold June 19, 2007 and HSNi’s other international subsidiaries. (Losses) income from discontinued operations, net of tax, in 2009, 2008 and 2007 were losses of $0.1 million and $3.4 million and income of $29.0 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, 2009, HSNi had $269.9 million of cash and cash equivalents, up from $177.5 million as of December 31, 2008.

Net cash provided by operating activities attributable to continuing operations was $202.6 million in 2009 and $137.1 million in 2008, an increase of $65.5 million. This increase was primarily due to improved operating performance and our concerted effort to increase inventory turns and days payable outstanding. As a result, gross inventory balances have decreased 14% from December 31, 2008. Net cash provided by operating activities was also impacted by an increase in accounts receivable related to HSN's Flexpay program which supported sales growth in the fourth quarter of 2009.

Net cash used in investing activities attributable to continuing operations in 2009 of $41.4 million resulted from capital expenditures. The capital expenditures were primarily at HSN and were for investments in equipment relating to high-definition television programming, campus renovations and other information technology and broadcast-related investments. 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, information technology and broadcast-related expenditures.

Net cash used in financing activities attributable to continuing operations in 2009 was $69.7 million related to the $50.0 million repayment of long-term debt under the term loan which included a voluntary prepayment of $35 million in December 2009, of which approximately $30 million would have been required to be paid in March 2010 through an "excess cash flow" payment as required by the terms of the Credit Agreement. Since HSNi's leverage ratio was below 1.75x as of December 31, 2009, an "excess cash flow" payment is not required in March 2010. In addition, HSNi made a $20.0 million repayment of the revolving credit facility in the first quarter of 2009. 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 funded $150 million term loan and an undrawn $150 million revolving credit facility. As of December 31, 2009, $100 million was outstanding under the term loan and $0 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 in August 2008.

The credit agreement contains two principal financial covenants consisting of a maximum leverage ratio of 2.75x and a minimum interest coverage ratio of 3.00x, among other covenants. HSNi was in compliance with all such covenants as of December 31, 2009, with a leverage ratio of 1.64x and an interest coverage ratio of 6.41x. 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, 2009, there were $19.2 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, 2009, the additional amount that could be borrowed under the revolving credit facility, in consideration of the financial covenants, was approximately $130.8 million.

Net cash provided by (used in) discontinued operations in 2009 and 2008 of $1.1 million and ($0.5) million, respectively, relates primarily to the operations of HSE and HSNi's other international subsidiaries. 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

Contractual Obligations	Total Amounts Committed	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	Payments Due by Period				
			(In thousands)		
Short- and long-term debt obligations	$ 340,000	$ 4,762	$ 50,794	$ 44,444	$ 240,000
Operating leases	116,641	28,150	41,025	23,402	24,064
Purchase obligations (a)	111,218	101,192	10,026	—	—
Total contractual obligations	$ 567,859	$ 134,104	$ 101,845	$ 67,846	$ 264,064

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

Commercial Commitments	Total Amounts Committed	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	Amount of Commitment Expiration Per Period				
			(In thousands)		
Letters of credit and surety bonds (b)	$ 22,120	$ 22,070	$ 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, 2009, we had $0.5 million recorded for uncertain tax positions under current accounting guidance. 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 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, 2009.

Seasonality

HSNi is affected by seasonality, although historically our business has exhibited less seasonality than many other retail businesses. Our sales levels are generally higher in the fourth quarter. Reported revenues in the fourth quarter were 31%, 28% and 30% of total reported annual revenues in 2009, 2008 and 2007, respectively.

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 in isolation or as a substitute for operating income, net income or any other measure determined in accordance with GAAP. Adjusted EBITDA is used as a measurement of operating efficiency and overall financial performance and HSNi believes it to be a helpful measure for those evaluating companies in the retail 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 has certain limitations in that it does not take into account the impact to HSNi's statement of operations of certain expenses, including stock-based compensation, amortization of non-cash marketing, amortization of 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

Stock-based 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 can 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 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.

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 income (loss) and Adjusted EBITDA for the years ended December 31, 2009, 2008 and 2007.

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 accounting guidance pertaining to the accounting for the impairment or disposal of long-lived assets, 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 even 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.

Impairment of Goodwill and Indefinite-Lived Intangible Assets

HSNi assesses the impairment of goodwill and identifiable indefinite-lived intangible assets at least annually during the fourth quarter and whenever events or changes in circumstances indicate that the carrying value of an asset may be impaired. 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 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 consist of merchandise sales and are reduced by incentive discounts and 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 to pre-established time restrictions and, in some cases, restocking fees. 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 17.8%, 18.4% and 18.4% in 2009, 2008 and 2007, 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 recognizes liabilities for uncertain tax positions based on a two-step process. 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 its technical merits. 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, 2009, approximately 29.4% of our $338.7 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. A hypothetical 100 basis point increase in interest rates on our variable rate obligations would have resulted in an increase of approximately $1.0 million and $1.7 million in annual pre-tax interest expense for the years ended December 31, 2009 and 2008, respectively.

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, 2009.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

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 as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of HSN, Inc. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), HSN, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2010, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Tampa, Florida
March 4, 2010

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Years Ended December 31, 2009	2008	2007
Net sales	$ 2,749,609	$ 2,823,593	$ 2,908,242
Cost of sales	1,768,295	1,838,163	1,820,048
Gross profit	981,314	985,430	1,088,194
Operating expenses:			
Selling and marketing	507,569	567,305	595,911
General and administrative	222,464	220,644	211,955
Production and programming	57,090	60,217	59,051
Amortization of non-cash marketing	—	8,022	4,442
Amortization of intangible assets	562	7,465	12,681
Depreciation	37,975	37,438	34,363
Asset impairments	—	3,186,650	—
Total operating expenses	825,660	4,087,741	918,403
Operating income (loss)	155,654	(3,102,311)	169,791
Other income (expense):			
Interest income	343	480	252
Interest expense	(35,283)	(16,420)	—
Other expense	—	—	(256)
Total other expense, net	(34,940)	(15,940)	(4)
Income (loss) from continuing operations before income taxes	120,714	(3,118,251)	169,787
Income tax (provision) benefit	(48,136)	730,773	(64,554)
Income (loss) from continuing operations	72,578	(2,387,478)	105,233
Gain on sale of discontinued operations, net of tax	—	—	30,572
(Loss) income from discontinued operations, net of tax	(90)	(3,410)	28,999
Net income (loss)	$ 72,488	$ (2,390,888)	$ 164,804
Income (loss) from continuing operations per share:			
Basic	$ 1.29	$ (42.48)	$ 1.87
Diluted	$ 1.27	$ (42.48)	$ 1.86
Net income (loss) per share:			
Basic	$ 1.29	$ (42.54)	$ 2.93
Diluted	$ 1.26	$ (42.54)	$ 2.91
Shares used in computing income (loss) per share:			
Basic	56,383	56,208	56,206
Diluted	57,330	56,208	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, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 269,921	$ 177,463
Accounts receivable, net of allowance of $11,608 and $10,026, respectively	182,746	165,114
Inventories	261,473	304,172
Deferred income taxes	21,960	21,777
Prepaid expenses and other current assets	47,152	42,080
Total current assets	783,252	710,606
Property and equipment, net	157,051	157,832
Intangible assets, net	261,185	261,747
Other non-current assets	17,162	22,272
TOTAL ASSETS	$ 1,218,650	$ 1,152,457
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 222,787	$ 198,464
Current maturities of long-term debt	4,762	15,000
Accrued expenses and other current liabilities	222,739	190,788
Total current liabilities	450,288	404,252
Long-term debt, less current maturities	333,960	393,528
Deferred income taxes	76,413	83,276
Other long-term liabilities	13,959	13,116
Total liabilities	874,620	894,172
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; 56,503,163 and 56,222,631 issued shares as of December 31, 2009 and 2008, respectively	565	562
Additional paid-in capital	2,419,765	2,406,503
Retained deficit	(2,076,046)	(2,148,534)
Accumulated other comprehensive loss	(254)	(246)
Total shareholders' equity	344,030	258,285
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,218,650	$ 1,152,457

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			Receivables From IAC and	Additional		Accumulated Other	
	Shares	Amount	Shares	Amount	Invested Capital	Subsidiaries	Paid-in Capital	Retained Deficit	Comprehensive (Loss) Income	Total
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)
Stock-based compensation expense forequity 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	—	—	16	—	—	—	74	—	—	74
Balance as of December 31, 2008	—	$ —	56,222	$ 562	$ —	$ —	$2,406,503	$(2,148,534)	$ (246)	$ 258,285
Comprehensive income:										
Net income	—	—	—	—	—	—	—	72,488	—	72,488
Foreign currency translation	—	—	—	—	—	—	—	—	(8)	(8)
Comprehensive income:										72,480
Stock-based compensation expense for equity awards	—	—	—	—	—	—	11,264	—	—	11,264
Adjustment to capitalization as a result of the spin-off	—	—	—	—	—	—	406	—	—	406
Board of Directors deferred compensation	—	—	—	—	—	—	127	—	—	127
Issuance of common stock upon exercise of stock options and release of restricted stock units	—	—	281	3	—	—	1,465	—	—	1,468
Balance as of December 31, 2009	—	$ —	56,503	$ 565	$ —	$ —	$2,419,765	$(2,076,046)	$ (254)	$ 344,030

