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, 2011

Commission File No. 001-34061

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

Delaware (State or other jurisdiction of incorporation or organization)	**26-2590893** (I.R.S. Employer Identification No.)
1 HSN Drive, St. Petersburg, Florida (Address of principal executive offices)	**33729** (Zip Code)

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

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

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

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

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

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

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

Indicate by check mark 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, 2011 (the registrant's most recently completed second fiscal quarter), was $1,262,218,122 (based on a closing price of $32.92 per share for the registrant's common stock on the NASDAQ Global Select Market).

As of February 14, 2012, the registrant had 57,886,801 shares of common stock, $0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2012 Annual Meeting of Shareholders to be filed with the U.S. Securities and Exchange Commission no later than 120 days after the end of the registrant's 2011 fiscal year end are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

TABLE OF CONTENTS

		Page
	PART I	
ITEM 1.	BUSINESS	2
ITEM 1A.	RISK FACTORS	9
ITEM 1B.	UNRESOLVED STAFF COMMENTS	16
ITEM 2.	PROPERTIES	16
ITEM 3.	LEGAL PROCEEDINGS	17
ITEM 4.	MINE SAFETY DISCLOSURES	17
	PART II	
ITEM 5.	MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	18
ITEM 6.	SELECTED FINANCIAL DATA	20
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	21
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	32
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	33
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	66
ITEM 9A.	CONTROLS AND PROCEDURES	66
ITEM 9B.	OTHER INFORMATION	69
	PART III	
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	69
ITEM 11.	EXECUTIVE COMPENSATION	69
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS	69
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE	69
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	69
	PART IV	
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	70

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K 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 relate to expectations concerning matters that are not historical fact and 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. Although we believe our expectations are based on reasonable estimates and assumptions, they are not guarantees of performance.

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 influence of the macroeconomic environment and its impact on consumer confidence and spending levels;
- changes in political, business and economic conditions, particularly those that affect consumer confidence, consumer spending or digital growth;
- changes in our relationships with pay television operators, vendors, manufacturers and other third parties;
- changes in product delivery costs particularly if we are unable to offset them;
- our ability to offer new or alternative products and services through various platforms in a cost effective manner and consumer acceptance of these products and services;
- any technological or regulatory developments that could negatively impact the way we do business, including regulations regarding state and local sales and use taxes;
- risks associated with possible systems failures and/or security breaches, including, any security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or company information, or the failure to comply with various laws applicable to HSNi in the event of such a breach;
- HSNi’s business prospects and strategy, including whether HSNi’s initiatives will be effective; and
- the loss of any key member of our senior management team.

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. All written or oral forward-looking statements that are made or are attributable to us are expressly qualified in their entirety by this cautionary notice. Such forward-looking statements speak only to the date such statements are made and we do not undertake 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. Historical results should not be considered an indication of future performance.

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 through various platforms including television, online, mobile, 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 primarily through television home shopping programming on the HSN television networks 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 apparel lifestyle brands, including Frontgate, Ballard Designs, Garnet Hill, Grandin Road, Smith+Noble, The Territory Ahead, TravelSmith and Improvements. Cornerstone distributes more than 300 million catalogs annually, operates eight separate internet sites and operates 19 retail and outlet stores.

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, 2011, the HSN television networks reached approximately 95.5 million residential 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 Cornerstone Brands, Inc., with its 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 on August 20, 2008 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.” In connection with the Spin-off, 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 networks, 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 of quality products at reasonable prices and from brands that resonate with its customers. Products offered through HSN include jewelry, fashion (apparel & accessories), beauty & wellness, and home & other (including housewares, home fashions, electronics, culinary, fitness and other). Featured products include proprietary 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 networks; its related website, HSN.com; its mobile applications and a limited number of outlet stores. The HSN television network broadcasts live, customer interactive television home shopping programming 24 hours a day, seven days a week. HSN2, which debuted in August 2010, is a network that primarily distributes taped programming on a limited distribution basis. HSN's 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 products. HSN.com is a business-to-consumer internet commerce site that sells all of the merchandise offered on the HSN television networks, 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 presentations.

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 July 2013 and the other is leased through May 2019. Each satellite transponder lease provides for continued carriage of the HSN television networks on a replacement transponder and/or replacement satellite, as applicable, in the event of a failure of the transponder and/or satellite. 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, 2011 and 2010, the HSN television networks reached approximately 95.5 million and 95.9 million homes, respectively, of the approximately 114.6 million and 115.9 million homes, respectively, in the United States with a television set. Television households reached by the HSN television networks as of December 31, 2011 and 2010 primarily include approximately 64.8 million and 65.5 million households capable of receiving cable and/or broadcast transmissions, respectively, and approximately 30.8 million and 30.4 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 networks, as well as to promote the networks 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.

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 and some of which also receive 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 commission guarantees in exchange for their commitments to deliver a specified number of subscribers, channel placement incentives and advertising insertion time on the HSN television network.

HSN typically negotiates multi-year agreements that require HSN to pay monthly or annual fees. The weighted average overall length of the terms of all distribution and affiliation agreements in effect as of December 31, 2011 is 1.8 years. Distribution and affiliation agreements with pay television operators expire from time to time and renewal and negotiation processes may be 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. HSN expects that, as in the past, any extension of agreements that have expired will be on terms that, when taken as a whole, are commercially reasonable to HSN and competitive with the economics of other pay television operators.

Broadcast Television Distribution

As of December 31, 2011, HSN also had affiliation agreements with 26 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. also owns 26 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 networks, 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. According to Internet Retailer, HSN.com ranks 26th in "The Top 500" business-to-consumer retailers in the U.S. and Canada. HSN.com features more than 16,000 product videos.

Digital Distribution

In 2010, HSN expanded its digital reach by launching applications for the iPhone, Android and Windows 7 phones as well as an application for the iPad. These applications are highly video-centric, customized experiences that allow users to order merchandise, stream live video from HSN and watch previously-aired content from the network's video library while simultaneously browsing related products. Among other things, these applications also allow customers to create their own personalized channels, select their favorite brands or categories of merchandise and compile videos focused on these preferences.

Cornerstone

Cornerstone consists of eight brands, prominent in the direct marketing and retail space, including catalog distribution and related websites. The home brands are comprised of Frontgate, Ballard Designs, Grandin Road, Smith+Noble and Improvements. The apparel brands are comprised of Garnet Hill, TravelSmith and The Territory Ahead. There are also 19 retail and outlet stores located throughout the United States.

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. Smith+Noble offers custom home furnishings and window treatments and Grandin Road offers designer-inspired home accents. 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 2011 of more than 300 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, GrandinRoad.com, TerritoryAhead.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 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 2011, 2010 or 2009.

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 period of time following their broadcast on the HSN television network. Also featured on HSN.com are over 16,000 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, 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 (*e.g.*, notifying customers when their products will be featured on the HSN television network).

HSN 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. HSN also engages in search engine marketing and targeted offline advertising around the holidays and other key promotional periods. HSN participates in joint marketing and promotional partnerships with major motion picture companies as well as well-known recording artists. These promotions are designed to not only generate additional revenue but to also provide unique experiences for our customers in our continued effort to drive customer engagement.

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 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, through mobile devices 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, Paypal and, in the case of HSN, Flexpay. By utilizing Flexpay 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 its 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). 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. For HSN, these centers are located in Tennessee, California and Virginia, and for Cornerstone, the fulfillment centers are located in Ohio and, as of January 2012, Arizona. 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.

Through HSN.com and the various websites operated by Cornerstone or through HSNi's common carriers, customers can also generally track the status of their orders, 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 with call center representatives available seven days a week.

Government Regulation

We market and offer a broad range of merchandise through television, online, catalogs and other channels. The manner in which we promote and sell merchandise, including claims and representations made in connection with these efforts, is regulated by a wide variety of federal, state and local laws, regulations, rules, policies and procedures. Some examples of these that affect the manner in which we sell and promote merchandise or otherwise operate our businesses include, but are not limited to, the following:

- The Federal Trade Commission's regulations related to the sale of products and/or commercial contacts with our customers or potential customers, such as the Telemarketing Sales Rule and Do Not Call;
- The Food and Drug Administration's regulations regarding marketing claims that can be made about cosmetic beauty products and over-the-counter drugs, which include products for treating acne or medical products, and claims that can be made about food products; and
- Regulations related to product safety issues and product recalls including, but not limited to, the Consumer Product Safety Act, the Consumer Product Safety Improvement Act of 2008, the Federal Hazardous Substance Act, the Flammable Fabrics Act and regulations promulgated pursuant to these acts.

These laws, regulations, rules, policies and procedures are subject to change at any time. Unfavorable changes applicable to us could decrease demand for merchandise offered by us, increase costs which we may not be able to offset, subject us to additional liabilities and/or otherwise adversely affect our businesses.

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 operations on an ongoing basis for purposes of determining our compliance with the consent order.

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 generally restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the internet in states in which internet retailers have no nexus, 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, state or local regulatory authorities may take a contrary position. Our failure to comply with these laws and regulations could result in proceedings against us, fines and penalties and/

or a diminution of our reputation, each of which could adversely affect our financial condition, results of operations and businesses.

Intellectual Property

We regard our intellectual property rights, including patents, service marks, trademarks, domain names, copyrights and trade secrets, 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, licensees, affiliates and other third parties 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 secrets 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 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 dilution of brand names and/or limit our ability to control marketing on or through the internet using our various domain names either of 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 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 networks compete 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. 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 February 1, 2012, HSNi employed approximately 5,100 full-time employees and 1,300 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.

Information relating to corporate governance, including our Code of Business Conduct and Ethics and our Corporate Governance Guidelines, 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.

The content of 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. There exist additional risks and uncertainties that 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

Our revenues and profit margin are negatively influenced by economic conditions that impact consumer spending. If macroeconomic conditions do not improve or worsen, our business could be adversely affected.

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. Our customers anticipate and respond to adverse changes in economic conditions. If macroeconomic conditions do not improve or worsen, our business could be adversely affected. We are not able to predict the timing of any recovery.

Our long-term success depends, in large part, on our continued ability to attract new and retain existing customers 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.

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 networks.

We are dependent upon the pay television operators with whom we enter into distribution and affiliation agreements to carry the HSN television networks. 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 two largest pay television operators represent over 40% of our subscribers. The cessation of carriage of the HSN television networks 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 networks continue to be carried by the relevant pay television operator without an effective agreement in place. We currently provide service to approximately 48.1% of our total subscribers pursuant to month-to-month contracts or contracts that have expired. In addition, another 7.9% 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 that 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.

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

We purchase merchandise from a wide variety of third party vendors, manufacturers and other sources pursuant to short- and long-term contracts and purchase orders. Our ability to identify and establish relationships with these parties, as well as access quality merchandise in a timely and efficient manner on acceptable terms and at acceptable costs, can be challenging. In particular, we 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. 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.

Our failure 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 us 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 us to be unable to source merchandise in sufficient quantities, which could result in lost sales.

The unanticipated loss of certain larger vendors could negatively impact our sales and profitability on a short term basis.

It is possible that one or more of our larger vendors could experience financial difficulties, including bankruptcy, or otherwise could elect to cease doing business with us. While we have periodically experienced the loss of a major vendor, if a number of our current larger vendors ceased doing business with us, this could materially and adversely impact our sales and profitability on a short term basis.

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 networks 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 networks could be more widely distributed, it could also adversely affect our ability to attract television viewers to the television networks and a reduction in our growth rate to the extent it results in:

- higher channel position placement for the HSN television networks;
- placement of the HSN television networks 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 networks are 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 networks via new technologies in a cost-effective manner that meet customer demands and evolving industry standards.

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

Our success is dependent upon the continued ability of HSN to transmit the HSN television networks to broadcast and pay television operators from its satellite uplink facilities, which transmission is subject to the Federal Communications Commission ("FCC") compliance. HSN has entered into two satellite transponder leases to provide for continued carriage of the HSN television networks on a replacement transponder and/or replacement satellite, as applicable, in the event of a failure of the transponder and/or satellite. Although we believe that every reasonable measure is being taken to ensure continued satellite transmission capability, termination or interruption of satellite transmissions may occur.

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, we 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. 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 are subject to online and other cyber security risks and cyber incidents, including security and data breaches and identity theft.

To succeed, we must be able to provide for secure transmission of confidential information over public networks. We have observed an increased number of cyber attacks that include gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information. 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 our 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 and data 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 and data breaches and their consequences. We also face risks associated with security and data breaches affecting third parties with which we are affiliated or otherwise conduct business online.

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.

We use the internet, mobile devices, social networking and other online activities to connect with our customers. 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 our ability 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. In addition, we have observed an increase in the number of cyber attacks that include gaining access to digital systems for purposes of corrupting data or causing operational disruption. Any of these events could cause system interruption, delays and loss of critical data, and could prevent us 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.

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

We 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 could be at less favorable rates and could cause a disruption in our business. 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.

We 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 our ability 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, we 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 we are not able to adapt quickly enough and/or in a cost-effective manner to these changes it could result in lost sales.

We could be subject to additional sales tax liability, including liability for past sales.

U.S. Supreme Court decisions generally 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 digital-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 digital commerce could create administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on all digital competitors and decrease our future sales.

In addition, certain states and local jurisdictions have begun to collect sales and use tax from businesses without an obvious physical presence in that state. The continuation of this trend by states for which we do not currently collect taxes could raise substantial tax liabilities, decrease our ability to compete and otherwise harm our business.

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/or an injunction enjoining HSN from engaging in prohibited activities, among other penalties or remedies.

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 operations on an ongoing basis for purposes of determining its compliance with the consent order.

We 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 us.

The manner in which we sell and promote merchandise and related claims and representations made in connection with these efforts is regulated by federal, state and local law. We 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, product safety, wrongful death and damage to personal property relating to merchandise sold and misrepresentation of merchandise features and benefits. In certain instances, we have the right to seek indemnification for related liabilities from our 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 a particular claim.

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.

We may fail to protect our intellectual property rights within the full scope and manner available to us under applicable law or statute or may be accused of infringing upon the intellectual property rights of third parties.

We regard our intellectual property rights, including patents, service marks, trademarks and domain names, copyrights and trade secrets, as critical to our success. We rely heavily upon software codes, informational databases and other systemic components that are necessary to manage and support our business operations.

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.

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 television, online catalogs and other 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 product safety, 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 digital commerce, such as those regulating the sending of unsolicited, commercial electronic mail. Our failure to comply with these laws and regulations could result in fines and/or proceedings against us 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, subject us to additional liabilities and/or otherwise adversely affect our businesses. Finally, certain of these regulations impact the marketing efforts of our businesses and brands

Restrictive covenants in our debt instruments could limit our flexibility to respond to current market conditions or otherwise restrict our business activities.

