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

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# FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997

COMMISSION FILE NUMBER 0-20570

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

| | |
|---|---|
| DELAWARE | 59-2712887 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

1 HSN DRIVE, ST. PETERSBURG, FLORIDA
(Address of principal executive offices)

33729
(Zip Code)

(813) 572-8585
(Registrant's telephone number, including area code)

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 [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Total number of shares of outstanding stock as of August 8, 1997:

| | |
|---|---|
| Common stock................ | 43,526,372 |
| Class B common stock........ | 12,227,647 |

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HSN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | Three Months Ended June 30, 1997 | Three Months Ended June 30, 1996 | Six Months Ended June 30, 1997 | Six Months Ended June 30, 1996 |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| NET REVENUES | | | | |
| Home Shopping | $250,950 | $ -- | $512,369 | $ -- |
| Broadcasting | 13,476 | 10,924 | 25,770 | 22,036 |
| Other | 1,259 | -- | 7,098 | -- |
| Total net revenues | 265,685 | 10,924 | 545,237 | 22,036 |
| Operating costs and expenses: | | | | |
| Cost of sales | 149,503 | 65 | 308,118 | 193 |
| Selling and marketing | 33,217 | -- | 68,510 | -- |
| General and administrative | 23,890 | 2,876 | 46,719 | 5,744 |
| Engineering and programming | 17,813 | 2,999 | 36,260 | 6,030 |
| Depreciation and amortization | 20,532 | 3,404 | 41,491 | 6,862 |
| Total operating costs and expenses | 244,955 | 9,344 | 501,098 | 18,829 |
| Operating profit | 20,730 | 1,580 | 44,139 | 3,207 |
| Other income (expense): | | | | |
| Interest income | 1,172 | 591 | 2,513 | 1,210 |
| Interest expense | (6,468) | (2,221) | (13,490) | (4,633) |
| Miscellaneous | (3,031) | 194 | (6,260) | 331 |
| | (8,327) | (1,436) | (17,237) | (3,092) |
| Earnings before income taxes and minority interest | 12,403 | 144 | 26,902 | 115 |
| Income tax expense | (9,546) | (596) | (20,675) | (1,173) |
| Minority interest | (385) | -- | 15 | -- |
| NET EARNINGS (LOSS) | $ 2,472 | $ (452) | $ 6,242 | $(1,058) |
| Net earnings (loss) per common share | $ .05 | $ (.05) | $ .12 | $ (.11) |
| Weighted average shares outstanding | 51,949 | 9,484 | 51,302 | 9,471 |

The accompanying notes are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| ASSETS | June 30, 1997 | June 30, 1996 | December 31, 1996 |
|---|---|---|---|
| | (In thousands) | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | $ 30,795 | $ 19,837 | $ 42,606 |
| Accounts and notes receivable, net | 53,618 | 3,447 | 56,832 |
| Inventories, net | 127,167 | -- | 100,527 |
| Deferred income taxes | 32,366 | 1,614 | 40,842 |
| Other current assets, net | 5,421 | 632 | 7,791 |
| Total current assets | 249,367 | 25,530 | 248,598 |
| PROPERTY, PLANT AND EQUIPMENT | | | |
| Computer and broadcast equipment | 100,493 | 73,674 | 95,472 |
| Buildings and leasehold improvements | 63,467 | 18,313 | 63,739 |
| Furniture and other equipment | 19,684 | 1,918 | 20,414 |
| | 183,644 | 93,905 | 179,625 |
| Less accumulated depreciation and amortization | 82,235 | 71,698 | 73,959 |
| | 101,409 | 22,207 | 105,666 |
| Land | 14,956 | 2,158 | 14,944 |
| Projects in progress | 11,719 | 158 | 1,365 |
| | 128,084 | 24,523 | 121,975 |
| OTHER ASSETS | | | |
| Intangible assets, net | 1,518,539 | 55,305 | 1,545,947 |
| Cable distribution fees, net ($38,643; $0; and $40,892, respectively, to related parties) | 108,767 | -- | 113,594 |
| Long-term investments ($16,804; $0; and $5,581, respectively, in related parties) | 33,742 | 5,140 | 30,121 |
| Notes receivable, net of current portion ($843; $0; and $1,639, respectively, from related parties) | 12,229 | 17,321 | 17,741 |
| Deferred income taxes | 4,580 | -- | 1,926 |
| Deferred charges and other, net | 28,425 | 3,627 | 36,330 |
| | 1,706,282 | 81,393 | 1,745,659 |
| | $2,083,733 | $131,446 | $2,116,232 |