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, 2009	2008 (In thousands)	2007
Cash flows from operating activities attributable to continuing operations:			
Net income (loss)	$ 72,488	$ (2,390,888)	$ 164,804
Less: (Loss) income from discontinued operations, net of tax	(90)	(3,410)	59,571
Income (loss) from continuing operations	72,578	(2,387,478)	105,233
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities attributable to continuing operations:			
Depreciation	37,975	37,438	34,363
Amortization of intangible assets	562	7,465	12,681
Asset impairments	—	3,186,650	—
Stock-based compensation expense	11,264	20,286	12,160
Amortization of cable and satellite distribution fees	3,360	4,028	4,866
Amortization of non-cash marketing	—	8,022	4,442
Amortization of debt issuance costs	2,556	1,124	—
Loss on disposition of fixed assets	682	1,354	276
Deferred income taxes	(6,794)	(742,053)	(11,803)
Bad debt expense	18,460	19,775	14,598
Excess tax benefits from stock-based awards	(301)	(135)	(2,401)
Changes in current assets and liabilities:			
Accounts receivable	(36,994)	8,787	(53,130)
Inventories	42,699	13,239	(3,498)
Prepaid expenses and other current assets	(5,684)	12,816	(2,212)
Accounts payable, accrued expenses and other current liabilities	62,189	(54,230)	22,009
Net cash provided by operating activities attributable to continuing operations	202,552	137,088	137,584
Cash flows from investing activities attributable to continuing operations:			
Transfers from (to) IAC	—	16,738	(91,560)
Capital expenditures	(41,420)	(39,662)	(48,714)
Other, net	42	—	113
Net cash used in investing activities attributable to continuing operations	(41,378)	(22,924)	(140,161)
Cash flows from financing activities attributable to continuing operations:			
Proceeds from issuance of long-term debt, net of issuance costs	—	373,833	—
Repayments of long-term debt	(50,000)	—	—
Borrowings under revolving credit facility	—	40,000	—
Repayments under revolving credit facility	(20,000)	(20,000)	—
Distribution to IAC in connection with the spin-off	—	(333,799)	—
Excess tax benefits from stock-based awards	301	135	2,401
Other, net	(26)	(117)	(10)
Net cash (used in) provided by financing activities attributable to continuing operations	(69,725)	60,052	2,391
Total cash provided by (used in) continuing operations	91,449	174,216	(186)
Cash flows from discontinued operations:			
Net cash provided by (used in) operating activities attributable to discontinued operations	1,009	(501)	(8,956)
Net cash used in investing activities attributable to discontinued operations	—	—	(965)
Net cash used in financing activities attributable to discontinued operations	—	—	(38,571)
Total cash provided by (used in) discontinued operations	1,009	(501)	(48,492)
Effect of exchange rate changes on cash and cash equivalents	—	(2,472)	1,531
Net increase (decrease) in cash and cash equivalents	92,458	171,243	(47,147)
Cash and cash equivalents at beginning of period	177,463	6,220	53,367
Cash and cash equivalents at end of period	$ 269,921	$ 177,463	$ 6,220

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

NOTE 1—ORGANIZATION

Company 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; (iii) websites, which consist primarily of HSN.com and the seven branded websites operated by Cornerstone; (iv) retail stores; and (v) mobile handheld devices. HSNi's television home shopping business and related internet commerce is referred to herein as "HSN" and all catalog operations, including related internet commerce and retail stores, 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

HSNi was incorporated in Delaware in May 2008 in connection with the spin-off of several businesses previously owned by IAC/InterActiveCorp, or IAC. The spin-off from IAC occurred after the close of The NASDAQ Stock Market on August 20, 2008 and occurred concurrent with the spin-offs from IAC of Interval Leisure Group, Inc., Ticketmaster Entertainment, Inc., and Tree.com, Inc. Throughout these financial statements, the separation transaction is referred to as the "spin-off" and each of these companies as "Spincos." Effective August 21, 2008, HSNi's shares began trading on the NASDAQ Global Select Market under the symbol "HSNI."

HSNi was formed to hold HSN and Cornerstone, the businesses that previously comprised most of IAC's Retailing segment. 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. 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 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 prior to the spin-off.

Reclassifications

Certain reclassifications were made to prior period amounts in the consolidated balance sheet to conform with the classifications of such amounts for the most recent period. These reclassifications did not change previously reported total assets, liabilities or shareholders' equity.

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. 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 on the date of shipment. HSNi's sales policy allows customers to return merchandise for a full refund or exchange, subject to pre-established time restrictions and, in some cases, restocking fees. 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 17.8%, 18.4% and 18.4% in 2009, 2008 and 2007, 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, 2009 and 2008 was $154.7 million and $130.3 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 are deemed uncollectible.

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 costs, including certain warehouse costs. Inventories include approximately $4.9 million and $5.4 million of these allocable general and administrative overhead costs at December 31, 2009 and 2008, respectively, and approximately $19.0 million, $19.7 million and $17.8 million of such costs were included in the accompanying consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007, 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.

Asset Category	Depreciation Period
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

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 $17.9 million and $23.6 million at December 31, 2009 and 2008, respectively, and are included in "Property and equipment, net" in the accompanying consolidated balance sheets. Amortization expense related to the capitalized software costs was $13.9 million, $14.0 million and $12.9 million for the years ended December 31, 2009, 2008 and 2007, respectively, and included in depreciation expense in the consolidated statements of operations.

Goodwill and Indefinite-Lived Intangible Assets

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 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

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.

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 $89.7 million, $86.1 million and $91.8 million for the years ended December 31, 2009, 2008 and 2007, 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 $5.2 million and $1.6 million at December 31, 2009 and 2008, 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 $4.3 million and $7.6 million at December 31, 2009 and 2008, respectively, and are included in "Other non-current assets" 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 $17.2 million and $23.0 million at of December 31, 2009 and 2008, respectively, and are included in "Prepaid expenses and other current assets" in the accompanying consolidated balance sheets.

Of these amounts, $12.9 million and $13.6 million at December 31, 2009 and 2008, respectively, related to catalogs that had not yet been mailed. Advertising expense was $196.7 million, $256.4 million and $282.5 million for the years ended December 31, 2009, 2008 and 2007, 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 through the third quarter of 2008 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.

HSNi recognizes liabilities for uncertain tax positions based on a two-step process. 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 its technical merits. 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.

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 (loss) income, 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 "Loss from discontinued operations, net of tax" in the accompanying consolidated statements of operations.

Stock-Based Compensation

HSNi recognizes compensation expense for stock-based awards, 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. 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.

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 impairment 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.

Fair Value of Financial Instruments

Fair value accounting, as prescribed by GAAP, defines fair value and establishes a framework for measuring fair value based on a three-level hierarchy:

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 $240.0 million of Senior Notes and the $100.0 million term loan are carried at cost. As of December 31, 2009, the estimated fair values of the Senior Notes and term loan were approximately $264.0 million and $96.1 million, respectively. The fair value of the Senior Notes was based upon quoted market information (level 1 criteria) and the fair value of the term loan was based upon discounted future cash flows (level 3 criteria).

HSNi measures certain assets, such as intangible assets and property and equipment, at fair value on a non-recurring basis. These assets are recognized at fair value if they are deemed to be impaired. During the year ended December 31, 2009, there were no assets that were required to be recorded at fair value since no impairment indicators were present.

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 June 2009, the FASB issued guidance requiring a qualitative approach to identifying a controlling financial interest in a variable interest entity ("VIE"), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. The guidance is effective for annual reporting periods beginning after November 15, 2009, and therefore, will be applicable to HSNi in the first quarter of fiscal year 2010. HSNi does not expect the adoption of this new standard to have a material impact on its consolidated financial statements.

In October 2009, the FASB issued an update to the existing guidance for multiple-element revenue arrangements. This revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. This accounting update is effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. HSNi is currently assessing the future impact of this new accounting update but does not expect it to have a material impact on its consolidated financial statements.

In October 2009, the FASB issued an accounting standard addressing how entities account for revenue arrangements that contain both hardware and software elements. Due to the significant difference in the level of evidence required for separation of multiple deliverables within different accounting standards, this particular accounting standard will modify the scope of accounting guidance for software revenue recognition. Many tangible products containing software and non-software components that function together to deliver the tangible products' essential functionality will be accounted for under the revised multiple-element arrangement revenue recognition guidance disclosed above. This accounting standard is effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. HSNi is currently assessing the future impact of this new accounting update but does not expect it to have a material impact on its consolidated financial statements.

In January 2010, the FASB issued an update regarding improving disclosures about fair value measurements. The update provides amendments requiring entities to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition the update requires entities to present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). The disclosures related to Level 1 and Level 2 fair value measurements are effective for HSNi in the first quarter of 2010 and the disclosures related to Level 3 fair value measurements are effective for HSNi in the first quarter of 2011. HSNi is currently assessing the future impact of this new accounting update but does not expect it to have a material impact on its consolidated financial statements or disclosures.

NOTE 3—GOODWILL AND INTANGIBLE ASSETS

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 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 current accounting guidance. 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 reporting units 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 the impairment charges in 2008, HSNi no longer has goodwill recorded. Based on the annual impairment test performed in the fourth quarter, there was no impairment of its intangible assets as of December 31, 2009. An increase in the discount rates or declines in the future estimated cash flows or the trading value of HSNi's common stock could result in material intangible asset impairment charges.