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

- require a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness;
- limit our ability to use cash flow or obtain additional financing for future working capital, capital expenditures or other general corporate purposes;
- increase our vulnerability to general economic and industry conditions; or
- expose us to the risk of increased interest rates because certain of our borrowings, including borrowings under our 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 us to satisfy our financial obligations; and/or limit our ability to respond to business opportunities. The credit agreement relating to our credit facility and indenture with respect to the senior notes do include restrictive covenants, financial and non-financial.

Risks Related to Our Common Stock

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

In the fourth quarter of 2008, our Board of Directors approved the creation of a Series A Junior Participating Preferred Stock, adopted a shareholders' rights plan and declared a dividend of one right for each outstanding share of common stock held by our shareholders. Initially, these rights, which trade with the shares of our common stock, are not 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 shareholders.

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.

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 four outlet stores and other properties in various locations in the United States for administrative offices and data centers pursuant to leases that expire in 2012 through 2020. 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, and Phoenix, Arizona, as well as 19 retail stores and outlets in various locations throughout the United States, all pursuant to leases with expiration dates ranging from 2012 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

In the ordinary course of business, 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 (including patent infringement), sales tax, regulatory compliance and other claims. As of the date of this filing, 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, litigation matters are subject to inherent uncertainties and the results of these matters cannot be predicted with certainty. 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. Moreover, any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and results in the diversion of significant operational resources.

See Note 13 – Commitments and Contigencies in Part II, Item 8 for additional information regarding legal matters in which we are involved.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock trades on the NASDAQ Global Select Market under the symbol HSNI. The table below sets forth the high and low per share sales prices of our common stock for the periods indicated, as reported by the NASDAQ Global Select Market.

	Sales Price	
Fiscal 2011	**High**	**Low**
Fourth Quarter	$38.45	$30.38
Third Quarter	$37.80	$27.55
Second Quarter	$36.36	$29.69
First Quarter	$32.55	$27.01
Fiscal 2010		
Fourth Quarter	$31.99	$25.50
Third Quarter	$31.49	$23.40
Second Quarter	$34.66	$22.03
First Quarter	$30.99	$17.93

Holders

As of February 1, 2012, there were 1,885 shareholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of shareholders, we are not able to estimate the total number of beneficial shareholders represented by these record holders.

Dividends

On September 27, 2011, our Board of Directors approved our first cash dividend. The $0.125 per share dividend was paid on November 16, 2011 to shareholders of record as of November 2, 2011. We currently expect to continue to declare and pay quarterly dividends of an amount similar to our past declaration. However, 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. Our credit agreement and indenture limit the amount of and our ability to pay cash dividends.

Issuer Purchases of Equity Security

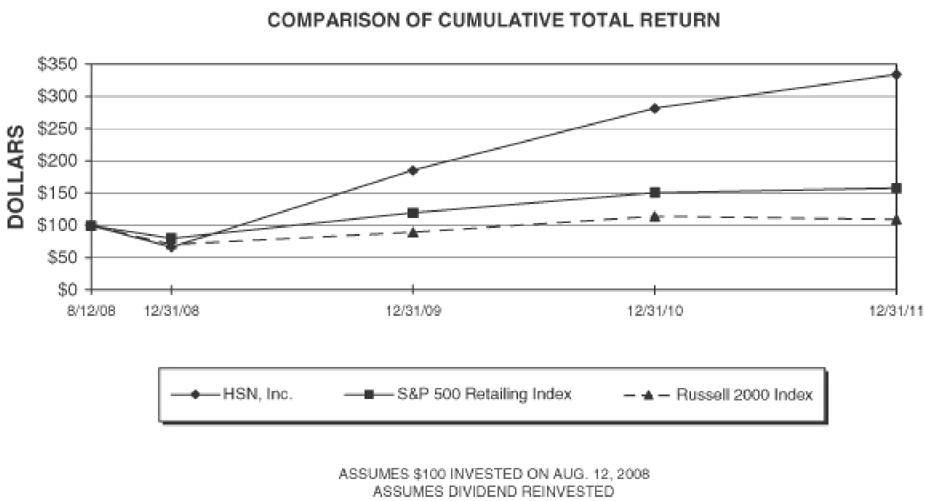
On September 27, 2011, our Board of Directors authorized us to repurchase up to 10 million shares of our common stock. Under the terms of the share repurchase program, HSNi will repurchase its common stock from time to time through privately negotiated or open market transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934, as amended, or by any combination of such methods. The timing of any repurchases and actual number of shares repurchased will depend on a variety of factors, including the stock price, corporate and regulatory requirements, restrictions under the company's debt obligations and other market and economic conditions. The repurchase program may be suspended or discontinued by HSNi at any time.

During the quarter ended December 31, 2011, we repurchased approximately 791,000 shares at an average price of $35.46 per share. Below is a summary of our common stock repurchases during the fourth quarter of 2011:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs
October 1, 2011 - October 31, 2011	—	$ —	—	10,000,000
November 1, 2011 - November 30, 2011	419,300	$ 35.02	419,300	9,580,700
December 1, 2011 - December 31, 2011	372,010	$ 35.95	372,010	9,208,690
	791,310		791,310	

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 on the NASDAQ Global Select Market after the Spin-off through December 31, 2011, the last day of our fiscal year.



	8/12/2008	12/31/2008	12/31/2009	12/31/2010	12/31/2011
HSN, Inc.	100.00	66.70	185.23	281.19	333.87
S&P 500 Retailing Index	100.00	80.07	119.94	150.35	157.40
Russell 2000 Index	100.00	70.45	89.60	113.66	108.92

Table of Contents

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 9 of Notes to Consolidated Financial Statements.

	Year Ended December 31,				
	2011	2010	2009	2008 As adjusted (1)	2007 As adjusted (1)
	(In thousands, except per share data)				
Statement of Operations Data:					
Net sales	$ 3,177,154	$ 2,996,780	$ 2,749,609	$ 2,823,593	$ 2,908,242
Asset impairments (2)	2,976	—	—	3,186,650	—
Operating income (loss)	231,999	196,087	155,654	(3,102,311)	169,791
Income (loss) from continuing operations	123,070	98,523	72,488	(2,124,024)	105,233
Net income (loss) (3)	123,070	98,523	72,488	(2,127,434)	164,804
Income (loss) from continuing operations per share:					
Basic	$ 2.10	$ 1.72	$ 1.29	$ (37.79)	$ 1.87
Diluted	$ 2.03	$ 1.65	$ 1.26	$ (37.79)	$ 1.86
Net income (loss) per share:					
Basic	$ 2.10	$ 1.72	$ 1.29	$ (37.85)	$ 2.93
Diluted	$ 2.03	$ 1.65	$ 1.26	$ (37.85)	$ 2.91
Shares used in computing earnings per share:					
Basic	58,636	57,414	56,383	56,208	56,206
Diluted	60,689	59,546	57,330	56,208	56,649
Dividends per common share	$ 0.125	$ —	$ —	$ —	$ —
Balance Sheet Data (end of period):					
Working capital	$ 505,901	$ 451,406	$ 332,964	$ 306,354	$ 147,185
Total assets	1,394,973	1,345,743	1,218,650	1,152,457	4,220,631
Total debt, including current maturities	239,111	308,758	338,722	408,528	—
Other long-term liabilities, including deferred income taxes	101,947	100,107	90,372	96,392	1,092,356

(1) Previously reported results for the year ended December 31, 2008 have been restated. Other long-term liabilities, including deferred income taxes, as of December 31, 2007 have also been adjusted. See Note 1 of Notes to Consolidated Financial Statements under the subheading "Restatement of Previously Issued Financial Information" for further discussion.

(2) The asset impairment charges in 2011 related to certain intangible and fixed assets of one of the Cornerstone brands. See Note 3 and 4 of Notes to Consolidated Financial Statements for discussion of these charges. The asset impairment charges in 2008 related to HSN and Cornerstone goodwill and intangible assets.

(3) Loss from discontinued operations for the periods presented includes the income and losses for HSNi's international subsidiaries that previously conducted business in Belgium and Mexico.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this annual report. Historical results and trends which might appear should not be taken as indicative of future operations. Our results of operations and financial condition, as reflected in the accompanying statements and related notes, are subject to management's evaluation and interpretations of business conditions, changing market conditions and other factors.

Management Overview

HSNi markets and sells a wide range of third party and proprietary label merchandise directly to consumers through (i) television home shopping programming broadcast on the HSN television networks; (ii) catalogs, which consist primarily of the Cornerstone portfolio of leading print catalogs which includes Frontgate, Ballard Designs, Garnet Hill, Grandin Road, Smith+Noble, The Territory Ahead, TravelSmith and Improvements; (iii) websites, which consist primarily of HSN.com and the eight branded websites operated by Cornerstone; (iv) retail and outlet stores; and (v) mobile handheld devices. HSNi's television home shopping business, related digital commerce and outlet operations are referred to herein as "HSN" and all catalog operations, including related digital commerce and retail and outlet stores, are collectively referred to herein as "Cornerstone."

Sources of Revenue

HSN revenue includes merchandise sales originating from the live television broadcasts of its programming 24 hours per day, seven days a week; HSN2, a network that primarily distributes taped programming on a limited distribution basis; the HSN.com website; mobile handheld devices; and through outlet stores. 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 and outlet stores. Cornerstone consists of the brands of Frontgate, Ballard Designs, Garnet Hill, Grandin Road, 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, fashion (apparel & accessories), beauty & wellness, and home & other (including housewares, home fashions, electronics, fitness and other). 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. 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.

Economic and Other Trends

In 2011, HSNi's net sales grew 6% to $3.2 billion, including 13% growth in digital sales. HSN's net sales increased 2% driven primarily by increased digital sales penetration and growth in merchandise sales from its Home & Other division, particularly in the electronics and culinary categories. Increased investments in catalog circulation and digital marketing contributed to net sales growth at Cornerstone of 15%. Cornerstone's growth was led by strength at its three largest brands, Frontgate, Ballard Designs and Garnet Hill.

During 2011, gross profit margin improved 80 basis points to 36.2%. The increase was primarily attributable to lower inbound and outbound shipping costs. However, we did experience margin pressure from the increased promotional activity used to drive demand. As we look forward, we do anticipate that we will continue to experience these pricing pressures. Also, increases in product and/or shipping costs could further impact our financial results if we are unable to pass such costs along in the form of price increases to our customers.

HSNi's operating expenses increased 6%. Included in this operating expense increase were additional catalog costs, increased compensation and employee-related costs and investments in digital marketing.

Our strategy for HSN continues to be to invest in customer growth by expanding our digital presence through our multi-channel platforms, leverage innovation and provide our customers with compelling products and experiences. At Cornerstone, we will continue to leverage the strength of the three largest brands, focus on digital and multi-channel growth and selectively invest in catalog circulation within our brands to drive demand. We are committed to managing our operating expenses and will continue to invest in the business, as appropriate, to drive customer growth and profitability. We expect continued challenges as a result of the unpredictable economic environment, including challenges related to unemployment rates, political climate, consumer confidence, fuel and product costs, and other economic factors affecting consumer spending behavior. These challenges could negatively influence our top-line and/or gross profit growth in 2012.

Results of Operations

Net Sales

Net sales primarily relate to the sale of merchandise, including shipping and handling fees, 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.

	Year Ended December 31,				
	2011	Change	2010	Change	2009
	(Dollars in thousands)				
HSN	$2,160,341	2%	$2,115,918	5%	$2,007,897
Cornerstone	1,016,813	15%	880,862	19%	741,712
Total HSNi net sales	$3,177,154	6%	$2,996,780	9%	$2,749,609

HSNi net sales in 2011 increased 6%, or $180.4 million, due to 2% sales growth at HSN and 15% sales growth at Cornerstone. Digital sales grew 13% in 2011 representing 42.0% of HSNi net sales as compared to 39.2% in the prior year. The number of units shipped in 2011 increased 4% to 56.5 million from 54.4 million, and the average price point increased 3% to $64.81 from $62.62 in the prior year.

HSNi net sales in 2010 increased 9%, or $247.2 million, due to 5% sales growth at HSN and 19% sales growth at Cornerstone. Digital sales grew in 2010 representing 39.2% of HSNi net sales as compared to 37.4% in the prior year. The number of units shipped in 2010 increased 7% to 54.4 million from 50.7 million, and the average price point increased 2% to $62.62 from $61.12 in the prior year.

HSN

HSN net sales increased 2% in 2011, or $44.4 million, driven by revenue growth in the Home & Other division, particularly in the electronics and culinary categories. In 2011, HSN continued to focus on customer growth through our investments in digital marketing and social media initiatives. Digital sales grew 9% with penetration increasing 200 basis points to 33.8%. Average price point increased 3% and units shipped increased 2%. The return rate increased to 20.0% from 18.9% primarily due to changes in product mix.

HSN net sales increased 5% in 2010, or $108.0 million, driven by revenue growth in the Home & Other division, particularly in the electronics category, as well as the Fashion division. Digital sales grew 11% with penetration increasing 150 basis points to 31.8%. The growth in net sales is attributable to increased consumer demand as reflected by the 5% increase in units shipped to 40.6 million from 38.8 million. Average price point increased 2% to $61.00 from $59.81.

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

	Year Ended December 31,		
	2011	2010	2009
Jewelry	14.0%	14.6%	15.5%
Fashion (apparel & accessories)	13.2%	13.6%	11.3%
Beauty & Wellness	17.2%	17.3%	17.7%
Home & Other (including housewares, home fashions, electronics, culinary, fitness and other)	55.6%	54.5%	55.5%
Total	100.0%	100.0%	100.0%

Cornerstone

Cornerstone's net sales for 2011 increased 15%, or $136.0 million, compared to the prior year. The sales growth is primarily attributable to strength at Cornerstone's three largest brands, Frontgate, Ballard Designs and Garnet Hill; as well as investment in catalog circulation and digital marketing. Digital sales grew 20% with penetration increasing 220 basis points to 59.2%. The average price point and the number of units shipped increased 4% and 10%, respectively. Catalog circulation increased 12% compared to the prior year.