The accompanying notes are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| LIABILITIES AND STOCKHOLDERS' EQUITY | June 30, 1997 | June 30, 1996 | December 31, 1996 |
|---|---|---|---|
| | (In thousands) | | |
| CURRENT LIABILITIES | | | |
| Current maturities of long-term obligations | $ 9,563 | $ 12,819 | $ 42,906 |
| Accounts payable | 86,797 | -- | 95,421 |
| Programming fees ($8,637; $0; and $9,051, respectively, to related parties) | 32,507 | -- | 40,717 |
| Other accrued liabilities | 76,834 | 6,361 | 93,998 |
| Total current liabilities | 205,701 | 19,180 | 273,042 |
| LONG-TERM OBLIGATIONS(net of current maturities) | 291,564 | 89,480 | 271,430 |
| DEFERRED INCOME TAXES | -- | 14,595 | -- |
| OTHER LONG-TERM LIABILITIES, NET | 50,029 | -- | 56,875 |
| MINORITY INTEREST | 365,541 | -- | 356,136 |
| COMMITMENTS AND CONTINGENCIES | -- | -- | -- |
| STOCKHOLDERS' EQUITY | | | |
| Preferred stock -- $.01 par value; authorized 15,000,000; 50,000; and 15,000,000 shares, respectively, no shares issued and outstanding | -- | -- | -- |
| Common stock -- $.01 par value; authorized 150,000,000; 30,000,000; and 150,000,000 shares, respectively; issued and outstanding 36,249,001; 7,075,332; and 35,992,903 shares, respectively | 363 | 71 | 360 |
| Class B -- convertible common stock -- $.01 par value; authorized, 30,000,000; 2,415,945; and 30,000,000 shares, respectively; issued and outstanding, 10,225,056; 2,415,945; and 10,225,056 shares, respectively | 102 | 24 | 102 |
| Additional paid-in capital | 1,290,064 | 127,401 | 1,285,277 |
| Accumulated deficit | (110,420) | (111,181) | (116,662) |
| Unearned compensation | (4,213) | (3,126) | (5,330) |
| Note receivable from key executive for common stock issuance | (4,998) | (4,998) | (4,998) |
| | 1,170,898 | 8,191 | 1,158,749 |
| | $2,083,733 | $ 131,446 | $2,116,232 |

The accompanying notes are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

| | Common Stock | Class B Convertible Common Stock | Additional Paid-In Capital | Accumulated Deficit | Unearned Compen-sation | Note Receivable from Key Executive for Common Stock Issuance | Total |
|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | |
| BALANCE AT JANUARY 1, 1996... | $ 70 | $ 24 | $ 126,119 | $(110,123) | $(3,621) | $(4,998) | $ 7,471 |
| Issuance of common stock upon exercise of stock options.................... | 1 | -- | 695 | -- | -- | -- | 696 |
| Income tax benefit related to stock options exercised.... | -- | -- | 587 | -- | -- | -- | 587 |
| Amortization of unearned compensation related to grant of stock options to key executive............. | -- | -- | -- | -- | 495 | -- | 495 |
| Net loss for the six months ended June 30, 1996........ | -- | -- | -- | (1,058) | -- | -- | (1,058) |
| BALANCE AT JUNE 30, 1996..... | $ 71 | $ 24 | $ 127,401 | $(111,181) | $(3,126) | $(4,998) | $ 8,191 |
| BALANCE AT JANUARY 1, 1997... | $360 | $102 | $1,285,277 | $(116,662) | $(5,330) | $(4,998) | $1,158,749 |
| Issuance of common stock upon exercise of stock options.................... | 3 | -- | 3,389 | -- | -- | -- | 3,392 |
| Income tax benefit related to stock options exercised.... | -- | -- | 1,398 | -- | -- | -- | 1,398 |
| Amortization of unearned compensation related to grant of stock options to key executive............. | -- | -- | -- | -- | 495 | -- | 495 |
| Expense related to executive stock award program and stock options............. | -- | -- | -- | -- | 112 | -- | 112 |
| Expense related to employee equity participation plan....................... | -- | -- | -- | -- | 510 | -- | 510 |
| Net earnings for the six months ended June 30, 1997....................... | -- | -- | -- | 6,242 | -- | -- | 6,242 |
| BALANCE AT JUNE 30, 1997..... | $363 | $102 | $1,290,064 | $(110,420) | $(4,213) | $(4,998) | $1,170,898 |

The accompanying notes are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Six Months Ended June 30, 1997 | Six Months Ended June 30, 1996 |
|---|---|---|
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net earnings (loss) | $ 6,242 | $(1,058) |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 31,710 | 6,862 |
| Amortization of cable distribution fees | 9,734 | -- |
| Deferred income taxes | 12,454 | 966 |
| Non-cash operating expense | (9,389) | -- |
| Equity in losses of unconsolidated affiliates | 6,317 | -- |
| Inventory carrying adjustment | (4,522) | -- |
| Non-cash interest expense | 2,109 | 420 |
| Amortization of unearned compensation | 1,117 | 495 |
| Provision for losses on accounts and notes receivable | 528 | 73 |
| (Gain) loss on retirement or sale of fixed assets | 119 | (196) |
| Minority interest | (15) | -- |
| Changes in current assets and liabilities: | | |
| Decrease in accounts receivable | 3,464 | 1,047 |
| Increase in inventories | (22,118) | -- |
| Decrease in other current assets | 2,370 | 567 |
| Decrease in accounts payable | (8,624) | -- |
| Increase (decrease) in accrued liabilities | (17,193) | 750 |
| Increase in cable distribution fees | (4,907) | -- |
| Decrease in deferred charges and other | 7,225 | 25 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 16,621 | 9,951 |
| Cash flows from investing activities: | | |
| Capital expenditures | (16,803) | (311) |
| Capital contributions received | 9,000 | -- |
| Increase in long-term investments and notes receivable | (9,938) | (7,701) |
| Proceeds from long-term notes receivable | 5,154 | 2,502 |
| Payment of merger costs | (6,349) | (622) |
| Proceeds from sale of fixed assets | 274 | 2,320 |
| NET CASH USED IN INVESTING ACTIVITIES | (18,662) | (3,812) |
| Cash flows from financing activities: | | |
| Principal payments on long-term obligations | (179,162) | (6,138) |
| Borrowings from unsecured credit facility | 166,000 | -- |
| Proceeds from issuance of common stock | 3,392 | 696 |
| NET CASH USED IN FINANCING ACTIVITIES | (9,770) | (5,442) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (11,811) | 697 |
| Cash and cash equivalents at beginning of period | 42,606 | 19,140 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 30,795 | $19,837 |