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

	December 31, 2009	December 31, 2008
Goodwill	$ —	$ —
Intangible assets with indefinite lives	260,248	260,248
Intangible assets with definite lives, net	937	1,499
Total goodwill and intangible assets, net	$ 261,185	$ 261,747

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.

At December 31, 2009 and 2008, the following is information on intangible assets with definite lives (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life (Years)
As of December 31, 2009	$5,622	$ (4,685)	$ 937	10.0
As of December 31, 2008	$5,666	$ (4,167)	$1,499	10.0

Amortization of intangible assets with definite lives is computed on a straight-line basis and, based on December 31, 2009 balances, such amortization for the next two years is estimated to be as follows (in thousands):

Years Ending December 31,	
2010	$ 562
2011	375
	$ 937

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, 2009 and 2008 (in thousands):

	Gross Balance as of January 1, 2009	Accumulated Impairment	Net Balance as of January 1, 2009	Additions	Deductions	Impairment	Net Balance as of December 31, 2009
HSN	$ 2,391,594	$(2,391,594)	$ —	$ —	$ —	$ —	$ —
Cornerstone	492,606	(492,606)	—	—	—	—	—
Total	$ 2,884,200	$(2,884,200)	$ —	$ —	$ —	$ —	$ —

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

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, 2009	December 31, 2008
Capitalized software	$ 190,331	$ 185,107
Computer and broadcast equipment	89,001	87,757
Buildings and leasehold improvements	81,937	77,857
Furniture and other equipment	66,861	60,910
Projects in progress	13,207	16,370
Land and land improvements	11,847	11,740
	453,184	439,741
Less: accumulated depreciation and amortization	(296,133)	(281,909)
Total property and equipment, net	$ 157,051	$ 157,832

NOTE 5—ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	December 31, 2009	December 31, 2008
Accrued sales returns	$ 39,424	$ 37,340
Accrued cable and satellite related fees	37,915	39,959
Accrued freight and fulfillment expenses	15,366	21,966
Accrued compensation and benefits	36,029	16,653
Income tax payable	26,982	1,606
Other accrued expenses and current liabilities	67,023	73,264
Total accrued expenses and other current liabilities	$ 222,739	$ 190,788

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) stock-based compensation expense and amortization of non-cash marketing, (2) amortization of intangibles, (3) depreciation and gains and losses on asset dispositions, (4) goodwill, long-lived asset and intangible asset impairments, (5) pro forma adjustments for significant acquisitions, and (6) one-time items. Adjusted EBITDA is not a measure determined in accordance with GAAP, and should not be considered in isolation or as a substitute for operating income, net income or any other measure determined in accordance with GAAP. Adjusted EBITDA is used as a measurement of operating efficiency and overall financial performance and HSNi believes it to be a helpful measure for those evaluating companies in the retail 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 has certain limitations in that it does not take into account the impact to HSNi's consolidated statements of operations of certain expenses, including stock-based compensation, amortization of non-cash marketing, amortization of intangibles, depreciation, gains and losses on asset dispositions, asset impairment charges, acquisition-related accounting and one-time items.

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

	Year Ended December 31, 2009		
	HSN	Cornerstone	Total
Operating income (loss)	$ 157,233	$ (1,579)	$ 155,654
Stock-based compensation expense	9,041	2,223	11,264
Amortization of non-cash marketing	—	—	—
Amortization of intangible assets	562	—	562
Asset impairments	—	—	—
Depreciation	28,666	9,309	37,975
Loss on disposition of fixed assets	637	45	682
Adjusted EBITDA	$ 196,139	$ 9,998	$ 206,137

	Year Ended December 31, 2008		
	HSN	Cornerstone	Total
Operating loss	$ (2,332,789)	$ (769,522)	$ (3,102,311)
Stock-based 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
Stock-based 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

Financial information by segment is as follows (thousands):

	Year Ended December 31,		
	2009	2008	2007
		(In thousands)	
Net sales:			
HSN	$ 2,007,897	$ 1,956,871	$ 1,892,582
Cornerstone	741,712	866,722	1,015,660
Total	$ 2,749,609	$ 2,823,593	$ 2,908,242
Identifiable assets:			
HSN	$ 1,035,233	$ 940,515	$ 3,205,428
Cornerstone	183,417	210,949	1,011,923
Discontinued operations	—	993	3,280
Total	$ 1,218,650	$ 1,152,457	$ 4,220,631
Capital expenditures:			
HSN	$ 35,258	$ 33,367	$ 34,288
Cornerstone	6,162	6,295	14,426
Total	$ 41,420	$ 39,662	$ 48,714

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, (loss) income from discontinued operations includes the income and losses for HSE and HSNi’s other international subsidiaries for all periods presented. 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.

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

	Year Ended December 31,		
	2009	2008	2007
Net sales	$ —	$ —	$ 192,701
(Loss) income before income taxes	$(145)	$ (749)	$ 28,786
Income tax benefit (expense)	55	(2,661)	213
(Loss) income from discontinued operations, net of tax	$ (90)	$(3,410)	$ 28,999

NOTE 8—COMPREHENSIVE INCOME (LOSS)

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

	Year Ended December 31,		
	2009	2008	2007
Net income (loss)	$ 72,488	$ (2,390,888)	$ 164,804
Foreign currency translation loss	(8)	(1,416)	(35,045)
Net loss on derivative contracts	—	—	(2,355)
Other comprehensive loss	(8)	(1,416)	(37,400)
Comprehensive income (loss)	$ 72,480	$ (2,392,304)	$ 127,404

Accumulated other comprehensive income at December 31, 2009 and December 31, 2008 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 qualifies 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, 2009, we contributed ten cents for each dollar a participant contributed in this plan, with a maximum contribution of 6% of a participant's contribution. Through December 31, 2008, we contributed fifty cents for each dollar a participant contributed in this plan, with a maximum contribution of 3% of a participant's earnings. Our matching contribution was $0.8 million, $4.2 million and $4.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

NOTE 10—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, 2009, basic earnings per share was computed using the number of weighted average shares of common stock outstanding for the period.

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 year ended December 31, 2007, 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.

Diluted Earnings Per Share

For the year ended December 31, 2009, diluted earnings per share was computed using the number of shares of common stock outstanding for the year, and if dilutive, the incremental common stock that we would issue upon the assumed exercise of stock options and stock appreciation rights and the vesting of restricted stock units using the treasury stock method.

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 stock appreciation rights and the vesting of restricted stock units using the treasury stock method.

For the year ended December 31, 2007, diluted earnings per share was computed 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 stock appreciation rights and the vesting of restricted stock units using the treasury stock method.

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

	Year Ended December 31,		
	2009	2008	2007
Net income (loss):			
Income (loss) from continuing operations	$ 72,578	$ (2,387,478)	$ 105,233
(Loss) income from discontinued operations	(90)	(3,410)	59,571
Net income (loss)	$ 72,488	$ (2,390,888)	$ 164,804
Weighted average number of shares outstanding:			
Basic	56,383	56,208	56,206
Dilutive effect of stock-based compensation awards	947	—	443
Diluted	57,330	56,208	56,649
Net income (loss) per share—basic:			
Continuing operations	$ 1.29	$ (42.48)	$ 1.87
Discontinued operations	(0.00)	(0.06)	1.06
Net income (loss)	$ 1.29	$ (42.54)	$ 2.93
Net income (loss) per share—diluted:			
Continuing operations	$ 1.27	$ (42.48)	$ 1.86
Discontinued operations	(0.01)	(0.06)	1.05
Net income (loss)	$ 1.26	$ (42.54)	$ 2.91
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	4,372	6,318	5,242

NOTE 11—LONG-TERM DEBT

	December 31,	
	2009	2008
Secured credit agreement expiring July 25, 2013:		
Term loan	$100,000	$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	240,000
Unamortized original issue discount on Senior Notes	(1,278)	(1,472)
Total long-term debt	338,722	408,528
Less: current maturities	(4,762)	(15,000)
Long-term debt, net of current maturities	$333,960	$393,528

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, 2009, the term loan interest rate was equal to LIBOR plus 2.75% (2.99%). The credit agreement contains two principal financial covenants consisting of a maximum leverage ratio of 2.75x and a minimum interest coverage ratio of 3.00x, among other covenants. HSNi was in compliance with all such covenants as of December 31, 2009, with a leverage ratio of 1.64x and an interest coverage ratio of 6.41x. 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, 2009, there were $19.2 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, 2009, the additional amount that could be borrowed under the revolving credit facility, in consideration of the financial covenants, was approximately $130.8 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, 2009, there was $0 outstanding on the revolving credit facility and $100 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	105.63%
2013	102.81%
2014 and thereafter	100.00%

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.

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

Years ending December 31,	
2010	4,762
2011	25,397
2012	25,397
2013	44,444
2014	—
Thereafter	240,000
	$ 340,000

NOTE 12—STOCK-BASED AWARDS

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

	Year Ended December 31,		
	2009	2008	2007
Cost of sales	$ —	$ 1,412	$ 937
Selling and marketing	1,946	1,968	1,025
General and administrative	8,618	16,774	10,189
Production and programming	700	132	9
Stock-based compensation expense before income taxes	11,264	20,286	12,160
Income tax benefit	(4,492)	(7,709)	(4,434)
Stock-based compensation expense after income taxes	$ 6,772	$12,577	$ 7,726

As of December 31, 2009, there was approximately $21.6 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is currently expected to be recognized on a straight-line basis over a weighted average period of approximately 2.2 years.