Cornerstone's net sales for 2010 increased 19%, or $139.2 million, compared to the prior year. The increase was primarily due to effective execution of strategic merchandising and marketing initiatives; our investment in catalog circulation primarily in Cornerstone's three largest brands, Frontgate, Ballard Designs and Garnet Hill; and a resurgence in consumer demand for luxury and outdoor products. The average price point and the number of units shipped increased 1% and 16%, respectively. Catalog circulation increased 11% compared to the prior year.

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 for personnel engaged in warehouse functions. Cost of products sold includes merchandise cost, inbound freight and duties and certain allocable general and administrative costs, including certain warehouse costs.

	Year Ended December 31,				
	2011	Change	2010	Change	2009
	(Dollars in thousands)				
Gross profit:					
HSN	$ 741,308	5%	$ 709,181	4%	$678,717
HSN gross profit margin	34.3%	80 bp	33.5%	(30 bp)	33.8%
Cornerstone	$ 408,746	16%	$ 351,833	16%	$302,597
Cornerstone gross profit margin	40.2%	30 bp	39.9%	(90 bp)	40.8%
HSNi	$1,150,054	8%	$1,061,014	8%	$981,314
HSNi gross profit margin	36.2%	80 bp	35.4%	(30 bp)	35.7%

bp = basis points

HSN

Gross profit for HSN increased 5% in 2011, or $32.1 million, compared to the prior year. Gross profit margin increased 80 basis points to 34.3% from 33.5%. The margin increase was primarily attributable to lower outbound shipping costs, liquidation charges and inbound freight costs.

Gross profit for HSN increased 4% in 2010, or $30.5 million, compared to the prior year. Gross profit margin declined 30 basis points to 33.5% from 33.8% in the prior year. The slight decline in the gross profit margin was primarily attributable to a decrease in net shipping margins primarily due to a product mix shift towards electronics, partially offset by improved product margins due to less promotional activity in the first half of the year. Gross profit margin was also negatively impacted by increased inventory reserves as a result of a higher inventory balance.

Cornerstone

Gross profit for Cornerstone increased 16% in 2011, or $56.9 million, compared to the prior year. Gross profit margin improved 30 basis points to 40.2% from 39.9% in the previous year. The margin increase was primarily attributable to improved outbound shipping margins and leverage over fixed warehousing costs, partially offset by increased promotional activity to drive sales demand.

Gross profit for Cornerstone increased 16% in 2010, or $49.2 million, compared to the prior year. Gross profit margin declined 90 basis points to 39.9% from 40.8% in the previous year. The decrease in the gross profit margin was primarily due to increased rates for inbound and outbound shipping services for larger package deliveries (as a result of increased global demand for shipping services and the expiration of favorable shipping contracts in place during 2009) and increased promotional activity to drive demand, partially offset by leverage over warehousing costs due to the revenue growth and warehouse efficiencies.

Selling and Marketing Expense

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.

	Year Ended December 31,				
	2011	Change	2010	Change	2009
	(Dollars in thousands)				
HSN	$291,966	1%	$289,676	5%	$275,296
As a percentage of HSN net sales	13.5%	(20 bp)	13.7%	0 bp	13.7%
Cornerstone	$285,244	15%	$249,013	7%	$232,273
As a percentage of Cornerstone net sales	28.1%	(20 bp)	28.3%	(300 bp)	31.3%
HSNi	$577,210	7%	$538,689	6%	$507,569
As a percentage of HSNi net sales	18.2%	20 bp	18.0%	(50 bp)	18.5%

HSNi's selling and marketing expense in 2011 increased 7%, or $38.5 million, and was 18.2% of net sales as compared to 18.0% in 2010. The increase in the expense is primarily due to additional expenses incurred at Cornerstone for catalog production and distribution costs associated with a 12% increase in catalog circulation, an increase in compensation and other employee-related costs primarily due to increased headcount and investments in digital marketing.

HSNi's selling and marketing expense in 2010 increased 6%, or $31.1 million, and was 18.0% of net sales as compared to 18.5% in 2009. The increase in the expense is primarily due to increased catalog production and distribution costs associated with an 11% increase in Cornerstone's catalog circulation, an increase in compensation and other employee-related costs primarily due to increased headcount, an increase in on-air distribution costs and strategic investments in brand and event marketing at HSN. The increase in on-air distribution costs was primarily due to HSN2, HSN's second television shopping channel that debuted in August 2010.

General and Administrative Expense

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.

	Year Ended December 31,				
	2011	Change	2010	Change	2009
			(Dollars in thousands)		
HSN	$166,847	4%	$160,361	0%	$159,869
As a percentage of HSN net sales	7.7%	10 bp	7.6%	(40 bp)	8.0%
Cornerstone	$ 75,123	13%	$ 66,610	6%	$ 62,595
As a percentage of Cornerstone net sales	7.4%	(20 bp)	7.6%	(80 bp)	8.4%
HSNi	$241,970	7%	$226,971	2%	$222,464
As a percentage of HSNi net sales	7.6%	0 bp	7.6%	(50 bp)	8.1%

HSNi's general and administrative expense in 2011 increased 7%, or $15.0 million, and was 7.6% of net sales, consistent with the prior year. The increase in expense was primarily driven by an increase in compensation and other employee-related costs including $4.5 million of additional stock-based compensation, higher insurance costs and $3.0 million of intangible and fixed asset impairment charges recorded by one of the Cornerstone brands during the fourth quarter of 2011. These expenses were partially offset by a decrease in legal costs due to a $2.5 million settlement recorded in the prior year.

HSNi's general and administrative expense in 2010 increased 2%, or $4.5 million, and was 7.6% of net sales as compared to 8.1% in the prior year. The increase in expense was driven by an increase in compensation and other employee-related costs primarily due to stock-based compensation, partially offset by a decrease in performance driven incentives.

Production and Programming Expense

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.

	Year Ended December 31,				
	2011	Change	2010	Change	2009
			(Dollars in thousands)		
Production and programming expense	$61,915	3%	$60,235	6%	$57,090
As a percentage of HSN net sales	2.9%	10 bp	2.8%	0 bp	2.8%

Production and programming expense for 2011 increased 3%, or $1.7 million, and was 2.9% of HSN's net sales, as compared to 2.8% in the prior year. The increase in expense is primarily due to an increase in compensation and employee-related costs, partially offset by a decrease in expense related to prior year marketing events.

Production and programming expense for 2010 increased 6%, or $3.1 million, and was 2.8% of HSN's net sales, consistent with the prior year. The increase in expense is primarily due to costs incurred for marketing events and an increase in compensation and employee-related costs.

Depreciation and Amortization

	Year Ended December 31,				
	2011	Change	2010	Change	2009
	(Dollars in thousands)				
HSN	$27,652	(8%)	$30,183	3%	$29,228
Cornerstone	9,308	5%	8,849	(5%)	9,309
HSNi	$36,960	(5%)	$39,032	1%	$38,537
As a percentage of HSNi net sales	1.2%	(10 bp)	1.3%	(10 bp)	1.4%

Depreciation and amortization for 2011 decreased $2.1 million compared to the prior year. The decrease is primarily due to certain fixed assets becoming fully depreciated during the period. Depreciation and amortization for 2010 increased $0.5 million compared to the prior year and is 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 2011 and 2010 and were for investments in information technology, campus renovations and broadcast-related investments.

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,				
	2011	Change	2010	Change	2009
	(Dollars in thousands)				
HSN	$235,163	10%	$213,612	9%	$196,139
As a percentage of HSN net sales	10.9%	80 bp	10.1%	30 bp	9.8%
Cornerstone	$ 64,857	47%	$ 44,011	340%	$ 9,998
As a percentage of Cornerstone net sales	6.4%	140 bp	5.0%	370 bp	1.3%
HSNi	$300,020	16%	$257,623	25%	$206,137
As a percentage of HSNi net sales	9.4%	80 bp	8.6%	110 bp	7.5%

NM = not meaningful

HSNi's Adjusted EBITDA in 2011 increased 16%, or $42.4 million, and is 9.4% of net sales as compared to 8.6% in 2010. The increase in Adjusted EBITDA is primarily due to a 6% growth in net sales and 80 basis point improvement in gross profit margin as compared to 2010, partially offset by the increase in operating expenses for investments in Cornerstone's catalog circulation and compensation and employee-related costs. HSN's Adjusted EBITDA increased 10%, or $21.6 million, primarily due to a 2% increase in net sales and 80 basis point improvement in gross profit margin, partially offset by a 2% increase in operating expenses (excluding non-cash charges) primarily for compensation and employee-related costs. Cornerstone's Adjusted EBITDA increased 47%, or $20.8 million, primarily due to a 15% increase in net sales and 30 basis point improvement in gross profit margin, partially offset by a 12% increase in operating expenses (excluding non-cash charges) primarily for investments in its catalog circulation and compensation and employee-related costs.

HSNi's Adjusted EBITDA in 2010 increased 25%, or $51.5 million, and is 8.6% of net sales as compared to 7.5% in 2009. The increase in Adjusted EBITDA is primarily due to a 9% growth in net sales, partially offset by the increase in operating expenses for investments in Cornerstone's catalog circulation and on-air distribution costs at HSN. HSN's Adjusted EBITDA increased 9%, or $17.5 million, primarily due to a 5% increase in net sales, partially offset by a 3% increase in operating expenses, excluding non-cash charges. Cornerstone's Adjusted EBITDA increased $34.0 million primarily due to a 19% increase in net sales, partially offset by a 5% increase in operating expenses, excluding non-cash charges.

Operating Income (Loss)

	Year Ended December 31,				
	2011	Change	2010	Change	2009
			(Dollars in thousands)		
HSN	$192,928	14%	$168,724	7%	$157,233
As a percentage of HSN net sales	8.9%	90 bp	8.0%	20 bp	7.8%
Cornerstone	$ 39,071	43%	$ 27,363	1833%	$ (1,579)
As a percentage of Cornerstone net sales	3.8%	70 bp	3.1%	330 bp	(0.2%)
HSNi	$231,999	18%	$196,087	26%	$155,654
As a percentage of HSNi net sales	7.3%	80 bp	6.5%	80 bp	5.7%

NM = not meaningful

HSNi's operating income in 2011 increased 18%, or $35.9 million, and was 7.3% of net sales as compared to 6.5% in the prior year. The increase in operating income is primarily due to the 6% growth in net sales and 80 basis point improvement in gross profit margin, partially offset by a 6% increase in operating expenses primarily for investments in Cornerstone's catalog circulation and compensation and employee-related costs.

HSNi's operating income in 2010 increased 26%, or $40.4 million, from 2009 and was 6.5% of net sales as compared to 5.7% in the prior year. The increase in operating income is primarily due to a 9% growth in net sales, partially offset by an increase in operating expenses for investments in Cornerstone's catalog circulation, a $10.0 million increase in stock-based compensation expense and higher on-air distribution costs at HSN.

Other Income (Expense)

	Year Ended December 31,				
	2011	Change	2010	Change	2009
			(Dollars in thousands)		
Interest income	$ 429	(29%)	$ 601	75%	$ 343
Interest expense	(32,022)	(3%)	(33,124)	(6%)	(35,373)
Total other expense, net	$(31,593)	(3%)	$(32,523)	(7%)	$(35,030)
As a percentage of HSNi net sales	(1.0%)	10 bp	(1.1%)	20 bp	(1.3%)

Interest expense primarily relates to the $240 million of 11.25% senior notes and the $150 million five-year term loan which were issued in the third quarter of 2008 in connection with the Spin-off from IAC. The decrease in interest expense in 2011 compared to 2010 is due to the repayments of the term loan in 2010 and 2011 and a decrease in the average interest rate of the term loan. The decrease in the interest expense in 2010 compared to 2009 is due to the partial repayment of the term loan in 2010 and a decrease in the average interest rate of the term loan.

Income Tax Provision

For the years ended December 31, 2011, 2010 and 2009, HSNi recorded tax provisions from continuing operations of $77.3 million, $65.0 million and $48.1, respectively, which represent effective tax rates of 38.6%

39.8% and 39.9%, respectively. The 2011, 2010 and 2009 tax rates are higher than the federal statutory rate of 35% due principally to state income taxes.

Liquidity and Capital Resources

As of December 31, 2011, HSNi had $381.8 million of cash and cash equivalents, up from $354.3 million as of December 31, 2010.

Net cash provided by operating activities was $166.3 million in 2011 compared to $133.6 million in 2010, an increase of $32.7 million. This increase was primarily due to improved operating performance.

Net cash used in investing activities in 2011 of $42.3 million and in 2010 of $37.5 million resulted from capital expenditures. The capital expenditures in both years were primarily at HSN and were for investments in information technology, headquarter renovations and broadcasting-related investments.

Net cash used in financing activities in 2011 was $96.4 million and was primarily due to a $69.8 million voluntary prepayment of the remaining balance of the term loan and $26.8 million used to repurchase our common stock. HSNi also declared a cash dividend of $0.125 per common share resulting in a $7.4 million payment during the fourth quarter of 2011. Additionally, in 2011 HSNi had an inflow of $10.2 million for excess tax benefits from stock-based awards and a net outflow of $2.6 million for the issuance of common stock which included $8.8 million of cash proceeds from stock option and employee stock purchase plan exercises, offset by $11.5 million used to cover withholding taxes for our stock-based awards.

Net cash used in financing activities in 2010 was $11.8 million which included a $30.2 million repayment of long-term debt under the term loan, $15.3 million of cash proceeds received from the issuance of common stock pursuant to stock-based awards net of withholding taxes, and $3.1 million of excess tax benefits from stock-based awards. The repayment of long-term debt under the term loan included a voluntary prepayment of approximately $25.4 million in December 2010, of which approximately $19.6 million would have been required to be paid in 2011. The $15.3 million of proceeds received from the issuance of common stock included $18.0 million of cash proceeds from stock option and employee stock purchase plan exercises, offset by $2.7 million used to cover withholding taxes for our stock-based awards.

The credit agreement contains two principal financial covenants, each as defined in the credit agreement, 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, 2011, with a leverage ratio of 0.82x and an interest coverage ratio of 10.38x. The amount available 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, 2011, there were $31.0 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, 2011, the additional amount that could be borrowed under the revolving credit facility, in consideration of the financial covenants and outstanding letters of credit, was approximately $119.0 million.

HSNi does not currently have any material commitments for capital expenditures; however, management does anticipate that HSNi will need to make capital and other expenditures in connection with the development and expansion of its operations. 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.