The accompanying notes are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A -- BASIS OF PRESENTATION

The interim Condensed Consolidated Financial Statements of HSN, Inc. and Subsidiaries (the "Company") are unaudited and should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto for the year ended December 31, 1996.

In the opinion of the Company, all adjustments necessary for a fair presentation of such Condensed Consolidated Financial Statements have been included. Such adjustments consist of normal recurring items. Interim results are not necessarily indicative of results for a full year. The interim Condensed Consolidated Financial Statements and Notes thereto are presented as permitted by the Securities and Exchange Commission and do not contain certain information included in the Company's audited Consolidated Financial Statements and Notes thereto.

The Condensed Consolidated Financial Statements include the operations of Savoy Pictures Entertainment, Inc. and subsidiaries ("Savoy") and the operations of Home Shopping Network, Inc. and subsidiaries ("Home Shopping") from the dates of acquisition (collectively, the "Mergers") on December 19, 1996 and December 20, 1996, respectively.

NOTE B -- RECLASSIFICATION

Certain amounts in the Condensed Consolidated Financial Statements for June 30, 1996, have been reclassified to conform to the 1997 presentation, including costs associated with the operations of the broadcast stations which were classified as general and administrative expense in 1996 and were reclassified to engineering and programming expense in 1997.

NOTE C -- CREDIT FACILITIES AND CONVERTIBLE SUBORDINATED DEBENTURES

On May 1, 1997, the Company entered into a new $275.0 million Revolving Credit Facility (the "New Facility") with a $35.0 million sub-limit for letters of credit. The New Facility, which replaced both the Home Shopping Revolving Credit Facility and the Company's Secured Senior Term Loans, expires on May 1, 2002. The New Facility is unsecured and the interest rate on borrowings is tied to the London Interbank Offered Rate plus an applicable margin. At June 30, 1997, there were $86.0 million in outstanding borrowings under the New Facility, and $170.8 million was available for borrowing after taking into account outstanding letters of credit.

In March 1996, SF Broadcasting, a subsidiary of Savoy, entered into an Amendment and Waiver to the SF Broadcast Facility which provided a waiver of certain covenants for the quarters ended September 30, 1996 and December 31, 1996 and amended certain covenants for the first two quarters of 1997. The Company was in compliance with the amended terms and all other covenants at June 30, 1997.

In connection with the Mergers, the Company became a joint and several obligor with respect to the Home Shopping Network 5 7/8% Convertible Subordinated Debentures and to the Savoy Pictures Entertainment, Inc. 7% Convertible Subordinated Debentures. The liability of Home Shopping and Savoy is subordinated under these debentures.

NOTE D -- INCOME TAXES

The Company had taxable income for the quarter and six months ended June 30, 1997, which was used to offset net operating losses.

On June 23, 1997, the Internal Revenue Service ("IRS") completed the examination of Home Shopping's federal income tax returns for fiscal years 1992, 1993 and 1994. The IRS proposed adjustments resulting in a potential tax deficiency of $9.3 million, primarily related to the disallowance of deductions pertaining to a legal settlement and stock options exercised under the 1986 Cable Operators Stock Option

HSN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

Plan. On July 23, 1997, the Company made a payment of $1.3 million of tax and $.3 million of interest, for all undisputed issues. These undisputed issues were related to inter-period allocations of tax deductions, which will reverse in subsequent periods. The Company maintains it has meritorious positions with respect to the disputed adjustments and intends to file a protest with the IRS. To minimize interest expense in the event of an unfavorable outcome, the Company deposited $2.8 million with the IRS during July 1997.

In addition, the IRS reversed its position on an issue with respect to a former related party, which will result in a refund of $5.0 million in taxes and interest related to fiscal years 1986 to 1989.

The effects of the settlement of undisputed items, the potential impact of the undisputed items, and the $5.0 million refund were provided for in previous years and, accordingly, had no impact on the income tax provision for the quarter and six months ended June 30, 1997.

The Company believes it has made adequate provision for all outstanding tax issues.

NOTE E -- EARNINGS (LOSS) PER SHARE

Primary earnings (loss) per common share is based on net earnings (loss) divided by the weighted average number of common shares outstanding, giving effect to stock options and convertible debt when applicable. Fully diluted earnings (loss) per common share is considered to be the same as primary earnings (loss) per common share since the effect of certain potentially dilutive securities is anti-dilutive in all periods presented.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share" ("SFAS 128"), which is effective for financial statements issued for periods ending after December 15, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. Management has not yet determined whether SFAS 128 will have any material impact on the Company's per share amounts.