Second Amended and Restated 2008 Stock and Annual Incentive Plan

The Second Amended and Restated 2008 Stock and Annual Incentive Plan (the "Plan") authorizes the issuance of 8.0 million shares of HSNi common stock for new awards granted by HSNi. As of December 31, 2009, there were approximately 4.2 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 HSNi's business and increases in shareholder value.

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 publicly-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.
- 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.
- 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.
- 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 accounting guidance related to share-based payments, and resulted in additional fair value that was recognized immediately for fully vested awards and is being 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 $10.9 million which is being amortized ratably over the vesting period. For the years ended December 31, 2009 and 2008, $0.9 million and $8.3 million, respectively, of the additional compensation expense was recognized in the accompanying consolidated statements of operations.

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 accounted for these awards as liabilities, which were 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 HSNi’s 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 HSNi’s 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 118,000 and 136,000 RSUs during the years ended December 31, 2009 and 2008, respectively, which have graded vesting over a two year period.

A summary of the status of the nonvested RSUs, including the Adjusted Awards and awards granted under the Plan, as of December 31, 2009 and changes during the year ended December 31, 2009 is as follows:

	Number of shares	Weighted Average Grant Date Fair Value
Nonvested at 1/1/09	1,435,052	$ 17.10
Granted	1,233,035	5.19
Vested	(315,213)	9.42
Forfeited	(189,185)	14.82
Nonvested at 12/31/09 (1)	2,163,689	10.25

(1) Approximately 127,000 of the nonvested awards outstanding as of December 31, 2009 were held by employees of the other Spincos.

The weighted average fair value of RSUs granted during the years ended December 31, 2009 and 2008 based on market prices of HSNi's common stock on the grant date was $5.19 and $5.53, respectively.

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 total intrinsic value of approximately $3.0 million. The total intrinsic value of RSUs held by employees of all five Spincos that vested during the year ended December 31, 2009 and settled in HSNi common stock was $3.0 million. HSNi realizes a tax benefit for RSUs held by its employees in the year in which the award vests. The tax benefit realized by HSNi related to RSUs was approximately $0.9 million for the year ended December 31, 2009.

As of December 31, 2009, there was approximately $11.3 million of unrecognized compensation cost, net of estimated forfeitures, related to RSUs, which is currently expected to be recognized on a straight-line basis over a weighted average period of approximately 2.1 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.

A summary of the status of the outstanding stock options and SARs as of December 31, 2009 is as follows:

	Number of shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	5,617,513	19.27		
Granted	519,471	6.11		
Exercised	(94,679)	9.45		
Forfeited	(188,641)	10.88		
Expired	(280,097)	21.35		
Outstanding at December 31, 2009 (1)	5,573,567	18.39	7.1	$31,585,312
Vested and expected to vest at December 31, 2009	5,142,261	18.56	6.9	$28,307,424
Exercisable at December 31, 2009	1,575,507	19.39	4.6	$ 5,704,741

(1) Approximately 1.7 million stock options outstanding as of December 31, 2009 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, 2009 of $20.19 and the exercise price for all "in the money" awards at December 31, 2009. 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 years ended December 31, 2009 and 2008 was approximately $0.7 million and less than $0.1 million, respectively. Cash received from stock option exercises and the related actual tax benefit realized for the year ended December 31, 2009 was $0.9 million and $0.5 million, respectively, and was less than $0.1 million for the year ended December 31, 2008.

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, 2009: volatility factor of 47.3%, risk-free interest rate of 2.31%, expected term of 5.5 years, and a dividend yield of zero.

The weighted average fair values of stock options and stock-settled SARs granted from the Plan during the years ended December 31, 2009 and 2008 at market prices equal to HSNi's common stock on the grant date were $2.94 and $2.76, respectively.

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. All other awards granted under the Plan have exercise prices based on the fair market value of HSNi's common stock at the date of grant.

As of December 31, 2009, there was approximately $10.4 million of unrecognized compensation cost, net of estimated forfeitures, related to stock options and SARs, which is currently expected to be recognized on a straight-line basis over a weighted average period of approximately 2.2 years.

The following table summarizes the information about stock options and stock-settled SARs outstanding and exercisable as of December 31, 2009:

	Outstanding			Exercisable	
	Number Outstanding at December 31, 2009	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Number Exercisable at December 31, 2009	Weighted Average Exercise Price
$0.00 to $9.99	1,477,517	$ 5.28	8.5	128,899	$ 5.14
$10.00 to $14.99	331,515	12.23	5.9	175,089	12.70
$15.00 to $19.99	2,059,159	16.83	6.7	865,290	17.36
$20.00 to $24.99	200,625	22.93	3.3	200,625	22.93
$25.00 to $29.99	490,053	25.53	5.4	10,090	27.13
$30.00 to $34.99	425,652	33.01	6.5	38,783	30.62
$35.00 to $70.01	589,046	42.12	8.5	156,731	41.99
	5,573,567			1,575,507	

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 was amortized to expense over the vesting period. These awards vested 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, 2009, 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.

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

	Year Ended December 31,		
	2009	2008	2007
Current income tax provision:			
Federal	$(47,188)	$ (10,727)	$(68,969)
State	(7,742)	(553)	(7,388)
Current income tax provision	(54,930)	(11,280)	(76,357)
Deferred income tax benefit:			
Federal	5,813	674,789	10,683
State	981	67,264	1,120
Deferred income tax benefit	6,794	742,053	11,803
Income tax (provision) benefit	$(48,136)	$ 730,773	$(64,554)

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 recognized in 2008. 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.

Current income taxes payable has been reduced by $1.5 million, $3.8 million and $2.4 million for the years ended December 31, 2009, 2008 and 2007, 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 the income tax provision, 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, 2009 and 2008 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,	
	2009	2008
Deferred tax assets:		
Provision for accrued expenses	$ 39,305	$ 29,815
Inventories	11,055	11,885
Foreign investment	6,921	6,917
Stock-based compensation	7,882	6,312
Net operating losses	6,812	6,901
Other	2,580	197
Total deferred tax assets	74,555	62,027
Less valuation allowance	(17,288)	(17,229)
Net deferred tax assets	57,267	44,798
Deferred tax liabilities:		
Intangible and other assets	(89,317)	(87,904)
Prepaid expenses	(13,138)	(9,561)
Property and equipment	(9,265)	(8,832)
Total deferred tax liabilities	(111,720)	(106,297)
Net deferred tax liability	$ (54,453)	$ (61,499)

At December 31, 2009, HSNi had $24.1 million of net operating loss carryforwards which begin expiring in 2011. As of December 31, 2009 and 2008, HSNi had a valuation allowance of approximately $17.3 million and $17.2 million, respectively, related to the net operating losses, as well as 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 2009, the valuation allowance was increased by $0.1 million primarily due to the increase in the deferred tax benefit of net operating losses.

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):

	Year Ended December 31,		
	2009	2008	2007
Income tax (provision) benefit at the federal statutory rate of 35%	$ (42,250)	$ 1,091,388	$ (59,425)
State income taxes, net of effect of federal tax benefit	(4,382)	41,846	(4,182)
Nondeductible portion of goodwill and intangible asset impairment charges	—	(404,034)	—
Other, net	(1,504)	1,573	(947)
Income tax (provision) benefit	$ (48,136)	$ 730,773	$ (64,554)

HSNi adopted the accounting standard guidance related to accounting for uncertainty in income taxes effective January 1, 2007. The guidance 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. The guidance provides clarification 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):

	2009	2008	2007
Balance at beginning of year	$ 414	$ 8,944	$4,316
Additions based on tax positions related to the current year	—	—	2,298
Additions for tax positions of prior years	312	289	2,330
Reductions for tax positions of prior years	(212)	(8,819)	—
Balance at end of year	$ 514	$ 414	$8,944

As of December 31, 2009 and 2008, the unrecognized tax benefits, including interest, were $0.6 million and $0.5 million, respectively. 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, 2009 and 2008 is approximately $0.1 million and $0.3 million for tax positions which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, 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. Interest on unrecognized tax benefits from continuing operations for the year ended December 31, 2008 is a $0.7 million benefit, net of related deferred taxes of $0.4 million. There is no material interest on unrecognized tax benefits included in income tax expense from continuing operations for the year ended December 31, 2009. At December 31, 2009 and 2008, HSNi has no material accrual for the payment of interest or penalties.

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.

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. 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.

As a result of the spin-off, HSNi entered into a Tax Sharing Agreement with IAC in which, among other things, each of the four publicly-traded companies resulting from the spin-off (the "Spinco" or "Spincos") has indemnified IAC and the other Spincos 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 shareholder 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. Additionally, under the Tax Sharing Agreement, with respect to the consolidated federal income tax return of IAC and its subsidiaries for any taxable year that includes HSNi, IAC shall determine in its sole discretion whether to elect ratable allocation under applicable U.S. Treasury Regulations. HSNi shall, and shall cause each member of its group, to take all actions necessary to give effect to such election. In the event an adjustment with respect to a pre-spin-off period for which IAC is responsible results in a tax benefit to HSNi in a post-spin-off period, HSNi will be required to pay such tax benefit to IAC. In general, IAC controls all audits and administrative matters and other tax proceedings relating to the consolidated federal income tax return of the IAC group and any other tax returns for which the IAC group is responsible. The provisions set forth in the Tax Sharing Agreement could subject HSNi to future tax contingencies.