On September 27, 2011, HSNi's Board of Directors approved a share repurchase program which allows HSNi to purchase 10 million shares of its common stock from time to time through privately negotiated and/or open market transactions. The timing of any repurchases and actual number of shares repurchased will depend on a variety of factors, including the stock price, corporate and regulatory requirements, restrictions under HSNi's debt obligations and other market and economic conditions. The repurchase program may be suspended or discontinued by HSNi at any time. As of December 31, 2011, HSNi repurchased approximately 791,000 shares at a cost of $28.1 million, or an average cost of $35.46 per share.

Contractual Obligations and Commercial Commitments

The following table presents HSNi's contractual obligations as of December 31, 2011:

	Payments Due by Period				
Contractual Obligations	**Total Amounts Committed**	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More Than 5 Years**
			(In thousands)		
Long-term debt, including current maturities	$ 240,000	$ —	$ —	$ 240,000	$ —
Interest on debt	123,750	27,000	54,000	42,750	—
Operating leases	140,639	24,324	43,446	32,744	40,125
Purchase obligations (a)	179,265	85,151	93,194	920	—
Total contractual obligations	$ 683,654	$ 136,475	$ 190,640	$ 316,414	$ 40,125

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

	Amount of Commitments Expiration Per Period				
Commercial Commitments	**Total Amounts Committed**	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More Than 5 Years**
			(In thousands)		
Letters of credit and surety bonds (b)	$ 34,687	$34,637	$ 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, 2011, we had $0.7 million recorded for uncertain tax positions. We are not able to reasonably estimate the timing of payments in future periods; therefore, the liability of $0.7 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, 2011.

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 30%, 31% and 31% of total reported annual revenues in 2011, 2010 and 2009, 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 information that it uses in analyzing its results.

Adjusted EBITDA is defined as operating income excluding, if applicable: (1) non-cash charges including: (a) stock-based compensation expense, (b) amortization of intangibles, (c) depreciation and gains and losses on asset dispositions, and (d) goodwill, long-lived asset and intangible asset impairments; (2) pro forma adjustments for significant acquisitions; and (3) 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 and media industries. Adjusted EBITDA measures the amount of income generated each period that could be used to service debt, pay taxes and fund capital expenditures. Adjusted EBITDA 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.

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 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 Adjusted EBITDA and net income for the years ended December 31, 2011, 2010 and 2009.

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. The following 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. Impairment is considered to have occurred whenever the carrying value of a long-lived asset exceeds the sum of the undiscounted cash flows that is expected to result from the use and eventual disposition of the asset. The impairment is measured by comparing the fair value of the asset to its carrying value. Our valuation methodologies include, but are not limited to, discounting the future cash flows from the asset being tested. Significant judgments include determining if a triggering event has occurred, determining the future cash flows from the assets and applying the appropriate discount rate when measuring the fair value. The determination of cash flows is based upon assumptions that may not occur.

Impairment of Indefinite-Lived Intangible Assets

HSNi assesses the impairment of identifiable indefinite-lived intangible assets, principally trademarks and trade names acquired in various acquisitions, 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 fair value of its intangible assets. If it is determined that the fair value of its intangible assets is less than the carrying amount, an impairment charge, equal to the excess, is recorded. HSNi utilizes the relief from royalty method to assess fair values of its trademarks and trade names.

In assessing fair value, HSNi considers, among other indicators, differences between estimated and actual revenue streams and changes in the related discount, royalty and terminal growth rates. Determining these rates requires the exercise of significant judgments. These factors used in the determination of fair value 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 2011, 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. HSNi's sales policy allows customers to return virtually all merchandise for a full refund or exchange, subject to pre-established time restrictions. Allowances for returned merchandise and other adjustments (including reimbursed shipping and handling costs) are provided based upon past experience. Actual levels of product returns may vary from these estimates. HSNi's estimated return rates were 18.2%, 17.8% and 17.8% in 2011, 2010 and 2009, respectively.

Allowance for Doubtful Accounts

HSNi makes judgments as to its ability to collect outstanding receivables and provide allowances when it has determined 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 tax assets and liabilities are shown in Note 12 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. 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-based awards at fair value and recognize compensation over the service period for awards expected to vest. We consider many factors when estimating expected forfeitures, including types of awards, employee class and historical experience. HSNi grants performance-based equity awards whose value is based on the extent to which certain pre-established performance goals are achieved during a three-year period. Each reporting period prior to the vesting of these awards, management must apply significant judgment when estimating the expected future achievement of the designated performance metrics The estimation of stock awards that will ultimately vest and the estimation of the value of the performance-based awards require 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. 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, stock appreciation rights and options granted under our employee stock purchase plan 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2011, HSNi's outstanding long-term debt was approximately $240.0 million, all of which pays interest at fixed rates. As market rates decline, the required interest payments on this fixed rate debt will exceed those based on market rates. A hypothetical 100 basis point increase or decrease in interest rates would, respectively, decrease or increase the fair value of the fixed-rate debt by approximately $6.5 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

	Page
Report of Independent Registered Certified Public Accounting Firm	34
Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009	35
Consolidated Balance Sheets at December 31, 2011 and 2010	36
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2011, 2010 and 2009	37
Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009	38
Notes to Consolidated Financial Statements	39
Schedule II – Valuation and Qualifying Accounts	65

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, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. 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, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2012, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Tampa, Florida
February 23, 2012

Table of Contents

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended December 31,		
	2011	2010	2009
Net sales	$ 3,177,154	$ 2,996,780	$ 2,749,609
Cost of sales	2,027,100	1,935,766	1,768,295
Gross profit	1,150,054	1,061,014	981,314
Operating expenses:			
Selling and marketing	577,210	538,689	507,569
General and administrative	241,970	226,971	222,464
Production and programming	61,915	60,235	57,090
Depreciation and amortization	36,960	39,032	38,537
Total operating expenses	918,055	864,927	825,660
Operating income	231,999	196,087	155,654
Other income (expense):			
Interest income	429	601	343
Interest expense	(32,022)	(33,124)	(35,373)
Total other expense, net	(31,593)	(32,523)	(35,030)
Income before income taxes	200,406	163,564	120,624
Income tax provision	(77,336)	(65,041)	(48,136)
Net income	$ 123,070	$ 98,523	$ 72,488
Net income per share:			
Basic	$ 2.10	$ 1.72	$ 1.29
Diluted	$ 2.03	$ 1.65	$ 1.26
Shares used in computing earnings per share:			
Basic	58,636	57,414	56,383
Diluted	60,689	59,546	57,330
Dividends declared per common share	$ 0.125	$ —	$ —

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, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 381,808	$ 354,259
Accounts receivable, net of allowance of $13,127 and $13,026, respectively	222,583	195,748
Inventories	296,460	296,390
Deferred income taxes	24,302	28,801
Prepaid expenses and other current assets	44,966	42,443
Total current assets	970,119	917,641
Property and equipment, net	158,434	154,987
Intangible assets, net	258,048	260,623
Other non-current assets	8,372	12,492
TOTAL ASSETS	$ 1,394,973	$ 1,345,743
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 270,227	$ 244,301
Current maturities of long-term debt	—	5,820
Accrued expenses and other current liabilities	193,991	216,114
Total current liabilities	464,218	466,235
Long-term debt, less current maturities	239,111	302,938
Deferred income taxes	78,131	80,203
Other long-term liabilities	23,816	19,904
Total liabilities	805,276	869,280
Commitments and contingencies (Note 13)		
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; 58,414,019 and 57,966,771 issued shares as of December 31, 2011 and 2010, respectively	584	580
Additional paid-in capital	2,180,112	2,189,952
Accumulated deficit	(1,590,999)	(1,714,069)
Total shareholders' equity	589,697	476,463
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,394,973	$ 1,345,743

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				Accumulated Other	
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Comprehensive (Loss) Income	Total
Balance as of December 31, 2008:								
As previously reported	—	$ —	56,222	$ 562	$ 2,406,503	$ (2,148,534)	$ (246)	$ 258,285
Effect of prior year adjustment (a)	—	—	—	—	(263,454)	263,454	—	—
As adjusted (a)	—	—	56,222	562	2,143,049	(1,885,080)	(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	—	—	—	—	11,391	—	—	11,391
Adjustment to capitalization as a result of the spin-off	—	—	—	—	406	—	—	406
Issuance of common stock from stock-based compensation awards	—	—	281	3	1,465	—	—	1,468
Balance as of December 31, 2009	—	—	56,503	565	2,156,311	(1,812,592)	(254)	344,030
Comprehensive income:								
Net income	—	—	—	—	—	98,523	—	98,523
Foreign currency translation	—	—	—	—	—	—	254	254
Total comprehensive income								98,777
Stock-based compensation expense for equity awards	—	—	—	—	16,491	—	—	16,491
Issuance of common stock from stock-based compensation awards, including tax benefit of $2,064	—	—	1,464	15	17,150	—	—	17,165
Balance as of December 31, 2010	—	—	57,967	580	2,189,952	(1,714,069)	—	476,463
Comprehensive income	—	—	—	—	—	123,070	—	123,070
Stock-based compensation expense for equity awards	—	—	—	—	18,908	—	—	18,908
Cash dividend declared on common stock	—	—	—	—	(7,384)	—	—	(7,384)
Issuance of common stock from stock-based compensation awards, including tax benefit of $9,330	—	—	1,238	12	6,689	—	—	6,701
Repurchases of common stock	—	—	(791)	(8)	(28,053)	—	—	(28,061)
Balance as of December 31, 2011	—	$—	58,414	$584	$2,180,112	$(1,590,999)	$—	$589,697

(a) See Note 1 of Notes to Consolidated Financial Statements under the subheading "Restatement of Previously Issued Financial Information."

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

Table of Contents

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2011	2010	2009
		(In thousands)	
Cash flows from operating activities:			
Net income	$123,070	$ 98,523	$ 72,488
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	36,960	39,032	38,537
Stock-based compensation expense	26,401	21,232	11,264
Amortization of cable and satellite distribution fees	850	3,358	3,360
Amortization of debt issuance costs	2,941	2,571	2,556
Loss on disposition of fixed assets	1,684	1,272	682
Deferred income taxes	2,238	(2,808)	(6,794)
Bad debt expense	19,758	19,827	18,460
Excess tax benefits from stock-based awards	(10,246)	(3,112)	(301)
Asset impairments	2,976	—	—
Changes in current assets and liabilities:			
Accounts receivable	(46,703)	(32,699)	(36,994)
Inventories	(70)	(34,917)	42,699
Prepaid expenses and other assets	(2,000)	3,645	(5,684)
Accounts payable, accrued expenses and other current liabilities	8,394	17,692	63,288
Net cash provided by operating activities	166,253	133,616	203,561
Cash flows from investing activities:			
Capital expenditures	(42,319)	(37,508)	(41,378)
Net cash used in investing activities	(42,319)	(37,508)	(41,378)
Cash flows from financing activities:			
Repayment of long-term debt	(69,841)	(30,159)	(70,000)
Cash dividends paid	(7,384)	—	—
Issuance of common stock, net of withholding taxes	(2,585)	15,277	(26)
Repurchases of common stock	(26,821)	—	—
Excess tax benefits from stock-based awards	10,246	3,112	301
Net cash used in financing activities	(96,385)	(11,770)	(69,725)
Net increase in cash and cash equivalents	27,549	84,338	92,458
Cash and cash equivalents at beginning of period	354,259	269,921	177,463
Cash and cash equivalents at end of period	$381,808	$354,259	$269,921

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

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—ORGANIZATION

Company Overview

HSN, Inc. ("HSNi") is an interactive multi-channel retailer that markets and sells a wide range of third party and private label merchandise directly to consumers through various platforms including (i) television home shopping programming broadcast on the HSN television networks; (ii) catalogs, which consist primarily of the Cornerstone portfolio of leading print catalogs which includes Frontgate, Ballard Designs, Garnet Hill, Grandin Road, Smith+Noble, The Territory Ahead, TravelSmith and Improvements; (iii) websites, which consist primarily of HSN.com and the eight branded websites operated by Cornerstone; (iv) retail and outlet stores; and (v) mobile devices. HSNi's television home shopping business, related digital sales and retail and outlet stores are referred to herein as "HSN" and all catalog operations, including related digital sales and stores, are collectively referred to herein as "Cornerstone."

HSN offerings primarily consist of jewelry, fashion (apparel & accessories), beauty & wellness, and home & other (including housewares, home fashions, electronics, culinary, fitness and 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 August 20, 2008 concurrent with the spin-offs from IAC of Interval Leisure Group, Inc., Ticketmaster Entertainment, Inc. (now a wholly-owned subsidiary of Live Nation 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." In connection with the Spin-off, HSNi's shares began trading on the NASDAQ Global Select Market under the symbol "HSNI."

The consolidated financial statements include the accounts of HSN, Inc. and its subsidiaries. Intercompany accounts and transactions have been eliminated.

Fiscal Year

HSNi's consolidated financial results are reported on a calendar year basis ending on December 31. HSN's reporting period is the same as HSNi. Cornerstone has a 4-4-5 week accounting cycle with the fiscal year ending on the Saturday on or immediately preceding December 31. Cornerstone's fiscal years 2011, 2010 and 2009 include 53, 52 and 52 weeks, respectively. There are no intervening events that materially affect HSNi's consolidated balance sheets or consolidated statements of operations.

Restatement of Previously Issued Financial Information

As part of our 2011 year-end closing process, HSNi performed a review of its accounting for deferred tax assets and liabilities that were recorded as a part of the Spin-off. As a result, HSNi identified an error in the application of its accounting policies on the recognition of deferred tax liabilities created by partnership investment basis differences. These differences originated from two separate transactions involving HSNi predecessor companies occurring in 1996 and 2002. The correction of the error is to record deferred tax liabilities and to reduce equity for periods presented prior to the Spin-off and as of September 30, 2008 by $263.5 million. These additional deferred tax liabilities would have been realized during the fourth quarter of 2008 when the

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

underlying partnership investment basis differences were eliminated as a part of HSNi’s goodwill and intangible asset impairments.

The net effect of this error on HSNi’s financial statements as of and for the year ended December 31, 2008 was that its income tax benefit was understated; and additional paid-in capital and accumulated deficit were overstated by $263.5 million such that there is no effect on total shareholders’ equity. Net loss for the year ended December 31, 2008, which was previously reported as $2.40 billion, has been restated to $2.13 billion; and net loss per basic and diluted share for the year ended December 31, 2008, which was previously reported as $42.54, has been restated to $37.85. The correction of this error had no effect on total assets, liabilities or total shareholders’ equity as of or subsequent to December 31, 2008.

Additional paid-in capital and accumulated deficit for the years ended December 31, 2008, 2009 and 2010 were overstated by $263.5 million each such that there is no effect on total shareholders’ equity and have been adjusted herein.