NOTE F -- CONSOLIDATED STATEMENTS OF CASH FLOWS

For purposes of reporting cash flows, cash and cash equivalents include cash and short-term investments. Short-term investments consist primarily of auction preferred shares, money market funds and certificates of deposit with original maturities of less than 91 days.

Supplemental disclosures of cash flow information:

| | Six Months Ended June 30, 1997 | 1996 |
|---|---|---|
| | (In thousands) | |
| CASH PAID FOR: | | |
| Interest | $10,043 | $ 3,620 |
| Income taxes | 7,853 | 264 |
| CASH RECEIVED FOR: | | |
| Income tax refund | 125 | -- |

HSN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

NOTE G -- SAVOY SUMMARIZED FINANCIAL INFORMATION (UNAUDITED)

The Company has not presented separate financial statements and other disclosures concerning Savoy because management has determined that such information is not material to holders of the Savoy Debentures, all of which have been assumed by the Company as a joint and several obligor. The information presented is reflected at Savoy's historical cost basis.

| Summarized Operating Information | Six Months Ended June 30, 1997 | Six Months Ended June 30, 1996 |
|---|---|---|
| | (In thousands) | |
| Net revenue | $32,147 | $ 66,961 |
| Operating expenses | 33,272 | 120,796 |
| Operating loss | (1,125) | (53,835) |
| Net loss | (4,823) | (65,259) |

| Summarized Balance Sheet Information | June 30, 1997 | June 30, 1996 | December 31, 1996 |
|---|---|---|---|
| | | (In thousands) | |
| Current assets | $ 36,406 | $124,488 | $ 61,901 |
| Non-current assets | 289,449 | 323,665 | 302,195 |
| Current liabilities | 28,364 | 48,557 | 60,716 |
| Non-current liabilities | 115,990 | 177,914 | 124,198 |
| Minority interest | 119,856 | 71,320 | 112,717 |

NOTE H -- SUBSEQUENT EVENT

On July 17, 1997, the Company announced the consummation of the acquisition, in a stock-for-stock transaction, of approximately 49.6% of the outstanding Ticketmaster Group, Inc. ("Ticketmaster") equity securities from Paul G. Allen by issuing 7,238,507 of the Company's common stock at an assumed price of $28.44. The Company issued 2,002,591 shares of the Company's Class B common stock in accordance with Liberty Media Inc.'s contingent right to receive such shares. Subsequently, the Company acquired, through open market purchases, an additional 132,000 shares of Ticketmaster stock for $2.2 million.

ITEM 2 -- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

HSN, Inc. (the "Company" or "HSNi") is a holding company, the subsidiaries of which conduct the operations of the Company's various business activities. On December 19 and 20, 1996, the Company merged with Savoy Pictures Entertainment, Inc. ("Savoy") and Home Shopping Network, Inc. ("Home Shopping"), respectively, (collectively, the "Mergers"). The Mergers were accounted for using the purchase method of accounting. Following the Mergers, the Company's principal areas of business are electronic retailing and television broadcasting. The electronic retailing business operates two services, The Home Shopping Network ("HSN") and America's Store, through an indirect wholly-owned subsidiary, Home Shopping Club, Inc. ("HSC"). The television broadcasting business owns and operates twelve full-power UHF television stations (the "SKTV Stations") and four full-power VHF television stations ("SF Broadcasting"). SF Broadcasting is 50% owned by each of Savoy and Fox Broadcasting Company ("Fox").

THIS REPORT INCLUDES FORWARD-LOOKING STATEMENTS. THESE ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES, INCLUDING THOSE IDENTIFIED BELOW, WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM SUCH STATEMENTS. THE WORDS "BELIEVE," "EXPECT," "ANTICIPATE," "OPTIMISTIC," "INTEND," "AIM," "WILL," AND SIMILAR EXPRESSIONS IDENTIFY FORWARD-LOOKING STATEMENTS. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE ON WHICH THEY ARE MADE. THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE PUBLICLY OR REVISE ANY FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE FORWARD-LOOKING STATEMENTS, AS WELL AS AFFECT THE COMPANY'S ABILITY TO ACHIEVE ITS GOALS REFERRED TO HEREIN, INCLUDE BUT ARE NOT LIMITED TO, THE FOLLOWING: BUSINESS AND GENERAL ECONOMIC CONDITIONS, COMPETITIVE FACTORS, CHANNEL SPACE AVAILABILITY, THE COST AND AVAILABILITY OF APPROPRIATE MERCHANDISE AND DELIVERY SERVICES, CONSOLIDATION WITHIN THE CABLE INDUSTRY, COST OF CARRIAGE OF THE COMPANY'S PROGRAMMING AND CHANGES IN THE REGULATORY ENVIRONMENT.

A. CONSOLIDATED RESULTS OF OPERATIONS

The following discussions present the material changes in the consolidated results of operations of the Company for the quarter and six months ended June 30, 1997, compared with the same periods in 1996. The operations for the quarter and six months ended June 30, 1996, consist solely of the operations of the SKTV Stations. To provide a more meaningful comparison of operating results, a separate pro forma section is included as supplemental information. This section compares revenues and cost of revenues for the quarter and six months ended June 30, 1996 and 1997, as if the Mergers occurred on January 1, 1996. Reference should also be made to the Condensed Consolidated Financial Statements included herein.