The Internal Revenue Service ("IRS") is currently examining the IAC consolidated tax returns for the years ended December 31, 2001 through 2006, which includes the operations of HSNi. The statute of limitations for these years has been extended to December 31, 2010. Various IAC consolidated tax returns filed with state, local and foreign jurisdictions are currently under examination, the most significant of which are California, New York and New York City, for various tax years after December 31, 2001. These examinations are expected to be completed by 2011. By virtue of the Tax Sharing Agreement with IAC, HSNi is indemnified with respect to additional tax liabilities for consolidated or combined federal tax returns prepared and filed by IAC prior to the spin-off, but is liable for any additional tax liabilities for HSNi separately filed state income tax returns.

NOTE 14—COMMITMENTS AND CONTINGENCIES

During January 2010, HSNi received a pre-assessment notification from a state alleging that one of HSNi's subsidiaries was required to collect and remit sales tax into the state. HSNi does not believe that its subsidiary is obligated to collect and remit these taxes, and intends to vigorously defend its position if the state's notification results in an assessment. At this time, no assurances can be given as to the outcome nor can a reasonable estimate of a liability, if any, be made.

In the ordinary course of business, HSNi is a party to various other lawsuits. This litigation may relate to claims involving property, personal injury, contract, intellectual property and other claims. 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):

Years Ending December 31,	
2010	$ 28,150
2011	22,093
2012	18,932
2013	13,079
2014	10,323
Thereafter	24,064
Total	$ 116,641

Expenses charged to operations under these agreements were $25.1 million, $25.8 million and $29.3 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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):

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Letters of credit and surety bonds	$ 22,120	$ 22,070	$ 50	$ —	$ —
Purchase obligations	111,218	101,192	10,026	—	—
Total commercial commitments	$ 133,338	$ 123,262	$ 10,076	$ —	$ —

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, 2009 or 2008.

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 in the pre-spin-off periods based on the ratio of HSNi's revenue as a percentage of IAC's total revenue. Allocated costs were $0, $3.3 million and $8.1 million for the years ended December 31, 2009, 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 for the years ended December 31, 2009 and 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 2009, 2008 and 2007, IAC provided HSNi with non-cash advertising totaling $0, $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.

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 Spincos 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.

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;
- 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 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 2008. 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:

	Year Ended December 31,		
	2009	2008	2007
		(in thousands)	
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	$29,416	$15,671	$84,516
Income tax refunds	(234)	(643)	(761)
Interest payments	33,488	3,064	—

NOTE 18—SHAREHOLDERS' EQUITY

In December 2008, HSNi'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 attach to any additional shares of common stock issued after January 5, 2009. Initially, these rights, which will trade with the shares of HSNi's 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 HSNi's 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 HSNi's Board of Directors.

NOTE 19—QUARTERLY RESULTS (UNAUDITED)

	Quarter Ended March 31,	June 30, (a)	September 30,	December 31, (b)
	(In thousands)			
Year Ended December 31, 2009				
Net sales	$629,620	$ 640,083	$ 641,244	$ 838,662
Gross profit	211,224	231,871	237,068	301,151
Operating income	13,902	30,740	36,078	74,934
Income from continuing operations	2,982	13,638	16,585	39,373
Loss from discontinued operations, net of tax	(28)	(28)	(13)	(21)
Net income	2,954	13,610	16,572	39,352
Income from continuing operations per share:				
Basic	$ 0.05	$ 0.24	$ 0.29	$ 0.70
Diluted	$ 0.05	$ 0.24	$ 0.29	$ 0.68
Net income per share:				
Basic	$ 0.05	$ 0.24	$ 0.29	$ 0.70
Diluted	$ 0.05	$ 0.24	$ 0.29	$ 0.68
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 from discontinued operations, net of tax	(78)	(451)	(2,837)	(44)
Net income (loss)	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)

(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.

(b) 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.

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, balances prior to 2008 have not been restated due to their immaterial impact relative to the combined results.

Schedule II

HSN, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charges to Earnings	Charges to Other Accounts	Deductions	Balance at End of Period
			(In thousands)		
2009					
Allowance for doubtful accounts	$ 10,026	$ 18,460	$ (170)	$ (16,708)(1)	$ 11,608
Sales returns accrual	37,340	530,464	—	(528,380)	39,424
Deferred tax valuation allowance	17,229	—	59	—	17,288
Other reserves	726	576	—	(342)	960
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	395	—	—	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	(640)	—	—	331

(1) Write-off of uncollectible accounts receivable.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures designed to provide reasonable assurance that the information required to be disclosed by HSNi in reports that it files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls also are designed to reasonably assure that such information is accumulated and communicated to management, including the Chief Executive Office and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Disclosure controls include components of internal control over financial reporting, which consists of control processes designated to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with United States generally accepted accounting principles.

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, 2009. 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, 2009, our internal control over financial reporting was effective.

Our independent registered certified public accounting firm, Ernst & Young, LLP, has issued an attestation report on our internal control over financial reporting. The attestation report is included herein.

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 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, 2009 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.

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of HSN, Inc.

We have audited HSN, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). HSN, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management's annual report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's 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 generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, HSN, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of HSN, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 of HSN, Inc. and subsidiaries and our report dated March 4, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Tampa, Florida
March 4, 2010

ITEM 9B. **Other Information**

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference from our Proxy Statement for our 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2009.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from our Proxy Statement for our 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2009.

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

Incorporated by reference from our Proxy Statement for our 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2009.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Incorporated by reference from our Proxy Statement for our 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2009.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from our Proxy Statement for our 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2009.

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.

Exhibit No.	Description of Document	Method of Filing
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	Exhibits 3.3 to the Company's Annual Report on Form 10-K filed March 31, 2009
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
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

Exhibit No.	Description of Document	Method of Filing
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*	Exhibit 10.11 to the Company's Annual Report on Form 10-K filed March 31, 2009
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*	Exhibit 10.12 to the Company's Annual Report on Form 10-K filed March 31, 2009
10.13	HSN, Inc. Amended and Restated 2008 Stock and Annual Incentive Plan*	Exhibit 10.13 to the Company's Annual Report on Form 10-K filed March 31, 2009
10.14	Amended and Restated Deferred Compensation Plan for Non-Employee Directors*	Exhibit 10.14 to the Company's Annual Report on Form 10-K filed March 31, 2009
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

* Reflects management contracts and management and director compensation plans.

Exhibit No.	Description of Document	Method of Filing
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*	Exhibit 10.18 to the Company's Annual Report on Form 10-K filed March 31, 2009
10.19	Form of Stock Appreciation Rights Agreement*	Exhibit 10.19 to the Company's Annual Report on Form 10-K filed March 31, 2009
10.20	Form of Stock Option Agreement*	Exhibit 10.20 to the Company's Annual Report on Form 10-K filed March 31, 2009
10.21	Form of Restricted Stock Units Agreement*	Exhibit 10.21 to the Company's Annual Report on Form 10-K filed March 31, 2009
10.22	Form of Restricted Stock Units Agreement (for Non-Employee Directors)*	Exhibit 10.22 to the Company's Annual Report on Form 10-K filed March 31, 2009
10.23	HSN, Inc. Second Amended and Restated 2008 Stock and Annual Incentive Plan*	Exhibit 10.23 to the Company's Current Report on Form 8-K filed on May 22, 2009
10.24	Named Executive Officer and EVP Severance Plan*	Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 24, 2009
10.25	Executive Severance Plan*	Filed herewith
12.1	Computation of Ratio of Earnings to Fixed Charges	Filed herewith
14.1	Code of Ethics and Business Conduct	Exhibit 14.1 to the Company's Annual Report on Form 10-K filed March 31, 2009
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.

Exhibit No.	Description of Document	Method of Filing
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 4, 2010	By:	/S/ MINDY GROSSMAN **Mindy Grossman,** **Chief Executive Officer** **(Principal Executive Officer)**
Date: March 4, 2010	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 4, 2010.

/S/ MINDY GROSSMAN **Mindy Grossman**	Chief Executive Officer and Director (Principal Executive Officer)
/S/ JUDY A. SCHMELING **Judy A. Schmeling**	Chief Financial Officer (Principal Financial and Accounting Officer)
/S/ GREG BLATT **Greg Blatt**	Director
/S/ PATRICK BOUSQUET-CHAVANNE **Patrick Bousquet-Chavanne**	Director
/S/ MICHAEL C. BOYD **Michael C. Boyd**	Director
/S/ WILLIAM COSTELLO **William Costello**	Director
/S/ JAMES FOLLO **James Follo**	Director
/S/ STEPHANIE KUGELMAN **Stephanie Kugelman**	Director
/S/ ARTHUR MARTINEZ **Arthur Martinez**	Chairman of the Board of Directors
/S/ THOMAS MCINERNEY **Thomas McInerney**	Director
/S/ JOHN B. MORSE, JR. **John B. Morse, Jr.**	Director

EXHIBIT INDEX

Exhibit No.	Description of Document
10.25	Executive Severance Plan*
12.1	Computation of Ratio of Earnings to Fixed Charges
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.

