

GSI COMMERCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	December 30, 2006	December 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 71,382	\$ 231,511
Marketable securities	113,074	-
Accounts receivable, net of allowance of \$1,078 and \$1,833	38,681	61,973
Inventory	46,816	47,293
Deferred tax assets	10,403	14,114
Prepaid expenses and other current assets	6,409	14,771
Total current assets	286,765	369,662
Property and equipment, net	106,204	156,774
Goodwill	17,786	82,757
Intangible assets, net of accumulated amortization of \$441 and \$4,972	2,027	16,476
Equity investments	2,435	6,202
Long-term deferred tax assets	36,792	45,234
Other assets, net of accumulated amortization of \$11,926 and \$14,545	11,548	16,535
Total assets	\$ 463,557	\$ 693,640
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 76,553	\$ 85,667
Accrued expenses and other	72,740	98,179
Deferred revenue	11,790	17,588
Current portion - long-term debt and other	510	2,406
Total current liabilities	161,593	203,840
Convertible notes	57,500	207,500
Long-term debt	12,856	27,245
Deferred revenue and other	3,901	5,634
Total liabilities	235,850	444,219
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized; 0 shares issued and outstanding as of December 30, 2006 and December 29, 2007	-	-
Common stock, \$0.01 par value, 90,000,000 shares authorized; 45,878,527 and 46,847,919 shares issued as of December 30, 2006 and December 29, 2007, respectively; 45,878,324 and 46,847,716 shares outstanding as of December 30, 2006 and December 29, 2007, respectively	458	468
Additional paid in capital	347,676	366,400
Accumulated other comprehensive loss	(97)	(156)
Accumulated deficit	(120,330)	(117,291)
Total stockholders' equity	227,707	249,421
Total liabilities and stockholders' equity	\$ 463,557	\$ 693,640

GSI COMMERCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Twelve Months Ended	
	December 30, 2006	December 29, 2007	December 30, 2006	December 29, 2007
Revenues:				
Net revenues from product sales	\$ 190,327	\$ 223,141	\$ 461,183	\$ 512,194
Service fee revenues	66,880	111,983	148,370	237,763
Net revenues	257,207	335,124	609,553	749,957
Cost of revenues from product sales	130,339	148,698	331,253	356,541
Gross profit	126,868	186,426	278,300	393,416
Operating expenses:				
Sales and marketing, inclusive of \$608, \$1,017, \$3,654 and \$3,101 of stock-based compensation	71,521	109,104	165,919	241,906
Product development, inclusive of \$301, \$589, \$936 and \$1,615 of stock-based compensation	14,264	21,161	45,375	65,898
General and administrative, inclusive of \$783, \$995, \$2,988 and \$3,703 of stock-based compensation	11,236	12,319	36,062	43,333
Depreciation and amortization	6,385	13,593	21,297	37,337
Total operating expenses	103,406	156,177	268,653	388,474
Income from operations	23,462	30,249	9,647	4,942
Other (income) expense:				
Interest expense	775	2,174	3,107	6,016
Interest income	(1,647)	(2,245)	(6,075)	(9,270)
Other (income) expense	(65)	186	37	237
Loss on investments	110	5,007	2,873	5,007
Total other (income) expense	(827)	5,122	(58)	1,990
Income before income taxes and cumulative effect of change in accounting principle	24,289	25,127	9,705	2,952
Provision (benefit) for income taxes	(43,579)	8,624	(43,728)	(87)
Net income before cumulative effect of change in accounting principle	67,868	16,503	53,433	3,039
Cumulative effect of change in accounting principle	-	-	268	-
Net income	\$ 67,868	\$ 16,503	\$ 53,701	\$ 3,039
Basic earnings per share:				
Prior to cumulative effect of change in accounting principle	\$ 1.49	\$ 0.35	\$ 1.18	\$ 0.07
Cumulative effect of change in accounting principle	-	-	0.01	-
Earnings per share - basic	\$ 1.49	\$ 0.35	\$ 1.19	\$ 0.07
Diluted earnings per share:				
Prior to cumulative effect of change in accounting principle	\$ 1.33	\$ 0.30	\$ 1.09	\$ 0.06
Cumulative effect of change in accounting principle	-	-	0.01	-
Earnings per share - diluted	\$ 1.33	\$ 0.30	\$ 1.10	\$ 0.06
Weighted average shares outstanding - basic	45,679	46,774	45,174	46,433
Weighted average shares outstanding - diluted	51,285	57,432	50,624	48,739