QUARTER AND SIX MONTHS ENDED JUNE 30, 1997 VS. QUARTER AND SIX MONTHS ENDED JUNE 30, 1996

NET REVENUES

For the quarter and six months ended June 30, 1997, total revenues of the Company increased $254.8 million and $523.2 million, respectively, compared to the same periods in 1996. These significant increases were primarily the result of the Company's acquisition of Home Shopping in late December of 1996.

OPERATING COSTS AND EXPENSES

For the quarter and six months ended June 30, 1997, total operating costs and expenses increased $235.6 million and $482.3 million, respectively, compared to the same periods in 1996. As shown in the table below, operating costs and expenses for Home Shopping for the quarter and six months ended June 30, 1997, excluding purchase accounting effects and including the elimination of intercompany engineering and programming expenses, accounted for $221.7 million, or 94.1%, and $449.0 million, or 93.1%, respectively of the increase in, the Company's total operating costs and expenses.

| | Three Months Ended June 30, 1997 | | Six Months Ended June 30, 1997 | |
|---|---|---|---|---|
| | $ Increase from 1996 | Home Shopping Expenses | $ Increase from 1996 | Home Shopping Expenses |
| | (In millions, except %) | | | |
| Operating costs and expenses: | | | | |
| Cost of sales | $149.4 | $147.3 | $308.0 | $299.7 |
| Selling and marketing | 33.2 | 32.6 | 68.5 | 67.3 |
| General and administrative | 21.0 | 20.0 | 41.0 | 37.8 |
| Engineering and programming | 14.9 | 12.9 | 30.2 | 26.3 |
| Depreciation and amortization | 17.1 | 8.9 | 34.6 | 17.9 |
| Total operating costs and expenses | $235.6 | $221.7 | $482.3 | $449.0 |

OTHER INCOME (EXPENSE), NET

For the quarter and six months ended June 30, 1997, interest income increased $.6 million and $1.3 million, respectively, due to the higher combined cash balance of the merged entity.

For the quarter and six months ended June 30, 1997, interest expense increased $4.2 million and $8.9 million, respectively, compared to the same periods in 1996, due to the higher combined debt balance of the merged entity and non-cash interest expense related to preliminary purchase accounting adjustments arising from the Mergers.

For the quarter and six months ended June 30, 1997, the Company had net miscellaneous expense primarily due to equity losses totaling $3.0 million and $6.3 million, respectively, relating to the Company's investments in Home Order Television GmbH & Co. and Jupiter Shop Channel Co;. Ltd. For the quarter and six months ended June 30, 1996, the Company had net miscellaneous income of $.2 million and $.3 million, respectively.

INCOME TAXES

The Company's effective tax rate for the quarter and six months ended June 30, 1997 of 77%, calculated on earnings before income taxes and minority interest, is higher than the statutory rate due primarily to the amortization of non-deductible goodwill and other acquired intangibles, the non-recognition of net operating losses from less than 80% owned subsidiaries, certain non-deductible executive compensation and state income taxes. The Company's effective tax rate is expected to exceed the statutory rate for the remainder of 1997.

MINORITY INTEREST

Minority interest represents Liberty HSN, Inc.'s ("Liberty HSN") 19.9% interest in Home Shopping's results of operations and Fox's 50% interest in SF Broadcasting's results of operations for the quarter and six months ended June 30, 1997.

NET EARNINGS

As a result of the above factors, net earnings for the quarter and six months ended June 30, 1997 increased $2.9 million and $7.3 million, respectively, compared to the same periods in 1996.

ACTUAL NET REVENUES AND COST OF REVENUES FOR THE QUARTER AND SIX MONTHS ENDED JUNE 30, 1997 VS. PRO FORMA NET REVENUES AND COST OF REVENUES FOR THE QUARTER AND SIX MONTHS ENDED JUNE 30, 1996

The Mergers resulted in significant changes in the Company's results of operations. Accordingly, the following discussion of revenues and cost of revenues is presented for illustrative purposes only. The pro forma information is not necessarily indicative of the revenues and cost of revenues which would have actually been reported had the Mergers occurred as of January 1, 1996, nor is it necessarily indicative of future revenues and cost of revenues.

The pro forma revenues and cost of revenues are presented to show the acquisitions of Home Shopping and Savoy as if the transactions occurred on January 1, 1996. Revenues and cost of revenues specifically related to Savoy's motion picture operations are excluded from the 1996 pro forma amounts as these activities ceased prior to the Mergers. Any future revenue or expense from Savoy's motion picture operations will relate to the winding up of these operations and are expected to be insignificant.

For the quarter and six months ended June 30, 1997, total revenues for the Company increased $8.9 million, or 3.5%, to $265.7 million from $256.8 million and $21.4 million, or 4.1%, to $545.2 million from $523.8 million, respectively, compared to the same pro forma periods in 1996. The increase in revenues for the quarter and six months ended June 30, 1997, resulted primarily from an increase in net sales for Home Shopping of $7.0 million, or 2.9%, to $251.0 million from $244.0 million and $12.8 million, or 2.6%, to $512.4 million from $499.6 million, respectively, compared to the same pro forma periods in 1996.