The restatement had no impact on reported cash flows and did not impact HSNi’s compliance with debt covenants or other contractual requirements. Further, the restatement did not affect any reported results of operations subsequent to 2008. Based on our evaluation of quantitative and qualitative factors, HSNi believes the identified misstatements are not material to its financial statements presented herein.

All referenced amounts in this Annual Report on Form 10-K for current and prior periods (and prior-period comparisons) reflect the balances and amounts on a restated basis, as applicable.

Reclassifications

Certain reclassifications were made to prior period amounts in the consolidated statements of operations and cash flows to conform to the current year presentation.

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. Allowances for returned merchandise and other adjustments (including reimbursed shipping and handling costs) are provided based upon past experience. HSNi believes that actual returns of product sales have not materially varied from estimates in any of the periods presented. HSNi's estimated return rates were 18.2%, 17.8% and 17.8% in 2011, 2010 and 2009, 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.

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 and credit card companies, 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 monthly 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, 2011 and 2010 was $175.6 million and $162.5 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 $5.3 million and $4.5 million of these allocable general and administrative overhead costs at December 31, 2011 and 2010, respectively, and approximately $20.9 million, $17.6 million and $19.0 million of such costs were included in the accompanying consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009, 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 and broadcast equipment and capitalized software	3 to 6 Years
Buildings, leasehold improvements and land improvements	3 to 40 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 $23.0 million and $25.2 million at December 31, 2011 and 2010, respectively, and are included in “Property and equipment, net” in the accompanying consolidated balance sheets. Amortization expense related to the capitalized software costs was $13.5 million, $14.7 million and $13.9 million for the years ended December 31, 2011, 2010 and 2009, respectively, and included in depreciation expense in the consolidated statements of operations.

Indefinite-Lived Intangible Assets

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 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 and included in the line item “Accrued expenses and other current liabilities” in the accompanying consolidated balance sheets.

Cable and satellite distribution fees and amortization are included in “Selling and marketing expense” in the accompanying consolidated statements of operations. Prepaid cable and satellite distribution fees covering periods within one year 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 are included in “Other non-current assets” in the accompanying consolidated balance sheets.

Advertising

Advertising costs include catalog production and distribution 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 $19.8 million and $17.6 million as of December 31, 2011 and 2010, respectively, and are included in “Prepaid expenses and other current assets” in the accompanying consolidated balance sheets.

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Of these amounts, $14.7 million and $13.0 million as of December 31, 2011 and 2010, respectively, related to catalogs that had not yet been mailed. Advertising expense was $237.2 million, $209.2 million and $196.7 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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.

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 statements of cash flows are reported as a component of financing cash flows. HSNi issues new shares to satisfy equity vestings and exercises. See Note 11 for a further description for our stock compensation plans.

Earnings Per Share

HSNi computes basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the treasury stock method.

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 intangible assets; the determination of deferred income taxes, including related valuation allowances; the accrual for actual, pending or threatened litigation, claims and assessments; and assumptions related to the determination of stock-based compensation.

Certain Risks and Concentrations

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

NOTE 3—INTANGIBLE ASSETS

HSNi assesses the impairment of indefinite-lived identifiable intangible assets, principally trademarks and trade names acquired in various acquisitions, 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 fair values of its intangible assets. If it is determined that the fair value of the indefinite-lived intangible assets is less than the carrying amount, an impairment charge, equal to the excess, is recorded. HSNi utilizes a relief from royalty method to assess the fair values of its trademarks and trade names.

In assessing fair value, HSNi considers, among other indicators, differences between estimated and actual revenue streams and changes in the related discount, royalty and terminal growth rates. Determining these rates requires the exercise of significant judgments. These factors used in the determination of fair value are sensitive to, among other things, changes in the retail consumer market and the general economy.

HSNi conducted its annual test for impairment during the fourth quarter of 2011. HSNi employed and considered the input of specialists to aid in determining appropriate royalty rates to be used in the fair value calculation. The outcome of the annual impairment testing indicated the existence of impairment associated with the indefinite-lived intangible assets at one of the Cornerstone brands. An impairment charge of $2.2 million was recorded and is included in operating expenses in the line item "General and administrative" in the accompanying consolidated statements of operations. An increase in the discount rates or declines in the future estimated revenues or royalty rates could result in future material intangible asset impairment charges.

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

	December 31,	
	2011	2010
Intangible assets with indefinite lives	$ 258,048	$ 260,248
Intangible assets with definite lives, net	—	375
Total intangible assets, net	$ 258,048	$ 260,623

Intangible assets with indefinite lives relate principally to trade names and trademarks acquired in various acquisitions. When definite-lived intangible assets are sold or expire, the cost of the asset and the related accumulated amortization are eliminated and any gain or loss is recognized at such time. For the year ended December 31, 2011, HSNi wrote off $5.6 million of fully amortized definite-lived intangible assets that expired during the year.

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amortization expense for the definite-lived intangible assets was $0.4 million, $0.6 million and $0.6 million for the years ended December 31, 2011, 2010 and 2009. At December 31, 2011 and 2010, 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, 2011	$ —	$ —	$—	—
As of December 31, 2010	$5,622	$ (5,247)	$375	10.0

NOTE 4—PROPERTY AND EQUIPMENT

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

	December 31, 2011	December 31, 2010
Capitalized software	$ 197,842	$ 211,816
Computer and broadcast equipment	93,364	93,284
Buildings and leasehold improvements	93,941	90,417
Furniture and other equipment	75,185	72,726
Projects in progress	8,881	3,825
Land and land improvements	10,962	10,922
	480,175	482,990
Less: accumulated depreciation and amortization	(321,741)	(328,003)
Total property and equipment, net	$ 158,434	$ 154,987

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. As a result of the impairment charge recognized in the fourth quarter of 2011 related to the indefinite-lived intangible assets of one of the Cornerstone brands, HSNi assessed if there was an impairment of any of this brand's long-lived assets. As a result of this assessment, HSNi recognized an impairment charge of $0.8 million in 2011. This charge is included in operating expenses in the line item "General and administrative" in the accompanying consolidated statements of operations. As we periodically reassess estimated future cash flows and asset fair values, changes in our estimates and assumptions may cause us to realize additional impairment charges in the future.

NOTE 5—ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	December 31, 2011	December 31, 2010
Accrued sales returns	$ 39,563	$ 37,354
Accrued cable and satellite related fees	27,621	30,442
Accrued freight and fulfillment expenses	16,384	18,241
Accrued compensation and benefits	40,983	34,692
Income taxes payable	3,417	9,989
Other accrued expenses and current liabilities	66,023	85,396
Total accrued expenses and other current liabilities	$ 193,991	$ 216,114

Table of Contents

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6—SEGMENT INFORMATION

HSNi presents 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. The accounting policies of the segments are the same as those described in Note 2 – Summary of Significant Accounting Policies. Intercompany accounts and transactions have been eliminated in consolidation.

HSNi's primary metric is Adjusted EBITDA, which is defined as operating income excluding, if applicable: (1) non-cash charges including: (a) stock-based compensation expense, (b) amortization of intangibles, (c) depreciation and gains and losses on asset dispositions, and (d) goodwill, long-lived asset and intangible asset impairments; (2) pro forma adjustments for significant acquisitions; and (3) 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 and media industries. Adjusted EBITDA measures the amount of income generated each period that could be used to service debt, pay taxes and fund capital expenditures. Adjusted EBITDA 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 intangibles, depreciation, gains and losses on asset dispositions, asset impairment charges, acquisition-related accounting expenses and one-time items.

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

	Year Ended December 31, 2011		
	HSN	Cornerstone	Total
Adjusted EBITDA	$235,163	$ 64,857	$300,020
Stock-based compensation expense	(13,101)	(13,300)	(26,401)
Depreciation and amortization	(27,652)	(9,308)	(36,960)
Asset impairments	—	(2,976)	(2,976)
Loss on disposition of fixed assets	(1,482)	(202)	(1,684)
Operating income	$192,928	$ 39,071	231,999
Other expense, net			(31,593)
Income before income taxes			200,406
Income tax provision			(77,336)
Net income			$123,070

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Year Ended December 31, 2010		
	HSN	Cornerstone	Total
Adjusted EBITDA	$213,612	$ 44,011	$257,623
Stock-based compensation expense	(13,507)	(7,725)	(21,232)
Depreciation and amortization	(30,183)	(8,849)	(39,032)
Loss on disposition of fixed assets	(1,198)	(74)	(1,272)
Operating income	$168,724	$ 27,363	196,087
Other expense, net			(32,523)
Income before income taxes			163,564
Income tax provision			(65,041)
Net income			$ 98,523

	Year Ended December 31, 2009		
	HSN	Cornerstone	Total
Adjusted EBITDA	$196,139	$ 9,998	$206,137
Stock-based compensation expense	(9,041)	(2,223)	(11,264)
Depreciation and amortization	(29,228)	(9,309)	(38,537)
Loss on disposition of fixed assets	(637)	(45)	(682)
Operating income (loss)	$157,233	$ (1,579)	155,654
Other expense, net			(35,030)
Income before income taxes			120,624
Income tax provision			(48,136)
Net income			$ 72,488

Financial information by segment is as follows (thousands):

	Year Ended December 31,		
	2011	2010	2009
Net sales:			
HSN	$ 2,160,341	$ 2,115,918	$ 2,007,897
Cornerstone	1,016,813	880,862	741,712
Total	$ 3,177,154	$ 2,996,780	$ 2,749,609
Identifiable assets:			
HSN	$ 1,178,565	$ 1,138,024	$ 1,035,233
Cornerstone	216,408	207,719	183,417
Total	1,394,973	1,345,743	1,218,650
Capital expenditures:			
HSN	$ 30,155	$ 29,152	$ 35,216
Cornerstone	12,164	8,356	6,162
Total	$ 42,319	$ 37,508	$ 41,378

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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—FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. HSNi applies the following framework for measuring fair value which is 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 following table summarizes the fair value of the Company's financial assets and liabilities which are carried at cost (in thousands):

	December 31, 2011				
	Carrying Value	Fair Value	Fair Value Measurement Category Level 1	Level 2	Level 3
Senior Notes	$240,000	$264,000	$264,000	$ —	$ —
Term Loan	—	—	—	—	—

	December 31, 2010				
	Carrying Value	Fair Value	Fair Value Measurement Category Level 1	Level 2	Level 3
Senior Notes	$240,000	$273,900	$273,900	$ —	$ —
Term Loan	69,841	69,841	—	—	69,841

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 property and equipment and intangible assets, 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, 2011, HSNi recognized fair value adjustments of $2.2 million for indefinite-lived intangible assets and $0.8 million for long-lived assets. There were no fair value adjustments recognized through earnings for the year ended December 31, 2010.

The fair value of the intangible assets, consisting principally of trademarks and trade names, was assessed using the relief from royalty method (level 3 criteria). Key inputs used in this calculation included revenue growth, discount, royalty and terminal growth rates. The fair value adjustment of $2.2 million is included in operating expenses in the line item “General and administrative” in the accompanying consolidated statements of operations. See Note 3 for a discussion of this impairment charge.

The fair value of the property and equipment of one of the Cornerstone brands, consisting principally of leasehold improvements, was assessed during the year ended December 31, 2011. The fair value was determined using discounted future cash flows (level 3 criteria). Key inputs used in this calculation included revenue growth, operating expenses and a discount rate that HSNi believed a buyer would assume when determining a purchase price for the assets. The fair value adjustment of $0.8 million is included in operating expenses in the line item “General and administrative” in the accompanying consolidated statements of operations. See Note 4 for a discussion of this impairment charge.

NOTE 8—RETIREMENT AND SAVINGS PLAN

Effective December 31, 2008, HSNi established 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. From the period of April 1, 2010 through December 31, 2011, HSNi contributed twenty five cents for each dollar a participant contributed in this plan of the first 6% of a participant's deferrals. From the period of January 1, 2009 through March 31, 2010, HSNi contributed ten cents for each dollar a participant contributed in this plan of the first 6% of a participant’s deferrals. HSNi’s matching contribution was $2.1 million, $1.4 million and $0.8 million for the years ended December 31, 2011, 2010 and 2009, respectively.

NOTE 9—EARNINGS PER SHARE

HSNi computes basic earnings per share using the weighted average number of common shares outstanding for the period. HSNi computes diluted earnings per share using the treasury stock method, 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 HSNi’s earnings.

Basic Earnings Per Share

For the years ended December 31, 2011, 2010 and 2009, basic earnings per share was computed using the number of weighted average shares of common stock outstanding for the period.

Diluted Earnings Per Share

For the years ended December 31, 2011, 2010 and 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 HSNi 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.

HSN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Year Ended December 31,		
	2011	2010	2009
Net income	$123,070	$98,523	$72,488
Weighted average number of shares outstanding:			
Basic	58,636	57,414	56,383
Dilutive effect of stock-based compensation awards	2,053	2,132	947
Diluted	60,689	59,546	57,330
Net income per share:			
Basic	$ 2.10	$ 1.72	$ 1.29
Diluted	$ 2.03	$ 1.65	$ 1.26
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	911	1,632	4,372

NOTE 10—LONG-TERM DEBT

	December 31,	
	2011	2010
Secured credit agreement expiring July 25, 2013:		
Term loan	$ —	$ 69,841
Revolving credit facility	—	—
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	(889)	(1,083)
Total long-term debt	239,111	308,758
Less: current maturities	—	(5,820)
Long-term debt, net of current maturities	$239,111	$302,938

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 contains two principal financial covenants, each as defined in the credit agreement, 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, 2011, with a leverage ratio of 0.82x and an interest coverage ratio of 10.38x. 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, 2011, there were $31.0 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, 2011, the additional amount that could be borrowed under the revolving credit facility, in consideration of the financial covenants, was approximately $119.0 million. HSNi capitalized $7.3 million in financing costs related to the credit agreement and HSNi is amortizing 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. In October 2011, HSNi voluntarily prepaid the remaining $69.8 million balance of the term loan. As of December 31, 2011, there was no outstanding balance on the revolving credit facility.

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%

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, 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, and 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,	
2012 – 2015	—
2016	240,000
	$ 240,000

NOTE 11—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,		
	2011	2010	2009
Selling and marketing	$ 3,613	$ 3,044	$ 1,946
General and administrative	21,679	17,190	8,618
Production and programming	1,109	998	700
Stock-based compensation expense before income taxes	26,401	21,232	11,264
Income tax benefit	(8,792)	(8,441)	(4,492)
Stock-based compensation expense after income taxes	$17,609	$12,791	$ 6,772

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2011, there was approximately $17.0 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 1.8 years.