Exhibit 10.25

HSN, INC.
EXECUTIVE SEVERANCE PLAN
(Effective November 23, 2009)

TABLE OF CONTENTS

HSN, INC. EXECUTIVE SEVERANCE PLAN
(Effective November 23, 2009)

Introduction

HSN, Inc. (the "Company") hereby establishes the HSN, Inc. Executive Severance Plan (the "Plan") for the benefit of certain executives of the Company. The purpose of the Plan is to provide certain executive officers with severance payments and severance benefits in the event that the executive's employment is involuntarily terminated under circumstances entitling the executive to such benefits, as described herein. The Plan is an unfunded welfare benefit plan for a select group of management or highly compensated employees that is intended to qualify for the exemptions provided in ERISA Sections 201, 301 and 401 and for the alternative reporting method provided in DOL Reg. §2520.104-24. This Plan supersedes all prior policies and practices of the Company with respect to severance or separation pay for executives whose employment is involuntarily terminated on or after the Effective Date (as defined below). Prior to the adoption of this Plan, certain executives were parties to individual employment agreements providing for payment of severance agreements, and the agreement of such executives to the termination of such employment agreements and/or execution of a non-competition, non-solicitation, confidential information and proprietary rights agreement provided by the Company, is a condition to their eligibility for benefits under this Plan. Under no circumstances shall any executive be entitled to participate in this Plan without an executed non-competition, non-solicitation, confidential information and proprietary rights agreement.

1. Definitions.

1.1. "Base Salary" means the Executive's annual base salary rate in effect on his or her Termination Date.

1.2. "Board" means the Board of Directors of the Company.

1.3. "Cause" means: (i) the willful or gross neglect by Executive of his or her employment duties; (ii) the plea of guilty or nolo contendere to, or conviction for, the commission of a felony offense by Executive; (iii) a material breach by Executive of fiduciary duty owed to the Company or any of its subsidiaries; or (iv) a material breach by Executive of any nondisclosure, non-solicitation or non-competition obligation owed to the Company or any of its subsidiaries or affiliates; or (v) a violation by Executive of any company policy pertaining to ethics, wrongdoing or conflicts of interest. Notwithstanding the general rule of Section 4, following a Change in Control, any determination by the Committee as to whether "Cause" exists shall be subject to de novo review.

1.4. "CBI" means Cornerstone Brands, Inc., a Delaware corporation, or its successor.

1.5. "Change in Control" shall mean the happening of any of the following events:

(a) 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 (a) that is also a Business Combination shall be determined exclusively under subsection (c) below; or

(b) 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

(c) 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, (i) 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 (ii) 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

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

1.6. "Class" means the classification of an Executive, which determines the amount of Severance Pay to which the Executive is entitled under the Plan, as follows:

(a) "Class 1" consists of Senior Vice Presidents of the Company who are designated as Class 2 by the Company, Chief Financial Officer of CBI, Brand Presidents of CBI and President of Fulfillment of CBI.

(b) "Class 2" consists of Senior Vice Presidents of the Company who are not designated as Class 2 by the Company.

1.7. "Committee" means the Compensation and Human Resources Committee of the Board or such other committee of the Board as the Board may from time to time designate.

1.8. **"**Company" means HSN, Inc., a Delaware corporation, or its successor.

1.9. "Comparable Position" means any job that has no negative impact on base salary. To be a "Comparable Position" the different job must be performed at the same or geographically proximate work site with the same or comparable work schedule.

1.10. "DOL" refers to the Department of Labor.

1.11. "Effective Date" means November 23, 2009.

1.12. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

1.13. "Executive" means a (i) Senior Vice President of the Company, (ii) Chief Financial Officer of CBI, Brand President of CBI, President of Fulfillment of CBI or (iii) any other employee of the Company or one of its subsidiaries who is specifically designated by the Committee as eligible to participate in this Plan.

1.14. "Good Reason" means, without the Executive's prior written consent: (i) a material reduction in the Executive's rate of annual base salary from the rate of annual base salary in effect for such Executive, (ii) a relocation of the Executive's principal place of business more than 50 miles further from the location of the principal place of business from which Executive works or (iii) a material and demonstrable adverse change in the nature and scope of the Executive's duties. In order to invoke a termination of employment for Good Reason, the Executive must provide written notice to the Company of the existence of one or more of the conditions described in clauses (i) through (iii) within 90 days following the Executive'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 Executive 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.

1.15. "Medical Benefits" means the right of an Executive to elect to continue to participate in any medical plan (including dental or vision but not including any flexible spending account) in which he or she was participating at the time of termination upon timely payment of the same premiums that would be charged to a similarly situated active employee for the period of time specified in Section. Medical Benefits shall be considered continuation coverage as defined in §4980B of the Internal Revenue Code ("COBRA"), and shall be subject to all of the requirements and limitations applicable to COBRA coverage except for amount of premium charged. Eligible dependents of the Executive may continue to be covered under Medical Benefits, but if any dependent independently elects COBRA coverage, either because the Executive does not elect coverage, or because of the occurrence of an separate qualifying event, such dependent shall be required to pay the full premium otherwise charged under COBRA

1.16. "Outplacement Benefits" means executive outplacement services provided to an Executive either directly by a provider selected and compensated by the Company or, in the Company's discretion, by reimbursement of the Executive for services from a provider selected by the Executive with the Company's consent.

1.17. "Plan" means the HSN, Inc. Executive Severance Plan, as set forth in this instrument and as the same may hereafter be amended.

1.18. "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).

1.19. "Section 409A" means Section 409A of the Internal Revenue Code, and all Treasury regulations or other authoritative administrative guidance promulgated by the Internal Revenue Service pursuant to such section.

1.20. "Separation and General Release Agreement" means a legally binding document in which an Employee waives any and all claims against the Company (as defined in the Separation and General Release Agreement) related to his or her employment or separation from employment. Whether or not an Executive chooses to sign the Separation and General Release Agreement is completely at his or her discretion.

1.21. "Severance Benefits" means Medical Benefits and Outplacement Benefits.

1.22. "Severance Payment(s)" or "Severance Pay" means the cash payments to an Executive pursuant to Section 3 on account of his or her termination from the Company.

1.23. "Severance Period" means the period of time for which Severance Payments or Severance Pay will be made.

1.24. "Target Bonus" means the Executive's annual target bonus as established by the Company, pursuant to the Company's short term incentive program or otherwise, and in effect on the Termination Date.

1.25. "Termination Date" means the final day of employment with the Company which date shall be communicated by the Company to the Executive.

2. Eligibility for Severance Payments and Severance Benefits.

2.1. General Eligibility. The Committee has determined that Executives that are employed by the Company, its subsidiaries or affiliates (including CBI) shall be eligible to participate in the Plan. The Company shall advise each participating Executive of his or her participation in the Plan. Except as otherwise provided in the Plan, an Executive is entitled to Severance Payments and Severance Benefits under the Plan in the event of a termination by the Company without Cause or by the Executive for Good Reason; provided the Executive signs and not later revoke a general release.

2.2. Exclusions. An Executive is not eligible for Severance Payments or Severance Benefits if:

(a) Executive voluntarily resigns (other than for Good Reason), including a resignation that occurs after the Executive has been advised that he or she will be terminated but before the effective date of such termination;

(b) Executive ceased to be an Executive as defined by the Plan;

(c) Executive terminates employment with the Employer by reason of death;

(d) Executive is entitled to long-term disability benefits from the Company-sponsored long-term disability plan as of the date the involuntary termination would have occurred had the individual been actively at work on such date;

(e) Executive has an individual written agreement with the Company that provides for any form of severance, separation, or special retirement program, unless the Executive has agreed to terminate such agreement;

(f) Executive has notified the Company of his or her intent to retire from the Company prior to the date the Company notified the Executive of his or her involuntary termination;

(g) Executive fails to return to work immediately following the conclusion of an approved leave-of-absence;

(h) Executive is terminated for, or on account of, Cause; or

(i) The Company determines the payment of benefits under the Plan in connection with such termination of employment would be inconsistent with the intent and purposes of the Plan.

2.3. Certain Corporate Transactions. Unless, and only to the extent expressly authorized by the Committee or set forth in this Plan, no Severance Payments or Severance Benefits are payable under the Plan to an Executive in the event of the sale or other disposition of the Company, any affiliate or any assets or stock of either, if the Executive (i) continues to be employed by the Company, its successor or an affiliate on or after the date of such sale or other disposition, (ii) is offered a Comparable Position with the acquiring entity or any of its affiliates, or (iii) is offered a Comparable Position with an entity that was an affiliate of the Company immediately prior to the sale or other disposition.

3. Amount and Form of Severance Payments and Severance Benefits.

3.1. Termination Prior to Change in Control or More than Twelve Months Following a Change in Control

(a) Subject to the remaining provisions of this Plan, an Executive whose employment is terminated by the Company without Cause, or an Executive who resigns for Good Reason, prior to a Change in Control or more than twelve months following a Change in Control, shall be entitled to (i) Severance Payments set forth in the table below, and (ii) Medical Benefits set forth in the table below in each case based upon the Executive's Class on the Termination Date.