Net sales of HSC increased $21.3 million, or 10.0%, and $39.2 million, or 9.0%, for the quarter and six months ended June 30, 1997, respectively. HSC's sales reflect increases of 13.5% and 12.8% in the number of packages shipped and decreases of 7.7% and 9.2% in the average price per unit sold for the quarter and six months ended June 30, 1997, respectively, compared to the same pro forma periods in 1996. The increase in HSC net sales was primarily offset by planned decreases in net sales of wholly-owned subsidiaries, HSN Mail Order, Inc. ("Mail Order"), and the retail outlet stores of $10.9 million and $2.7 million, respectively, for the quarter ended June 30, 1997 and $17.1 million and $5.2 million, respectively, for the six months then ended, compared to the same pro forma periods in 1996.

The Company believes that the improved sales in the quarter and six months ended June 30, 1997, compared to the same pro forma periods in 1996, were primarily the result of ongoing changes made to the Company's merchandising and programming strategies. Management is continuing to take additional steps to improve sales by changing the mix of products sold, introducing new products, reducing the average price per unit, creating exciting programming and taking measures to increase the customer base. Additional personnel have been hired to assist in implementing these new merchandising and programming strategies. Management has reformatted the former Spree! service to America's Store which was launched in January 1997. This change was designed to focus America's Store on some of the most popular product areas of electronic retailing. This service has undergone various format changes to date, and the Company is continuing to develop this service. There can be no assurance that the additional changes to the Company's merchandising and programming strategies will achieve management's intended results.

For the quarter and six months ended June 30, 1997, HSC's merchandise return percentage decreased to 23.4% from 24.7% and to 22.6% from 24.8%, respectively, compared to the same periods in 1996. Management believes that the lower return rate is primarily attributable to the decrease in the average price per unit and the mix of products sold, which may vary in subsequent quarters. Promotional price discounts decreased to 1.8% from 3.3% of HSC sales for the quarter ended June 30, 1997 and to 1.7% from 3.5% for the six months ended June 30, 1997, compared to the same pro forma periods in 1996, as fewer discounts were offered.

At June 30, 1997 and 1996, HSC had approximately 4.7 million active customers. An active customer is one who has completed a transaction within the last eighteen months or placed an order within the last seven months. In addition, 60.6% of active customers have made more than one purchase in the last eighteen months, compared to 59.3% at June 30, 1996.

The following table highlights the changes in the estimated unduplicated television household reach of HSN, the Company's primary service, for the twelve months ended June 30, 1997:

| | Cable* | Broadcast | Satellite | Total |
|---|---|---|---|---|
| | (In thousands of households) | | | |
| Households -- June 30, 1996 | 45,891 | 19,802 | 3,788 | 69,481 |
| Net additions/(deletions) | 3,642 | (1,087) | -- | 2,555 |
| Shift in classification | 326 | (326) | -- | -- |
| Change in Nielsen household counts | -- | (926) | -- | (926) |
| Households -- June 30, 1997 | 49,859 | 17,463 | 3,788 | 71,110 |

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* Households capable of receiving both broadcast and cable transmissions are included under cable and therefore are excluded from broadcast to present unduplicated household reach. Cable households included 3.4 million and 1.4 million direct broadcast satellite ("dbs") households at June 30, 1997 and 1996, respectively, and therefore, these households are excluded from satellite.

According to industry sources, as of June 30, 1997, there were 96.9 million homes in the United States with a television set, 64.6 million basic cable television subscribers and 3.8 million homes with satellite dish receivers, excluding dbs.

In addition, as of June 30, 1997, approximately 10.4 million cable television households could be reached by America's Store, of which 3.8 million are on a part-time basis. Of the total cable television households receiving America's Store, 9.0 million also receive HSN.

During the remainder of 1997, cable system contracts covering 2.7 million cable subscribers are subject to termination or renewal. This represents 5.4% of the total number of unduplicated cable households receiving HSN. The Company is pursuing both renewals and additional cable television system contracts, but channel availability, competition, consolidation within the cable industry and cost of carriage are some of the factors affecting the negotiations for cable television system contracts. Although management cannot determine the percentage of expiring contracts that will be renewed or the number of households that will be added through new contracts, management believes that a majority of these contracts will be successfully renegotiated.

The Company, as part of its disengagement strategy, has selected its Miami, Florida station as the initial station which will cease broadcasting HSN and commence broadcasting its new local programming format in the Spring of 1998. The Miami station currently carries HSN. Management is continuing to evaluate the effects that the disaffiliation will have on Home Shopping's ability to reach some of its existing customers in the Miami area, including a reduction in revenues or additional expenses to secure carriage of HSN. The Company believes that the process of disaffiliation can be successfully managed to minimize adverse consequences. Upon disaffiliation, the Company plans on carrying predominantly its own local programming. There can be no assurance that the Company will be successful in its strategy to develop and broadcast its new programming format.

For the quarter and six months ended June 30, 1997, broadcasting revenues for SF Broadcasting increased $.9 million, or 7.5%, to $13.2 million from $12.3 million and $2.0 million, or 8.8%, to $25.0 million from $23.0 million, respectively, compared to the same pro forma periods in 1996. For the quarter and six months ended June 30, 1997, other revenues of $1.3 million and $7.1 million, respectively, relate to the motion picture business of Savoy which was discontinued in 1996. The Company does not expect significant additional revenues from this business.