Second Amended and Restated 2008 Stock and Annual Incentive Plan

The Second Amended and Restated 2008 Stock and Annual Incentive Plan, as amended (the “Plan”), authorizes the issuance of 8.0 million shares of HSNi common stock for new awards granted by HSNi. 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. As of December 31, 2011, there were approximately 3.3 million shares of common stock available for grants under the Plan.

HSNi can grant restricted stock units ("RSUs"), stock options, stock appreciation rights (“SARs”), dividend equivalents 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 is required to be at, or above, the fair market value of HSNi’s stock on the date of grant. RSUs have rights to receive dividend equivalents that vest at the same time the underlying RSUs vest once the requisite service has been rendered. HSNi elects to issue shares of its common stock for RSU vestings and SAR exercises net of the employees’ minimum tax withholding obligation. The payments made by HSNi to the taxing authorities for these taxes were $11.5 million, $2.7 million and $0.7 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Modification of Stock-Based Compensation Awards

In conjunction with the Spin-off, IAC share-based awards granted prior to the Spin-off were converted to equivalent share-based awards. 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 share-based payments accounting guidance, and resulted in additional fair value of $10.2 million that was recognized immediately for fully vested awards and is being amortized over the remaining service period for unvested awards. For the years ended December 31, 2011, 2010 and 2009, $0.4 million, $0.5 million and $0.9 million, respectively, of the additional compensation expense was recognized in the accompanying consolidated statements of operations.

Restricted Stock Units

RSUs are awards 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. The RSUs are generally subject to service-based vesting over a three to five year term.

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the status of the nonvested RSUs, including awards granted under the Plan and by IAC prior to the Spin-off, as of December 31, 2011 and changes during the year ended December 31, 2011 is as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value
Nonvested at 1/1/11	2,145,133	$ 12.80
Granted	331,749	30.32
Vested	(685,889)	31.96
Forfeited	(195,197)	14.54
Nonvested at 12/31/11	1,595,796	15.38

The weighted average fair value of RSUs granted during the years ended December 31, 2011, 2010 and 2009 based on market prices of HSNi's common stock on the grant date was $30.32, $23.50 and $5.19, respectively.

The total intrinsic value of RSUs held by employees of all five Spincos that vested during the years ended December 31, 2011, 2010 and 2009 and settled in HSNi common stock was $21.9 million, $10.4 million and $3.0, respectively. 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 $6.7 million, $3.6 million and $0.9 million for the years ended December 31, 2011, 2010 and 2009, respectively.

As of December 31, 2011, there was approximately $11.7 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 2.0 years.

Stock Options and SARs

SARs are similar to traditional stock options, except, upon exercise, holders of SARs will only receive a value equal to the spread between the current market price per share of the common stock and the exercise price. The SARs granted by HSNi may be settled in cash or common stock of HSNi, in the sole discretion of HSNi. All SARs exercised by employees of HSNi have been settled in stock. For all SARs currently outstanding, HSNi intends to settle these awards in stock upon exercise. 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. Awards typically vest periodically over a three or four year term.

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the status of the outstanding stock options and SARs as of December 31, 2011 is as follows:

	Number of options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	4,735,466	$ 19.50		
Granted	348,137	29.72		
Exercised	(943,912)	10.98		
Forfeited	(114,229)	12.18		
Expired	(16,035)	10.95		
Outstanding at December 31, 2011 (1)	4,009,427	22.63	6.2	$58,039,855
Vested and expected to vest at December 31, 2011	3,935,472	22.58	6.2	$57,201,989
Exercisable at December 31, 2011	2,614,591	23.04	5.5	$37,125,954

(1) Approximately 0.9 million stock options outstanding as of December 31, 2011 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, 2011 of $36.26 and the exercise price for all "in the money" awards at December 31, 2011. This amount changes based on the fair market value of HSNi's common stock. The intrinsic value of the stock options and SARs exercised during the years ended December 31, 2011, 2010 and 2009 was approximately $20.5 million, $13.0 million and $0.7 million, respectively. Cash received from stock option exercises for the years ended December 31, 2011, 2010 and 2009 was $7.5 million, $17.1 million and $0.9 million, respectively. The tax benefit realized from stock option exercises for the years ended December 31, 2011, 2010 and 2009 was $7.4 million, $3.7 million and less than $0.5 million, respectively.

The fair value of each stock option and SAR award, which HSNi intends to settle in stock, 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 weighted average assumptions used in the Black-Scholes option pricing model are as follows:

	Year Ended December 31,		
	2011	2010	2009
Volatility factor	46.5%	46.5%	47.3%
Risk-free interest rate	2.33%	2.39%	2.31%
Expected term	5.0	5.0	5.5
Dividend yield	—	—	—

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average fair values of stock options and SARs granted from the Plan during the years ended December 31, 2011, 2010 and 2009 at market prices equal to HSNi's common stock on the grant date were $12.84, $8.79 and $2.94, 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, 2011, there was approximately $5.3 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 1.2 years.

The following table summarizes the information about stock options and SARs outstanding and exercisable as of December 31, 2011:

	Outstanding			Exercisable	
	Number Outstanding at December 31, 2011	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Number Exercisable at December 31, 2011	Weighted Average Exercise Price
$0.00 to $9.99	660,842	$ 5.23	6.9	493,397	$ 5.56
$10.00 to $19.99	1,115,810	16.16	6.3	627,229	15.81
$20.00 to $29.99	1,232,058	25.12	6.1	672,984	24.40
$30.00 to $34.99	424,298	33.01	4.5	388,667	33.25
$35.00 to $44.99	576,419	42.16	6.6	432,314	42.16
	4,009,427			2,614,591	

Performance-Based Awards

During the first quarter of 2010, HSNi implemented a performance-based equity compensation program for certain key members of Cornerstone's management. The amount payable is based on the extent to which certain pre-established performance goals for Cornerstone are achieved during the three-year period ending December 31, 2012. The amount earned pursuant to the award will be measured at the end of the requisite service period and is expected to be settled in shares of HSNi common stock. These equity awards are accounted for as liabilities which are remeasured each reporting period based on the probability of achievement of the performance conditions. As of December 31, 2011, a liability of approximately $12.2 million was recorded for these awards.

Employee Stock Purchase Plan

The HSN, Inc. 2010 Employee Stock Purchase Plan ("ESPP") was approved May 2010 and 750,000 shares of HSNi common stock were reserved for issuance under the ESPP. The ESPP permits employees to purchase shares of HSNi's common stock during semi-annual purchase periods. Under the terms of the ESPP, eligible employees accumulate funds through payroll deductions and purchase shares at a price equal to the lesser of 85% of the fair market value of the common stock at the grant date or purchase date, provided the resulting purchase price cannot be less than 75% of the fair market value at the end of the purchase period. All shares purchased under the ESPP must be held for a period of six months.

For the years ended December 31, 2011 and 2010, HSNi granted approximately 57,000 and 27,000 options, respectively, under the ESPP. The fair value of each option granted under the ESPP is determined on the grant date using the Black-Scholes option pricing model. The following are the weighted average assumptions used in the valuation of the ESPP options for the years ended December 31, 2011 and 2010:

	Year Ended December 31, 2011	Year Ended December 31, 2010
Volatility factor	56.6%	56.6%
Risk-free interest rate	0.15%	0.20%
Expected term	0.50	0.42
Dividend yield	—	—

For the years ended December 31, 2011 and 2010, approximately $0.5 million and $0.2 million, respectively, of expense was included in the consolidated statements of operations. For the years ended December 31, 2011 and 2010, HSNi received cash proceeds from the participating employees of approximately $1.4 million and $0.7 million, respectively.

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, some of which became exercisable in the first quarter of 2010 and others of which become exercisable 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 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, 2011, these awards were significantly out of the money and are not expected to result in any cost should HSNi exercise its call right.

NOTE 12—INCOME TAXES

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

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Current income tax provision:			
Federal	$ (66,190)	$ (60,326)	$ (47,188)
State	(8,908)	(7,523)	(7,742)
Current income tax provision	(75,098)	(67,849)	(54,930)
Deferred income tax (provision) benefit:			
Federal	(1,838)	5,104	5,813
State	(400)	(2,296)	981
Deferred income tax (provision) benefit	(2,238)	2,808	6,794
Income tax provision	$ (77,336)	$ (65,041)	$ (48,136)

Table of Contents

Current income taxes payable has been reduced by $14.1 million, $7.2 million and $1.5 million for the years ended December 31, 2011, 2010 and 2009, 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 and additional paid-in capital.

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, 2011 and 2010 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, 2011	December 31, 2010
Deferred tax assets:		
Provision for accrued expenses	$ 39,346	$ 40,654
Inventories	11,964	13,482
Foreign investment	6,467	6,467
Stock-based compensation	13,618	9,588
Net operating losses	3,857	6,802
Other	2,294	2,603
Total deferred tax assets	77,546	79,596
Less valuation allowance	(14,274)	(17,242)
Net deferred tax assets	63,272	62,354
Deferred tax liabilities:		
Intangible and other assets	(92,746)	(92,421)
Prepaid expenses	(12,022)	(11,037)
Property and equipment	(12,333)	(10,298)
Total deferred tax liabilities	(117,101)	(113,756)
Net deferred tax liability	$ (53,829)	$ (51,402)

At December 31, 2011, HSNi had $13.6 million of net operating loss carryforwards which begin expiring in 2012. As of December 31, 2011 and 2010, HSNi had a valuation allowance of approximately $14.3 million and $17.2 million, respectively. Valuation allowances are recorded for certain deferred tax assets related to foreign net operating losses, unrealized capital losses and deferred tax assets associated with pre-Spin-off uncertain tax positions for which it is more likely than not that the benefit will be unrealized.

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

	Year Ended December 31, 2011	2010	2009
Income tax provision at the federal statutory rate of 35%	$ (70,162)	$ (57,261)	$ (42,250)
State income taxes, net of effect of federal tax benefit	(6,052)	(6,238)	(4,382)
Other, net	(1,122)	(1,542)	(1,504)
Income tax provision	$ (77,336)	$ (65,041)	$ (48,136)

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest, is as follows (in thousands):

	2011	2010	2009
Balance at beginning of year	$ 630	$ 514	$ 414
Additions based on tax positions related to the current year	225	191	—
Additions for tax positions of prior years	—	135	312
Reductions for tax positions of prior years	(191)	(210)	(212)
Balance at end of year	$ 664	$ 630	$ 514

As of December 31, 2011 and 2010, the unrecognized tax benefits, including interest, were $0.7 million. Included in unrecognized tax benefits at December 31, 2011 and 2010 is approximately $0.2 million and $0.4 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, the disallowance of the shorter deductibility period would not affect the annual effective tax rate, other than the interest and penalties, 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. There is no material interest on unrecognized tax benefits included in income tax expense for the years ended December 31, 2011, 2010 and 2009. At December 31, 2011 and 2010, 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 an immaterial amount within twelve months of the current reporting date due to settlement with the taxing authority. 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.

In connection with the Spin-off, HSNi entered into a Tax Sharing Agreement with IAC pursuant to which, among other things, each of the 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 Internal Revenue Service (“IRS”) private letter ruling and/or tax opinions. 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 IRS has substantially completed its review of the IAC consolidated tax returns for the years ended December 31, 2001 through 2006, which includes the operations of HSNi. The settlement for these years has not yet been submitted to the Joint Committee on Taxation for approval. The IRS began its review of the IAC consolidated tax returns for the years ended December 31, 2007 through 2009 in July 2011. The statute of limitations for the years 2001 through 2007 has been extended to December 31, 2012. 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 beginning with 2005. By virtue of the Tax Sharing Agreement with IAC, HSNi is indemnified with respect to additional tax liabilities for consolidated or combined federal and state 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 13—COMMITMENTS AND CONTINGENCIES

In January 2010, one of HSNi's direct-to-consumer subsidiaries received a preliminary notification from a state taxing authority alleging that the subsidiary was required to collect and remit sales taxes for the period from September 2002 through August 2009. In October 2010, the state presented the subsidiary with an assessment relating to this matter. Additionally during 2010, the same taxing authority notified two other direct-to-consumer subsidiaries of its intent to conduct sales tax audits for the period from 2004 through 2010. HSNi does not believe that any of these subsidiaries were obligated to collect and remit such taxes, and intends to vigorously defend its position. At this time, no contingent liability has been recorded and no assurances can be given as to the outcome of this situation.

In the ordinary course of business, HSNi is a party to various audits and lawsuits. These audits or litigation may relate to claims involving property, personal injury, contract, intellectual property (including patent infringement), sales tax, regulatory compliance and other claims. HSNi has established reserves for specific legal or tax compliance matters that it has determined 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 its liquidity, results of operations, financial condition or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future and an unfavorable resolution of such a proceeding could have such a material impact. Moreover, any claims or regulatory actions against HSNi, whether meritorious or not, could be time-consuming, result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources.

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,	
2012	$ 24,324
2013	23,523
2014	19,923
2015	18,331
2016	14,413
Thereafter	40,125
Total	$ 140,639

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Expenses charged to operations under these agreements were $24.9 million, $24.7 million and $25.1 million for the years ended December 31, 2011, 2010 and 2009, 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 Commitments 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	$ 34,687	$ 34,637	$ 50	$ —	$ —
Purchase obligations	179,265	85,151	93,194	920	—
Total commercial commitments	$ 213,952	$119,788	$ 93,244	$ 920	$ —

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 14—RELATED PARTY TRANSACTIONS

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 were 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.

HSNi has satisfied its obligations under the Separation and Distribution Agreement, Employee Matters Agreement and Transition Services Agreement. HSNi continues to be subject to certain post-spin obligations under the Tax Sharing Agreement.

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Relationship Between Liberty Media Corporation and HSNi

Spinco Agreement

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 held 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. Following is a summary of the material terms of the 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 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.

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%. Notwithstanding the foregoing, Liberty's beneficial ownership may increase above the Applicable Percentage as a result of HSNi's share repurchase program. Following the Spin-off, the Applicable Percentage for the Spinco is 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 were 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.

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- 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.

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.