(b) Severance Payments pursuant to this Section 3.1 (a) (i) shall be made in equal installments over the Severance Period pursuant to the Company's standard payroll practices and subject to any applicable payroll or other taxes required to be withheld, and payment for Medical Benefits pursuant to Section 3.1 (a) (ii) shall be paid in a lump sum and subject to any applicable payroll or other taxes required to be withheld. The Medical Benefits shall be paid and the Severance Payments shall commence as soon as practical after the Executive executes the Separation and General Release Agreement and the period during which the Separation and General Release Agreement may be revoked expires, but in no event later than March 15 of the year following the year in which the termination occurs.

Class	Severance Period	Medical Period
Class 1	12 months	6 months
Class 2	6 months	6 months

3.2. Termination within Twelve Months Following Change in Control.

(a) Subject to the remaining provisions of this Plan, an Executive whose employment is terminated by the Company without Cause, or who resigns for Good Reason, within twelve months following a Change in Control shall be entitled to (i) a Severance Payment equal to (y) the Severance Period set forth in the table below, based upon the Executive's Class at the time of termination multiplied by the Executive's Base Salary, plus (z) the Executive's Target Bonus multiplied by a fraction, the numerator of which is the number of days from the first day of the year in which the termination occurs and ending on the last day of the Severance Period, and the denominator of which is the number of days in the year in which the termination occurs, Medical Benefits during the medical period set forth in the table below, and (iii) Outplacement Benefits not to exceed the amount set forth in the table below and subject to the provisions of Section 3.2(c) below.

(b) Except as otherwise provided in Section 3.5, the Severance Payment shall be paid in a single lump sum, less applicable payroll or other taxes required to be withheld, as soon as practical after the Executive executes the Separation and General Release Agreement and the period during which the Separation and General Release Agreement may be revoked expires, but in no event later than March 15 of the year following the year in which the termination occurs.

(c) Outplacement Benefits must be utilized by the Executive by the end of the second year following the year in which the Termination Date occurs, and any reimbursement will be paid to the Executive not later than the end of the third year following the year in which the Termination Date occurs.

Class	Severance Period	Medical Period	Maximum Outplacement Benefits
Class 1	1.5	18 months	$10,000
Class 2	1	12 months	$5,000

3.3. Conditions and Limitations on Severance Payments and Severance Benefits. Severance Pay and Severance Benefits are specifically conditioned upon the following:

(a) The Executive must sign and not later revoke a Separation and General Release Agreement. Under no circumstances will any Severance Pay or Severance Benefits be made to an Executive who elects not to sign, or who revokes, a Separation and General Release Agreement. The Separation and General Release Agreement shall be furnished to the Executive in sufficient time so that if the Executive does not execute and return the Separation and General Release Agreement to the Company prior to the expiration of the maximum period of time that the Executive is given to consider the Separation and General Release Agreement by the terms thereof and applicable law, the revocation period provided in the Separation and General Release Agreement will expire prior to March 15 of the year following the year in which the termination occurs. Upon the expiration of such revocation period, all Severance Payments that would have been payable to the Executive on payroll dates occurring prior to the expiration of the revocation period shall be paid to the Executive in a lump sum. Executives are encouraged to review the Separation and General Release Agreement with his or her personal attorney at his or her own expense, if he or she so desires.

(b) The Executive must comply with any non-competition, non-solicitation, confidential information and proprietary rights, or similar restrictive covenants contained in any agreement to which the Executive is a party. If the Executive violates any such agreement, the Company shall have no further obligation to provide any Severance Payments or Severance Benefits, and may in its discretion bring suit against the Executive to recover Severance Payments and Outplacement Benefits previously paid, and the difference between the premiums actually paid for Medical Benefits and the premiums that would have been required for the same coverage under COBRA.

(c) The Executive must not have engaged in conduct that would have constituted Cause for dismissal. If the Executive is terminated for a reason other than Cause, and the Company subsequently discovers that the Executive had engaged in conduct that would have constituted Cause, the Company shall have no further obligation to provide any Severance Payments or Severance Benefits, and may in its discretion bring suit against the Executive to recover Severance Payments and Outplacement Benefits previously paid, and the difference between the premiums actually paid for Medical Benefits and the premiums that would have been required for the same coverage under COBRA.

(d) The Executive must comply with the mitigation and offset provisions of Section 3.8, if applicable.

3.4. Payment of Severance Payments upon Executive's Death. If an Executive dies after termination of employment and after executing the Separation and General Release Agreement, but before Severance Payments are completed, any remaining Severance Payments, will be made to the Executive's estate in a lump-sum within 90 days after the Executive's death.

3.5. Compliance with Section 409A. It is the intent of the Company that all amounts payable to an Executive pursuant to this Plan, including without limitation amounts payable under this Section 4, be paid in a manner that satisfies the requirements of Section 409A, and to the maximum extent possible this Plan shall be so interpreted. Without limiting the foregoing:

(a) Each installment of Severance Payments paid pursuant to Section 3.1 shall constitute a separate "payment" for purposes of Section 409A. For purposes of this Agreement, the term "Section 409A Payment" shall mean: (i) each Severance Payment that is paid after the later of March 15 of the calendar year following the year in which the Termination Date occurs or the fifteenth day of the third month following the end of the Company's fiscal year in which the Termination Date occurs, but only to the extent that such Severance Payment, when added to the sum of all Severance Payments paid after such date, exceeds two times the lesser of the Executive's Base Salary at the end of the year preceding the year in which the Termination Date occurs or the dollar limitation in effect under Section 401(a)(17) of the

Internal Revenue Code in the year in which the Termination Date occurs, and (ii) any other payment that the Committee determines in good faith constitutes a payment of deferred compensation subject to Section 409A.

(b) If an Executive is a "specified employee" as defined in Section 409A at the time of the Executive's termination of employment, then no Section 409A Payments shall be paid to the Executive until the first business day that is more than six months following the Termination Date, and all Section 409A Payments that would otherwise have been paid prior to such date shall be paid on such date, without interest, in a lump sum.

(c) No Section 409A Payment shall be at a time other than the time specified herein, whether by amendment to the Agreement or otherwise, and no amount shall be paid in substitution for any Section 409A Payment if such amount is paid at a different time than the Section 409A Payment would have been paid, except as permitted by Section 409A. Without limiting the generality of the foregoing, if any Executive becomes entitled to Severance Payments pursuant to Section 3.2 by reason of a termination occurring after a Change in Control that does not constitute a "change in control event" with respect to such Executive as defined in Section 409A, then a portion of the Severance Payment payable under Section 3.2 equal to the sum of all Section 409A Payments that the Executive would have received under Section 3.1 if he or she had been terminated prior to a Change in Control shall be paid in installments at the same times that such Section 409A Payments would have been paid.

(d) If any termination of employment occurs that does not constitute a separation from service as defined in Section 409A, then any Section 409A Payment that becomes payable by reason of such Termination shall not be paid until the Executive incurs a separation from service as defined in Section 409A.

3.6. Reduction of Payments to Comply with Section 280G. If Severance Payments payable to an Executive are contingent upon a change in ownership or effective control of the Company, or a change in ownership of a substantial portion of the assets of the Company, as all of such terms are defined in Section 280G of the Internal Revenue Code, and if the total present value as of the date of such change of all such Severance Payments, when added to the present value of all other payments that constitute parachute payments as defined in Section 280G, equals or exceeds the Executive's "base amount" as hereinafter defined, then such Severance Payments shall be reduced, in reverse chronological order of payment, until the total present value is less than three times the Executive's base amount. For purposes of this Section 3.6, an Executive's base amount shall mean the Executive's average annual total compensation from the Company for the five full years ending with the year that precedes the date of the change in ownership or control, calculated in accordance with Section 280G and the regulations thereunder. The purpose of this Section 3.6 is to prevent the Severance Payments from constituting excess parachute payments as defined in Section 280G and Section 4999 of the Internal Revenue Code; provided that in no event shall the Company have any obligation to the Executive if, despite the provisions of this Section 3.6, the Executive is subject to the excise tax imposed by Section 4999.

3.7. Withholding. The Company will withhold from all Severance Payments all required federal, state, local and other taxes and any other payroll deductions required.

3.8. Mitigation and Offset.

(a) An Executive who becomes entitled to receive Severance Pay and Severance Benefits pursuant to Section 3.1 (including an Executive described in Section 5) shall, as a condition to his or her continued eligibility for Severance Pay and Severance Benefits, use reasonable best efforts to seek other employment and to take other reasonable actions to mitigate the amounts payable under Section 3.1 hereof. If the Executive obtains other employment during the Severance Period, all future Severance Pay payable by the Company to the Executive during the remainder of the Severance Period shall be offset by the amount earned by the Executive from another employer. For purposes of this Section 3.8, the Executive shall have an obligation to inform the Company regarding his or her employment status following termination and during the Severance Period. The Company shall have the right to withhold Severance

Payments if the Executive fails to periodically certify his or her employment status in accordance with procedures established by the Company, or to recover any Severance Payments to an Executive who fails to advise the Company of other employment. If an Executive receiving Medical Benefits under Section 3.1 obtains other employment and is eligible for medical coverage through such employment, the subsidized portion of Medical Benefits shall terminate regardless of whether the Executive continues to be eligible for COBRA coverage, and the Executive shall thereafter be required to pay the full COBRA premium.