For the quarter and six months ended June 30, 1997, cost of sales decreased $3.2 million, or 2.1%, to $149.5 million from $152.7 million and $10.5 million, or 3.3%, to $308.1 million from $318.6 million, respectively, compared to the same pro forma periods in 1996. The decrease in cost of sales for the quarter and six months ended June 30, 1997, primarily relates to a decrease in cost of sales for Home Shopping of $4.4 million, or 2.9%, to $147.3 million from $151.7 million and $16.7 million, or 5.3%, to $299.7 million from $316.5 million, respectively, compared to the same pro forma periods in 1996. As a percentage of net sales, Home Shopping's cost of sales decreased to 58.7% from 62.2% and to 58.5% from 63.3%, respectively, compared to the same pro forma periods in 1996.

Cost of sales of HSC increased $7.3 million and $2.6 million, respectively, for the quarter and six months ended June 30, 1997. This was offset by decreases of $10.9 million and $17.1 million, respectively, in cost of sales of Mail Order and the retail outlet stores as a result of the planned reduction in revenues for these subsidiaries. As a percentage of HSC's net sales, cost of sales decreased to 59.9% from 62.5% and to 59.6% from 64.3%, respectively, compared to the pro forma quarter and six months ended June 30, 1996.

Management believes the decreases in Home Shopping's and HSC's cost of sales when compared to pro forma 1996, are primarily the result of changes in merchandising and programming strategies, as discussed above.

For the quarter and six months ended June 30, 1997, compared to the same pro forma periods in 1996, the decrease in cost of sales of Home Shopping was offset in part by $1.3 million and $7.1 million increases in cost of sales related to Savoy's discontinued motion picture business. Significant additional cost of sales are not expected from the motion picture business.

EBITDA AND ATTRIBUTABLE EBITDA

Earnings before interest, income taxes, depreciation and amortization ("EBITDA") is defined as operating profit plus depreciation and amortization. EBITDA is presented here as a management tool and as a valuation methodology for companies in the media, entertainment and communications industries. EBITDA does not purport to represent cash provided by operating activities. EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. The Company owns 50% of the common equity and 100% of the voting stock of SF Broadcasting. As a result of voting and management control, SF Broadcasting's operating results are consolidated with the Company's operating results. Attributable EBITDA reflects 50% of SF Broadcasting's EBITDA based on the Company's common equity ownership. For the quarter and six months ended June 30, 1997, EBITDA for the Company was $41.3 million and $85.6 million, respectively, compared to $29.6 million and $54.8 million, respectively, for the same periods in 1996 on a pro forma basis. Attributable EBITDA for the Company for the quarter and six months ended June 30, 1997, was $39.6 million and $83.2 million, respectively, compared to $28.1 million and $52.6 million, respectively, for the same periods in 1996 on a pro forma basis.

B. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $18.6 million for the twelve months ended June 30, 1997. In addition the Company acquired cash of $52.7 million in connection with the Mergers, and received capital contributions of $9.0 million. These cash proceeds were used to reduce outstanding borrowings by $46.8 million, pay for capital expenditures of $17.6 million and pay cable distribution fees of $16.0 million. Net earnings adjusted for non-cash items totaled $62.1 million for the twelve months ended June 30, 1997. The increase in working capital of $37.3 million for the twelve months ended June 30, 1997, is primarily the result of the Mergers and the purchase accounting adjustments recorded in connection therewith.

Net cash provided by operating activities of $16.6 million was the primary source of cash for the six months ended June 30, 1997. These cash proceeds, capital contributions received and available cash were used principally to reduce outstanding borrowings by $13.2 million, pay for capital expenditures and pay cable distribution fees of $10.0 million. Net earnings adjusted for non-cash items totaled $56.4 million for the six months ended June 30, 1997. The increase in working capital of $68.1 million for the six months ended June 30, 1997, is primarily the result of the reduction in the current maturities of long-term obligations.

Accounts and notes receivable at June 30, 1997 included "FlexPay" accounts receivable totaling $21.8 million compared to $20.3 million at December 31, 1996. It is expected that the Company's financing of "FlexPay" accounts receivable will not have a significant impact on its liquidity position.

The inventory balance is net of a carrying adjustment of $23.4 million at June 30, 1997, compared to $27.9 million at December 31, 1996, which is primarily related to product which is inconsistent with Home Shopping's sales and merchandising philosophy.

Capital expenditures were $16.8 million for the six months ended June 30, 1997. Home Shopping has initiated a plan to improve and expand the capabilities of its computer systems and accordingly, capital expenditures are expected to range from $10.0 million to $15.0 million for the remainder of 1997. When completed, Home Shopping expects to achieve savings in its call center and fulfillment operations.

As discussed in Net Revenues and Cost of Revenues for the Quarter and Six Months -- Actual vs. Pro forma, in connection with the new broadcasting of independent programming in the Miami, Florida area, the Company anticipates capital expenditures for the buildout of the Miami Station. These capital expenditures, combined with capital expenditures for SF Broadcasting, are anticipated to range from $11.0 million to $15.0 million for the remainder of 1997.