HSN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 15—SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental Disclosure of Cash Flow Information:

	Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Cash paid during the period for:			
Income tax payments	$73,847	$82,860	$29,416
Income tax refunds	(1,806)	(53)	(234)
Interest payments	29,198	30,490	33,488

NOTE 16—SHAREHOLDERS' EQUITY

Stock Purchase Rights

In December 2008, HSNi's Board of Directors approved the creation of a Series A Junior Participating Preferred Stock, adopted a shareholders rights plan and declared a dividend of one right for each outstanding share of common stock held by our shareholders of record as of the close of business on January 5, 2009. The rights attached to any additional shares of common stock issued after January 5, 2009. Initially, these rights, which 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 (except for certain grandfathered persons, such as Liberty, to which higher thresholds apply). 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.

Share Repurchase Program

On September 27, 2011, HSNi's Board of Directors approved a share repurchase program which allows HSNi to purchase 10 million shares of its common stock from time to time through privately negotiated and/or open market transactions. The timing of any repurchases and actual number of shares repurchased will depend on a variety of factors, including the stock price, corporate and regulatory requirements, restrictions under HSNi's debt obligations and other market and economic conditions. The repurchase program may be suspended or discontinued by HSNi at any time. In fiscal year 2011, we acquired approximately 791,000 shares of our

Table of Contents

outstanding common stock for $28.1 million under the program at an average price of $35.46, which were immediately retired upon purchase.

Dividend Policy

On September 27, 2011, HSNi's Board of Directors approved a cash dividend of $0.125 per common share. The dividend was paid on November 16, 2011 to HSNi's record holders as of November 2, 2011.

NOTE 17—QUARTERLY RESULTS (UNAUDITED)

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31, (a) (b)
	(In thousands, except per share data)			
Year Ended December 31, 2011				
Net sales	$ 723,982	$ 746,939	$ 751,237	$ 954,996
Gross profit	253,954	286,581	272,826	336,693
Operating income	41,290	59,846	47,197	83,666
Net income	20,281	31,967	24,304	46,518
Net income per share:				
Basic	$ 0.35	$ 0.55	$ 0.41	$ 0.79
Diluted	$ 0.34	$ 0.53	$ 0.40	$ 0.76
Dividends declared per common share	$ —	$ —	$ 0.125	$ —
Year Ended December 31, 2010				
Net sales	$ 683,213	$ 689,992	$ 708,359	$ 915,216
Gross profit	236,484	258,661	249,727	316,142
Operating income	37,495	48,350	32,797	77,444
Net income	17,653	24,706	14,878	41,287
Net income per share:				
Basic	$ 0.31	$ 0.43	$ 0.26	$ 0.71
Diluted	$ 0.30	$ 0.42	$ 0.25	$ 0.69
Dividends declared per common share	$ —	$ —	$ —	$ —

(a) Cornerstone has a 4-4-5 week accounting cycle with the fiscal year ending on the Saturday on or immediately preceding December 31. The fourth quarter of 2011 included an extra week compared to the other quarters in 2011 and 2010.

(b) The fourth quarter of 2011 includes $3.0 million of asset impairment charges, and a related $1.1 million tax benefit, related to indefinite-lived intangible assets and long-lived assets of one of the Cornerstone brands. These charges decreased diluted earnings per share by $0.03.

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
2011					
Allowance for doubtful accounts	$ 13,026	$ 19,758	$ 384	$ (20,041)(1)	$ 13,127
Sales return accrual	37,354	652,842	—	(650,633)	39,563
Deferred tax valuation allowance	17,242	(26)	(2,942)	—	14,274
2010					
Allowance for doubtful accounts	$ 11,608	$ 19,827	$ 240	$ (18,649)(1)	$ 13,026
Sales return accrual	39,424	603,849	—	(605,919)	37,354
Deferred tax valuation allowance	17,288	(46)	—	—	17,242
2009					
Allowance for doubtful accounts	$ 10,026	$ 18,460	$ (170)	$ (16,708)(1)	$ 11,608
Sales return accrual	37,340	530,464	—	(528,380)	39,424
Deferred tax valuation allowance	17,229	—	59	—	17,288

(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 Officer 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, 2011. Based on that evaluation, management has concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed 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 and criterion, we concluded that as December 31, 2011, 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.

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, 2011 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, 2011, 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, 2011, 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, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 of HSN, Inc. and subsidiaries and our report dated February 23, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Tampa, Florida
February 23, 2012

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference from our Proxy Statement for our 2012 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2011.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from our Proxy Statement for our 2012 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2011.

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

Incorporated by reference from our Proxy Statement for our 2012 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2011.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Incorporated by reference from our Proxy Statement for our 2012 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2011.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from our Proxy Statement for our 2012 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2011.

Table of Contents

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	Exhibit 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
4.2	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
4.3	First Supplemental Indenture, dated as of August 20, 2008, between HSN, Inc., as Issuer, and The Bank of New York Mellon, as Trustee	Exhibit 4.1 to the Company's Current Report on Form 8-K filed August 25, 2008
4.4	Second Supplemental Indenture dated as of January 1, 2010 between HSN, Inc., as Issuer, and The Bank of New York Mellon, as Trustee	Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed August 4, 2010
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

Exhibit No.	Description of Document	Method of Filing
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
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	First Amendment to Employment Agreement between Mindy Grossman and HSN, Inc., dated as of August 5, 2010*	Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 9, 2010
10.10	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
10.11	Amendment No. 1 to the Second Amended and Restated 2008 Stock and Annual Incentive Plan dated as of February 24, 2010*	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed August 4, 2010
10.12	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
10.13	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

* Reflects management contracts and management and director compensation plans.

Exhibit No.	Description of Document	Method of Filing
10.14	Form of Stock Appreciation Rights Agreement*	Exhibit 10.19 to the Company's Annual Report on Form 10-K filed March 31, 2009
10.15	Form of Stock Option Agreement*	Exhibit 10.20 to the Company's Annual Report on Form 10-K filed March 31, 2009
10.16	Form of Restricted Stock Units Agreement*	Exhibit 10.21 to the Company's Annual Report on Form 10-K filed March 31, 2009
10.17	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
10.18	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
10.19	Named Executive Officer and EVP Severance Plan*	Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 24, 2009
10.20	Executive Severance Plan*	Exhibit 10.25 to the Company's Annual Report on Form 10-K filed March 4, 2010
10.21	Form of Performance Cash Award Agreement *	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed August 4, 2010
10.22	Employee Stock Purchase Plan	Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed August 4, 2010
10.23	Form of Deferred Share Unit Agreement *	Filed herewith
10.24	Form of Performance Award Agreement *	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
23.1	Consent of Independent Registered Certified Public Accounting Firm	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
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

* Reflects management contracts and management and director compensation plans.

Table of Contents

Exhibit No.	Description of Document	Method of Filing
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
101	The following financial information from HSNi's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009, (ii) Consolidated Balance Sheets as of December 31, 2011 and 2010, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009, (v) Notes to the Consolidated Financial Statements, and (vi) financial statement schedule.	

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: February 23, 2012	By: /S/ MINDY GROSSMAN **Mindy Grossman,** **Chief Executive Officer** **(Principal Executive Officer)**
Date: February 23, 2012	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 February 23, 2012.

/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

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description of Document
10.23	Form of Deferred Share Unit Agreement
10.24	Form of Performance Award Agreement
12.1	Computation of Ratio of Earnings to Fixed Charges
21.1	Subsidiaries of HSN, Inc.
23.1	Consent of Independent Registered Certified Accounting Firm
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.
101	The following financial information from HSNi's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009, (ii) Consolidated Balance Sheets as of December 31, 2011 and 2010, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009, (v) Notes to the Consolidated Financial Statements, and (vi) financial statement schedule.

DEFERRED RESTRICTED STOCK UNIT AGREEMENT

THIS DEFERRED RESTRICTED STOCK UNIT AGREEMENT (this “Agreement”), dated as of «date» (the “Award Date”) is between HSN, Inc., a Delaware corporation (the “Corporation”), and «grantee» (the “Grantee”).

1. Award and Vesting of DSUs

(a) Subject to the terms, definitions and provisions of this Agreement and the Company’s Second Amended and Restated 2008 Stock and Annual Incentive Plan, as amended (the “Plan”), the Corporation hereby grants to the Grantee «number» deferred restricted stock units (the “DSUs”). Any defined terms not defined in this Agreement shall have the meaning ascribed to it in the Plan.

(b) Subject to the terms and conditions of this Agreement and the provisions of the Plan, the DSUs shall vest and no longer be subject to any restriction in whole on the first anniversary of the Award Date (the “Vesting Period”).

(c) Notwithstanding the provisions of Section 1(b) and except as provided in Section 5 of this Agreement, in the event of termination of the Grantee’s service with the Corporation during the Vesting Period for any reason, all remaining unvested DSUs shall be forfeited by the Grantee and canceled in their entirety effective immediately upon such termination.

(d) Nothing in this Agreement shall confer upon the Grantee any right to continue in the service of the Corporation or any of its affiliates or interfere in any way with the right of the Corporation or any such Affiliates to terminate the Grantee’s service at any time, with or without cause.

2. Settlement of DSUs

Except as provided in this Section 2, DSUs that are no longer subject to the vesting period shall be settled six months following termination of service as a director for any reason. Subject to Section 14(d) of the Plan (pertaining to the withholding of taxes), at such time as the DSUs are settled pursuant to this Section 2, for each vested DSU settled the Corporation shall issue (either in book-entry form or otherwise) one share of Common Stock and cause to be delivered to the Grantee one or more unlegended, freely-transferable stock certificates in respect of such shares issued upon settlement of the vested DSUs. Notwithstanding the foregoing, the Corporation shall be entitled to hold the shares or cash issuable upon settlement of DSUs that have vested until the Corporation or the agent selected by the Corporation to manage the Plan under which the DSUs have been issued (the “Agent”) shall have received from the Grantee a duly executed Form W-9 or W-8, as applicable; failure of the Grantee to provide such Form W-9 or W-8 during the six-month period following termination of service shall result in forfeiture of the shares or cash issuable upon settlement of DSUs. In addition, the Corporation’s obligation to deliver shares of Common Stock or otherwise make payment with respect to the DSUs is subject to the condition that the Grantee deliver to the Corporation any representations, other documents or assurances that the Committee may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements.

3. <u>Non-Transferability of the DSUs</u>

During the Vesting Period and until such time as the DSUs are ultimately settled as provided in Section 2 above, the DSUs shall not be transferable by the Grantee by means of sale, assignment, exchange, encumbrance, pledge, hedge or otherwise.

4. <u>Rights as a Stockholder</u>

Except as otherwise specifically provided in this Agreement, until the DSUs are settled pursuant to Section 2, the Grantee shall not be entitled to any rights of a stockholder with respect to the DSUs. Notwithstanding the foregoing, if the Corporation declares and pays dividends on the Common Stock prior to the time the DSUs are settled, the Grantee will be credited with additional amounts for each DSU equal to the dividend that would have been paid with respect to such DSU if it had been an actual share of Common Stock, which amount shall remain subject to restrictions (and as determined by the Committee may be reinvested in DSUs or may be held in kind as deferred property) and shall vest and settle concurrently with the vesting and settling of the DSUs upon which such dividend equivalent amounts were paid. Notwithstanding the foregoing, dividends and distributions other than regular quarterly cash dividends, if any, may result in an adjustment pursuant to Section 5.

5. <u>Adjustment in the Event of Change in Stock; Change in Control</u>

(a) In the event of any change in corporate capitalization (including, but not limited to, a change in the number of shares of Common Stock outstanding), such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Corporation (including any extraordinary cash or stock dividend), any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Corporation, the number of DSUs and the shares underlying such DSUs shall be equitably adjusted by the Committee (including, in its discretion, providing for other property to be held as deferred property) as it may deem appropriate in its sole discretion. The determination of the Committee regarding any such adjustment will be final and conclusive.

(b) With respect to the awards evidenced by this Agreement, subject to paragraph (e) of Section 10 of the Plan, notwithstanding any provision of the Plan to the contrary, upon Grantee’s termination of service as a Director of the Corporation, during the one-year period following a Change in Control, by the Company for other than Cause or Disability or by the Grantee for Good Reason:

(i) any DSUs outstanding as of such date of termination of service which were outstanding as of the date of such Change in Control shall vest and become immediately payable;

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

(iii) all DSUs outstanding as of such date of termination which were outstanding as of the date of such Change in Control shall be considered to be earned and payable in full, and any restrictions shall lapse and such DSUs shall be settled as promptly as is practicable in the form set forth in this Agreement and the Plan.

6. Payment of Transfer Taxes, Fees and Other Expenses

The Corporation agrees to pay any and all original issue taxes and stock transfer taxes that may be imposed on the issuance of shares received by the Grantee in connection with the DSUs, together with any and all other fees and expenses necessarily incurred by the Corporation in connection therewith.

7. Other Restrictions

(a) The DSUs shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, then in any such event, the award of DSUs shall not be effective unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The Grantee acknowledges that the Grantee is subject to the Corporation's policies regarding compliance with securities laws, including but not limited to its Securities Trading Policy (as in effect from time to time and any successor policies), and, pursuant to these policies, if the Grantee is on the Corporation's insider list, the Grantee shall be required to obtain pre-clearance from the Corporation's General Counsel prior to purchasing or selling any of the Corporation's securities, including any shares issued upon vesting of the DSUs, and may be prohibited from selling such shares other than during an open trading window. The Grantee further acknowledges that, in its discretion, the Corporation may prohibit the Grantee from selling such shares even during an open trading window if the Corporation has concerns over the potential for insider trading.

8. Notices

All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by facsimile, overnight courier, or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Grantee: at the address last provided by the Grantee to the Corporation.

If to the Corporation: HSN, Inc.
1 HSN Drive
St. Petersburg, FL 33729
Attention: General Counsel
Facsimile: (727) 872-1000

or to such other address or facsimile number as any party shall have furnished to the other in writing in accordance with this Section 8. Notice and communications shall be effective when actually received by the addressee. Notwithstanding the foregoing, the Grantee consents to electronic delivery of documents required to be delivered by the Corporation under the securities laws.

9. Effect of Agreement

Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Corporation.

10. Laws Applicable to Construction; Consent to Jurisdiction

The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware without reference to principles of conflict of laws, as applied to contracts executed in and performed wholly within the State of Delaware. In addition to the terms and conditions set forth in this Agreement, the DSUs are subject to the terms and conditions of the Plan, which are hereby incorporated by reference.

Any and all disputes arising under or out of this Agreement, including without limitation any issues involving the enforcement or interpretation of any of the provisions of this Agreement, shall be resolved by the commencement of an appropriate action in the state or federal courts located within the State of Delaware, which shall be the exclusive jurisdiction for the resolution of any such disputes. The Grantee hereby agrees and consents to the personal jurisdiction of said courts over the Grantee for purposes of the resolution of any and all such disputes.