(b) The mitigation and offset provisions of paragraph (a) shall not apply to an Executive who becomes entitled to receive Severance Pay and Severance Benefits pursuant to Section 3.2 by reason of a termination occurring within 12 months following a Change in Control. Such Executives shall not be required to mitigate damages or to offset Severance Pay or Severance Benefits, unless the Severance Pay to which the Executive is entitled exceeds the amount that would otherwise be payable by reason of Section 5, in which case the excess Severance Pay only shall be subject to mitigation and offset requirements to the extent provided in the Executive's employment agreement. Nothing contained herein shall be construed to preclude the Company from discontinuing Medical Benefits to an Executive who has obtained other medical coverage in accordance with COBRA, or to require the Company to pay Outplacement Benefits, or an amount in lieu of Outplacement Benefits, on behalf of an Executive who has obtained other employment.

4. Administration.

The Committee shall be the administrator of the Plan as defined in Section 3(16) of ERISA, and has the sole and unlimited discretion to interpret the terms of the Plan, to adopt such rules and procedures as it may determine to be appropriate for the administration of the Plan, and to make all determinations about eligibility and payment of benefits. All decisions of the Committee, any action taken by the Committee with respect to the Plan and within the powers granted to the Committee under the Plan, and any interpretation by the Committee of any term or condition of the Plan, are conclusive and binding on all persons, and will be given the maximum possible deference allowed by law. The Committee may delegate and reallocate any authority and responsibility with respect to the Plan. The authority of the Committee as administrator may also be exercised in routine and administrative matters by the Company's senior officer responsible for human resources, or persons acting under his or her authority, subject to review by the Committee.

5. Amendment or Termination.

The Company reserves the right, in its sole and unlimited discretion, to amend or terminate the Plan at any time by action of the Committee or the Board, without prior notice to any Executive; provided, however, that no such amendment or termination shall materially adversely affect the interests or rights of any Executive whose Termination Date has occurred prior to the Amendment or Termination of the Plan; and provided further in the event of a termination or amendment of the Plan, if any Executive is terminated after the date of termination or amendment of the Plan, but prior to the date on which the Executive's employment agreement would have expired had it not been terminated, the Executive shall be entitled (i) to the same severance benefits the Executive would have received under the terms of such employment agreement had it not been terminated, or (ii) the Severance Benefits and Severance Pay under this Plan, whichever is the greater benefit to the Executive.

6. Claims Procedure.

6.1. Notice of Claim. Any person who believes he or she is entitled to any payment under the Plan ("Applicant") may submit a claim in writing to the Company's human resources department. If a claim is denied in whole or in part, the Company shall furnish the Applicant within 90 days after receipt of such claim with a written notice which specifies the reason for the denial, refers to the pertinent provisions of the Plan on which the denial is based, describes any additional material or information necessary for properly completing the claim and explains why such material or information is necessary, and explains the claim review procedures of this Section 6, including the Applicant's right to file suit in accordance with Section 6.4 if the claim is denied following review. The 90 day period for responding to a claim may be extended by up to an additional 90 days if the Applicant is given a written notice of the extension, including an explanation of the reason for the extension and an estimate of when the claim will be resolved, by the end of the initial 90 day period.

6.2. Review of Decision. If within 60 days after receipt of a notice of denial pursuant to Section 6.1, the Applicant so requests in writing, the Committee shall review such decision. The Committee's decision on review shall be in writing, and shall include specific reasons for the decision, written in a manner calculated to be understood by the Applicant, and shall include specific references to the pertinent provisions of the Plan on which the decision is based, and shall explain the Applicant's right to file suit in accordance with Section 6.4. It shall be delivered to the Applicant within 60 days after the request for review is received, unless extraordinary circumstances require a longer period, in which event the 60 day period may be extended by up to an additional 60 days if the Applicant is given a written notice of the extension, including an explanation of the reason for the extension and an estimate of when the appeal will be resolved, by the end of the initial 60 day period.

6.3. Construction. The provisions of this Section 6 are intended to comply with the requirements of ERISA Section 503 and the regulations issued thereunder, and shall be so construed. In accordance with such regulations, each Applicant shall be entitled, upon written request and without charge, to review and receive copies of all material relevant to his or her claim within the meaning of Department of Labor Regulations 29 C.F.R. Section 2560.503-1(m)(8), and to be represented by a qualified representative.

6.4. Process for Appeal. In further consideration of being permitted to participate in the Plan, each Executive agrees on behalf of himself, and all other persons claiming through him, that he will not commence any action at law or equity (including without limitation any action under ERISA Section 502), or any proceeding before any administrative agency, for payment of any benefit under this Plan without first filing a written claim for such benefit and appealing the denial of that claim in accordance with the provisions of this Section 6, and in any event not more than one hundred eighty (180) days after the appeal is denied in accordance with subsection (b).

7. Source of Payments.

All Severance Payments will be paid in cash from the general funds of the Company; no separate fund will be established under the Plan; and the Plan will have no assets. Any right of any person to receive any payment under the Plan will be no greater than the right of any other unsecured creditor of the Company.

8. Inalienability.

In no event may any Executive sell, transfer, anticipate, assign or otherwise dispose of any right or interest under the Plan. At no time will any such right or interest be subject to the claims of creditors nor liable to attachment, execution or other legal process.

9. Recovery of Payments Made by Mistake.

An Executive shall be required to return to the Company any Severance Payment, or portion thereof, made by a mistake of fact or law.

10. No Enlargement of Employment Rights.

Neither the establishment or maintenance of the Plan, the payment of any amount by the Company nor any action of the Company shall confer upon any individual any right to be continued as an employee or Executive nor any right or interest in the Plan other than as provided in the Plan.

11. Governing Law & Venue.

The parties to this Plan acknowledge and agree that this Plan and the parties' rights and obligations hereunder shall be construed, interpreted, administered and enforced in accordance with ERISA, and to the extent applicable, in accordance with the laws of the State of Florida, without regard to the State of Florida's conflict of law principles. The parties to this Plan agree and accept personal jurisdiction by and the laying of exclusive venue for any legal action or proceeding arising out of or related to this Plan in an appropriate state or federal court located in either Pinellas County, Florida or in Hillsborough County, Florida, if not maintainable therein, then in an appropriate Florida state court, and agree that such courts have jurisdiction to interpret and enforce the provisions of this Plan, and each party to this Plan consents to and waives, in connection with such action or proceeding, any objection to such personal jurisdiction or the laying of such venue or based on the ground of forum non conveniens. Each party agrees, that in any legal action or proceeding arising out of or related to this Plan, the non-prevailing party shall be responsible to pay to the prevailing party all of the prevailing party's attorney's fees and costs reasonably incurred in connection therewith.

12. Severability.

If any provision of the Plan is held invalid or unenforceable, its invalidity or unenforceability will not affect any other provision of the Plan, and the Plan will be construed and enforced as if such provision had not been included.

13. Assignment.

The Company may assign its rights under the Plan to any successor in interest, whether by merger, consolidation, sale of assets, or otherwise. The Plan shall be binding whether it is between the Company and Executive or any successor or assignee of the Company or affiliate thereof and Executive.

14. Execution.

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has executed the Plan on the date indicated below.

HSN, INC.

By: /s/ Lisa Letizio
Lisa Letizio, EVP – Human Resources

HSN, Inc.
Computation of Ratio of Earnings to Fixed Charges

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(unaudited) (In thousands, except ratios)				
Income (loss) from continuing operations before income taxes	$ 120,714	$ (3,118,251)	$ 169,787	$ 212,742	$ 193,387
Fixed charges:					
Interest expense (a)	35,283	16,420	—	—	992
Estimated interest portion of rental expense	8,283	8,382	9,669	9,471	8,283
Total fixed charges	43,566	24,802	9,669	9,471	9,275
Income (loss) from continuing operations before income taxes and fixed charges	164,280	(3,093,449)	179,456	222,213	202,662
Ratio of earnings to fixed charges	3.77	(b)	18.56	23.46	21.85

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.

Exhibit 21.1

HSN, Inc. Subsidiaries
March 4, 2010

Name	Jurisdiction of Organization
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 Services, Inc.	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 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
Ingenious Designs LLC	DE
NLG Merger Corp.	DE
Shopblinds.com, Inc.	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
Ventana Television Holdings, Inc.	DE
Ventana Television, 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

EXHIBIT 31.1

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 information; 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 over financial reporting.

Date: March 4, 2010

By: /s/ MINDY GROSSMAN
Mindy Grossman
Chief Executive Officer

EXHIBIT 31.2

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 information; 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 over financial reporting.

Date: March 4, 2010

By: /s/ JUDY A. SCHMELING

Judy A. Schmeling
Chief Financial Officer

EXHIBIT 32.1

**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 HSN, Inc. on Form 10-K for the fiscal year ended December 31, 2009 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 4, 2010

By: /s/ MINDY GROSSMAN
Mindy Grossman
Chief Executive Officer

EXHIBIT 32.2

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 HSN, Inc. on Form 10-K for the fiscal year ended December 31, 2009 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 4, 2010

By: /s/ JUDY A. SCHMELING

Judy A. Schmeling
Chief Financial Officer