On May 1, 1997, the Company entered into a new $275.0 million Revolving Credit Facility (the "New Facility") with a $35.0 million sub-limit for letters of credit. The New Facility, which replaced both the Home Shopping Revolving Credit Facility and the Company's Secured Senior Term Loans, expires on May 1, 2002. The New Facility is unsecured, and the interest rate on borrowings is tied to the London Interbank Offered Rate plus an applicable margin. At August 1, 1997, there were $76.0 million of outstanding borrowings under the New Facility and $172.4 million was available for borrowing after taking into account outstanding letters of credit.

In April 1997, the Company paid $5.0 million of subscriptions payable related to its investment in HOT and expects to pay the remaining $5.0 million in September 1997. The Company also has certain ongoing funding obligations.

During the remainder of 1997, management expects to pay cable distribution fees of $24.0 million to $29.0 million, relating to new and current contracts with cable system operators to carry Home Shopping's programming.

During the six months ended June 30, 1997, the Company received cash proceeds of $3.4 million from the exercise of .3 million options to purchase the Company's common stock. At July 31, 1997, 11.1 million options to purchase the Company's common stock were outstanding and exercisable at prices ranging between $2.00 and $148.21. The exercise of such options would result in a cash inflow to the Company of $60.0 million.

During July and August 1997, the Company purchased a total of 132,000 shares of Ticketmaster Group, Inc. ("Ticketmaster") stock in the open market for $2.2 million. The Company may purchase additional shares in the future to maintain its ownership percentage.

In management's opinion, available cash, internally generated funds and the New Facility will provide sufficient capital resources to meet the Company's foreseeable needs.

During the quarter and six months ended June 30, 1997, the Company did not pay any cash dividends, and none are permitted under the Company's existing credit facility.

## SEASONALITY

The Company believes seasonality does impact its retailing segment but not to the same extent it impacts the retail industry in general.

# PART II -- OTHER INFORMATION

## ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The information required by Item 2 is set forth under Item 4 which is incorporated herein by reference.

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

On July 17, 1997, the Company acquired from Paul G. Allen 12,283,014 shares of Ticketmaster common stock, no par value, in exchange for 7,238,507 shares of the Company's common stock, par value $.01 per share ("Common Stock"), subject to the issuance of up to an additional 3,257,328 shares of Common Stock to be reserved for contingent issuance in July 1998 if the average market price of the Common Stock over a specified period prior to such date is below $29 per share, pursuant to the terms of a Stock Exchange Agreement between Mr. Allen and the Company dated May 20, 1997 (the "Stock Exchange Agreement"). The issuance of the Common Stock by the Company to Mr. Allen was a private placement under Section 4(2) of the Securities Act of 1933, as amended, which did not involve any public offering of the Common Stock. The full text of the Stock Exchange Agreement was filed as Exhibit 1 to the Company's Current Report on Form 8-K dated July 17, 1997, and is incorporated herein by reference.

Pursuant to the rules of the National Association of Securities Dealers, Inc. (the "NASD"), the issuance of shares of Common Stock under the Stock Exchange Agreement required stockholder approval given that the number of shares of Common Stock that could be issued under the Stock Exchange Agreement could be equal to or in excess of 20% of the number of shares of Common Stock outstanding before such issuance. Pursuant to the rules of the NASD and in accordance with the Delaware General Corporation law (the "DGCL") and HSNi's Amended and Restated Certificate of Incorporation, as amended, the affirmative vote or written consent of the holders of a majority of the voting power of outstanding Common Stock entitled to vote (with holders of Common Stock and HSNi Class B Common Stock voting together as a single class) is necessary to approve the issuance of the Common Stock under the Stock Exchange Agreement. On May 20, 1997, in accordance with Section 228(d) of the DGCL and Article II, Section 8 of HSNi's Amended and Restated By-laws, stockholders representing approximately 71% of the total outstanding voting power (or 9,809,111 shares of Class B Common Stock) of HSNi acted without a meeting of stockholders by written consent to approve the stock issuance and the transactions contemplated in connection therewith. The Company did not solicit consents of stockholders generally and no other consents were obtained in connection with the approval of the exchange transaction. For further information, see the Information Statement dated June 27, 1997 of the Company on Schedule 14C sent to stockholders and filed with the Securities and Exchange Commission on that date.

## ITEM 6(A) -- EXHIBITS

Exhibit 27 -- Financial Data Schedule (for SEC use only).

## ITEM 6(B) -- REPORTS ON FORM 8-K

A report on Form 8-K filed July 29, 1997, reported completion on July 17, 1997, of the acquisition by the Company of Paul G. Allen's interest in Ticketmaster in a stock-for-stock transaction.

SIGNATURES

Pursuant to the requirement 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.

| | |
|---|---|
| | /s/ HSN, INC.<br>(Registrant) |
| Dated August 14, 1997 | /s/ BARRY DILLER<br>Barry Diller<br>Chairman of the Board and Chief Executive Officer |
| Dated August 14, 1997 | /s/ JED B. TROSPER<br>Jed B. Trosper<br>Vice President, Chief Financial Officer and Treasurer<br>(Principal Financial Officer) |
| Dated August 14, 1997 | /s/ BRIAN J. FELDMAN<br>Brian J. Feldman<br>Controller<br>(Chief Accounting Officer) |

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S FINANCIAL STATEMENTS ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-Q.

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DEC-31-1997
JAN-01-1997
JUN-30-1997
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