11. Severability

The invalidity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

12. Conflicts and Interpretation

In the event of any conflict between this Agreement and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan.

13. Amendment

The Corporation may modify, amend or waive the terms of the DSU award, prospectively or retroactively, but no such modification, amendment or waiver shall impair the rights of the Grantee without his or her consent, except as required by applicable law, NASDAQ or stock exchange rules, tax rules or accounting rules. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

14. Headings

The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.

15. Counterparts

This Agreement may be executed in counterparts, which together shall constitute one and the same original.

16. Data Protection

The Grantee authorizes the release from time to time to the Corporation (and any of its subsidiaries or affiliated companies) and to the Agent (together, the "Relevant Companies") of any and all personal or professional data that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). Without limiting the above, Grantee permits his or her employing company to collect, process, register and transfer to the Relevant Companies all Relevant Information (including any professional and personal data that may be useful or necessary for the purposes of the administration of the Plan and/or this Agreement and/or to implement or structure any further grants of equity awards (if any)). Grantee hereby authorizes the Relevant Information to be transferred to any jurisdiction in which the Corporation, his or her employing company or the Agent considers appropriate. Grantee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

IN WITNESS WHEREOF, as of the date first above written, the parties have executed this Agreement.

HSN, INC.

By: ________________________
Name: ________________________
Title: ________________________

____
«grantee»

Exhibit 10.24

PERFORMANCE AWARD AGREEMENT

THIS PERFORMANCE AWARD AGREEMENT (this "Agreement"), dated as of «award_date» (the "Award Date") is between HSN, Inc., a Delaware corporation (the "Company"), and «Participant» (the "Participant"). Capitalized terms used, but not otherwise defined, herein shall have the meanings ascribed to such terms in the Company's Second Amended and Restated 2008 Stock and Annual Incentive Compensation Plan, as amended (the "Plan").

1. Award

(a) Pursuant to the Company's 2012 Long-Term Incentive Program promulgated under the Plan (the "LTIP"), in order to encourage Participant's continued contribution to the successful performance of the Company, the Company hereby grants to the Participant a performance award to be payable in cash in the target amount of «Award Amount» assuming target performance and to be adjusted based on actual performance, as more specifically described below (the "Award"). The Participant hereby acknowledges and accepts such Award upon the terms and subject to the performance requirements and other conditions, restrictions and limitations contained in this Agreement and the Plan.

(b) The amount of such Award will be based on the Company's Total Shareholder Return ("TSR") performance over the three year period beginning January 1, 2012 and ending December 31, 2014 (the "Performance Period") relative to the TSR performance of the Comparator Companies (as defined below). The amount of the Award, calculated based on the applicable percentile ranking of the Company relative to the Comparator Companies, shall be determined based on the schedule attached hereto as Schedule A and the terms provided in this Agreement.

(c) For purposes of this Agreement, TSR means the change in fair market value over the specified period of time, expressed as a percentage, of an initial investment in specified common stock, including the effect of any dividends actually paid as if the dividends were invested in the stock of the Company or the Comparator Companies, as the case may be, and proportionately adjusted for stock splits, reorganizations or similar transactions occurring during the Performance Period, as provided herein or as determined utilizing such methodology as the Committee, or its delegate, shall have approved. Notwithstanding the foregoing, the Committee, or its delegate, shall have the discretion to make appropriate and equitable adjustments of the TSR of any company (including the Company) whose shares trade ex-dividend as of December 31, 2014; provided, however, that no such adjustment shall be permitted if it would result in the loss of the otherwise available exemption of the Award under Section 162(m) of the Code. The TSR shall be based on the trailing 30-trading day average closing stock prices of the Company and the Comparator Companies measured as of (and including the 30^{th} day) the first and last trading days of the Performance Period.

(d) For purposes of this Agreement, the Comparator Companies shall be those companies listed on the Standard & Poor's 500 Retailing Index (the "Index") as of January 1, 2012, the first day of the Performance Period; provided, however, that the Comparator Companies shall be changed as follows:

i. In the event that a company becomes a member of the Index following January 1, 2012, such company shall not be taken into account for purposes of this Agreement. However, in the event that, at any time during the Performance Period, a company is no longer included in the Index, such company shall still be included as a Comparator Company.

ii. In the event of a merger, acquisition or business combination transaction of a Comparator Company with or by another Comparator Company, the surviving entity shall remain a Comparator Company, without adjustment to its financial or market structure provided that the surviving company is still in the Index.

iii. In the event of a merger of a Comparator Company with or by an entity that is not a Comparator Company, or the acquisition or business combination transaction by a Comparator Company of or with an entity that is not a Comparator Company, in each case, where the Comparator Company is the surviving entity, the surviving entity shall remain a Comparator Company, without adjustment to its financial or market structure, provided that the Comparator Company is still in the Index;

iv. In the event of a merger or acquisition or business combination transaction of a Comparator Company with or by an entity that is not a Comparator Company or other form of "going private" transaction relating to any Comparator Company, where such Comparator Company is not the surviving entity or is otherwise no longer publicly traded, the company will no longer be included as a Comparator Company.

v. In the event of a bankruptcy of a Comparator Company, such company shall remain a Comparator Company, without adjustment to its financial or market condition.

2. Vesting of Award

Subject to Sections 5 and 6 of this Agreement, the Award shall vest on December 31, 2014 (the "Vesting Date"). Nothing in this Agreement shall confer upon the Participant any right to continue in the employ or service of the Company or any of its Affiliates or interfere in any way with the right of the Company or any such Affiliates to terminate the Participant's service at any time, with or without cause.

3. <u>Settlement of Award</u>

(a) Provided the Participant continued to meet the eligibility requirements described in the LTIP Description and is in an eligible position at the conclusion of the Performance Period, As soon as practicable after the end of the Performance Period, the Committee shall certify in writing the Company's TSR performance and the amount of the Award to which the Participant is entitled to receive. The Award will be paid to the Participant no later than seventy-five (75) days after the end of the Performance Period.

(b) To the extent required by federal, state or local law, the Company shall have the right to withhold and deduct from the payments due to the Participant pursuant to the Award, amounts that would otherwise be delivered pursuant hereto for the payment of taxes or other amounts required by law and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes.

4. <u>Non-Transferability of the Award</u>

The Award shall not be transferable by the Participant by means of sale, assignment, exchange, encumbrance, pledge, attachment or otherwise transferred or encumbered and any such purported assignment, exchange, encumbrance, pledge or attachment shall be void and unenforceable against the Company.

5. <u>Forfeiture</u>

Notwithstanding the provisions of Section 2, and except as provided in Section 6, in the event of termination of the Participant's service with the Company prior to the Vesting Date for any reason, including by reason of death or Disability, the entire amount of the unvested Award shall be forfeited by the Participant and canceled in its entirety effective immediately upon such termination.

6. <u>Adjustment in the Event of Change in Control</u>

(a) In the event of a Change in Control, as defined in Section 10(c) of the Plan, after the Vesting Date but prior to the payment of the Award, Participant will receive the entire amount of the Award to which the Participant is entitled.

(b) In the event that, prior to the Vesting Date, there occurs (i) a Change in Control and (ii) a Termination of Employment of the Participant by the Company for other than Cause or Disability or by the Participant for Good Reason, then the Participant shall be paid the Award at the target level but prorated over the number of months during the Performance Period that the Participant was employed by the Company, subject to Section 6(c) below.

(c) In order to reflect the time value of the earlier payment of the Performance Cash payout and to satisfy IRS Regulation §1.162-27(e)(2)(iii)(B), the amount of the Performance Cash payout shall be equal to the present value of the amount that would have been payable had the Participant been employed on the Vesting Date, based upon the whole number of months between the first day of the month in which the Change in Control occurs and the Vesting Date, and the Federal short-term rate determined by the IRS pursuant to §1274 of the Internal Revenue Code for the month in which the Change in Control occurs, compounded monthly.

7. Other Agreements and Acknowledgments

(a) By accepting the grant evidenced by of this Agreement, the Participant acknowledges and agrees that: (i) the LTIP is established voluntarily by the Company; it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time unless otherwise provided in the Plan or this Agreement; (ii) the grant of the Award is voluntary and occasional and does not create any contractual or other right to receive future grants of cash awards, or benefits in lieu of cash awards, even if cash awards have been granted in the past; (iii) all decisions with respect to future grants, if any, will be at the sole discretion of the Company; (iv) the future value of the Award is unknown and cannot be predicted with certainty; (v) in consideration of the grant of the Award, no claim of entitlement to compensation or damages shall arise from termination of the Award or diminution in value of the Award resulting from a termination of the Participant's employment by the Company or Change in Control, and the Participant irrevocably releases the Company from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by accepting the terms of this Agreement, the Participant shall be deemed irrevocably to have waived any entitlement to pursue such claim; and (vi) notwithstanding any terms or conditions of the Plan to the contrary, in the event of involuntary termination of the Participant's employment (whether or not in breach of local labor laws), the Participant's right to receive awards or vest in awards under the Plan, if any, will terminate effective as of the date that the Participant is no longer actively employed and will not be extended by any notice period mandated under local law (e.g., active employment would not include a period of "garden leave" or similar period pursuant to local law); furthermore, in the event of involuntary termination of employment (whether or not in breach of local labor laws), the Committee shall have the exclusive discretion to determine when the Participant is no longer actively employed for purposes of the Award.

(b) The Award currently consists of a bookkeeping entry representing the right to receive cash on a date determined in accordance with this Agreement. Nothing in this Agreement shall create or be deemed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Subsidiary or Affiliate and the Participant.

8. Notices

All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by facsimile, overnight courier, or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Participant: at the address last provided by the Participant to the Company's Human Resources Department.

If to the Company: HSN, Inc.

1 HSN Drive
St. Petersburg, FL 33729
Attention: General Counsel
Facsimile: (727) 872-1000

or to such other address or facsimile number as any party shall have furnished to the other in writing in accordance with this Section 8. Notice and communications shall be effective when actually received by the addressee. Notwithstanding the foregoing, the Participant consents to electronic delivery of documents required to be delivered by the Company under the securities laws.

9. Effect of Agreement

Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Company.

10. Laws Applicable to Construction; Consent to Jurisdiction

The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware without reference to principles of conflict of laws, as applied to contracts executed in and performed wholly within the State of Delaware. In addition to the terms and conditions set forth in this Agreement and the Summary of Award, the Award is subject to the terms and conditions of the Plan, which are hereby incorporated by reference.

Any and all disputes arising under or out of this Agreement, including without limitation any issues involving the enforcement or interpretation of any of the provisions of this Agreement, shall be resolved by the commencement of an appropriate action in the state or federal courts located within Pinellas County, State of Florida, which shall be the exclusive jurisdiction for the resolution of any such disputes. The Participant hereby agrees and consents to the personal jurisdiction of said courts over the Participant for purposes of the resolution of any and all such disputes.

11. Severability

The invalidity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

12. Conflicts and Interpretation

In the event of any conflict between this Agreement, the LTIP and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan and this Agreement.

13. Amendment

The Company may modify, amend or waive the terms of the Award, prospectively or retroactively, but no such modification, amendment or waiver shall impair the rights of the Participant without his or her consent, except as required by applicable law, NASDAQ or stock exchange rules, tax rules or accounting rules. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

14. Headings

The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.

15. Data Protection

The Participant authorizes the release from time to time to the Company (and any of its Subsidiaries or Affiliated companies) (together, the "Relevant Companies") of any and all personal or professional data that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). Without limiting the above, the Participant permits his or her employing company to collect, process, register and transfer to the Relevant Companies all Relevant Information (including any professional and personal data that may be useful or necessary for the purposes of the administration of the Plan and/or this Agreement and/or to implement or structure any further grants of equity awards (if any)). The Participant hereby authorizes the Relevant Information to be transferred to any jurisdiction in which the Company or his or her employing company considers appropriate. The Participant shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

IN WITNESS WHEREOF, as of the date first above written, the Company has caused this Agreement to be executed on its behalf by a duly authorized officer. Electronic acceptance of this Agreement pursuant to the Company's instructions to the Participant (including through an online acceptance process managed by the Company) is acceptable.

HSN, INC.

By: ______________________

Name: ______________________

Title: ______________________

EXHIBIT 12.1

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

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(unaudited) (In thousands, except ratios)				
Income (loss) from continuing operations before income taxes	$200,406	$163,564	$120,624	$(3,118,251)	$ 169,787
Fixed charges:					
Interest expense (a)	32,022	33,124	35,373	16,420	—
Estimated interest portion of rental expense	8,217	8,151	8,283	8,382	9,669
Total fixed charges	40,239	41,275	43,656	24,802	9,669
Income (loss) from continuing operations before income taxes and fixed charges	240,645	204,839	164,280	(3,093,449)	179,456
Ratio of earnings to fixed charges	5.98	4.96	3.8	(b)	18.56

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

Name	Jurisdiction of Organization
AST Sub, Inc.	DE
Ballard Designs, Inc.	GA
Cinmar, LLC	DE
Contract Décor, Inc.	DE
Cornerstone Brands, Inc.	DE
Cornerstone Consolidated Services Group, Inc.	DE
Cornerstone Services, Inc.	DE
Exception Management Services LLC	DE
Frontgate Marketing, Inc.	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 Improvements LLC	DE
HSN Interactive LLC	DE
HSNi, LLC	DE
HSN of Nevada LLC	DE
HSN Realty LLC	DE
Ingenious Designs LLC	DE
NLG Merger Corp.	DE
Smith & Noble, LLC	DE
The Cornertone 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
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

EXHIBIT 23.1

Consent of Independent Registered Certified Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Post Effective Amendment No. 4 to Form S-1 on Form S-3 No. 333-152697) of HSN, Inc. and subsidiaries (HSN, Inc.) and

(2) Registration Statement (Form S-8 No. 333-168570) pertaining to the Employee Stock Purchase Plan of HSN, Inc.;

of our reports dated February 23, 2012, with respect to the consolidated financial statements and schedule of HSN, Inc., and the effectiveness of internal control over financial reporting of HSN, Inc., included in this Annual Report (Form 10-K) of HSN, Inc. for the year ended December 31, 2011.

/s/ Ernst & Young LLP

Tampa, Florida
February 23, 2012

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: February 23, 2012

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: February 23, 2012

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, 2011 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: February 23, 2012

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, 2011 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: February 23, 2012	By:	/s/ JUDY A. SCHMELING
		Judy A. Schmeling **Chief Financial Officer**