GSI COMMERCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Twelve Months Ended	
	December 30,	December 29,
	2006	2007
	<u> </u>	<u> </u>
Cash Flows from Operating Activities:		
Net income	\$ 53,701	\$ 3,039
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	20,821	32,763
Amortization	476	4,574
Stock-based compensation	7,578	8,419
Loss on investments	2,873	5,007
Loss on disposal of equipment	329	34
Deferred tax assets	(44,404)	(505)
Cumulative effect of change in accounting principle	(268)	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(14,280)	(6,184)
Inventory	(12,204)	(471)
Prepaid expenses and other current assets	(3,272)	(3,086)
Other assets, net	(2,256)	1,106
Accounts payable and accrued expenses and other	48,377	7,633
Deferred revenue	8,606	5,805
	<u>66,077</u>	<u>58,134</u>
Net cash provided by operating activities	66,077	58,134
Cash Flows from Investing Activities:		
Payments for acquisitions of businesses, net of cash acquired	(5,849)	(100,574)
Cash paid for property and equipment, including internal use software	(42,621)	(54,196)
Proceeds from government grant related to corporate headquarters	3,000	-
Funding of restricted cash escrow funds	(1,052)	-
Other deferred cost	95	-
Cash paid for equity investments	(2,435)	(3,083)
Purchases of marketable securities	(226,968)	(263,688)
Sales of marketable securities	222,685	371,264
	<u>(53,145)</u>	<u>(50,277)</u>
Net cash used in investing activities	(53,145)	(50,277)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowing	343	-
Proceeds from convertible notes	-	150,000
Issuance costs paid for convertible notes	-	(5,042)
Repayments of capital lease obligations	(469)	(935)
Repayments of mortgage note	(170)	(182)
Excess tax benefits in connection with exercise of stock options and awards	145	359
Proceeds from exercise of common stock options	10,166	8,080
	<u>10,015</u>	<u>152,280</u>
Net cash provided by financing activities	10,015	152,280
Effect of exchange rate changes on cash and cash equivalents	<u>74</u>	<u>(8)</u>
Net increase in cash and cash equivalents	23,021	160,129
Cash and cash equivalents, beginning of period	<u>48,361</u>	<u>71,382</u>
Cash and cash equivalents, end of period	<u>\$ 71,382</u>	<u>\$ 231,511</u>

GSI COMMERCE, INC. AND SUBSIDIARIES
NON-GAAP INCOME FROM OPERATIONS AND RECONCILIATION TO GAAP RESULTS
(In thousands)
(Unaudited)

	Three Months Ended		Twelve Months Ended	
	December 30, 2006	December 29, 2007	December 30, 2006	December 29, 2007
Reconciliation of GAAP income from operations to non-GAAP income from operations:				
GAAP income from operations	\$ 23,462	\$ 30,249	\$ 9,647	\$ 4,942
Acquisition related integration expenses	-	1,597	-	1,597
Stock-based compensation	1,692	2,601	7,578	8,419
Depreciation and amortization ⁽¹⁾	6,385	13,593	21,297	37,337
Non-GAAP income from operations	<u>\$ 31,539</u>	<u>\$ 48,040</u>	<u>\$ 38,522</u>	<u>\$ 52,295</u>

⁽¹⁾ Includes amortization expense of acquisition related intangibles of \$3,380 and \$4,531 for the three- and twelve-months ended December 29, 2007.

GSI COMMERCE, INC. AND SUBSIDIARIES
FREE CASH FLOW AND RECONCILIATION TO GAAP OPERATING CASH FLOW
(In thousands)
(Unaudited)

	Twelve Months Ended	
	December 30, 2006	December 29, 2007
Reconciliation of GAAP operating cash flow to free cash flow:		
GAAP cash flow from operating activities	\$ 66,077	\$ 58,134
Cash paid for fixed assets, including capitalized software development	(42,621)	(54,196)
Free cash flow	<u>\$ 23,456</u>	<u>\$ 3,938</u>

GSI COMMERCE, INC. AND SUBSIDIARIES
MERCHANDISE SALES ⁽¹⁾ AND RECONCILIATION TO GAAP RESULTS
(Dollars in thousands)
(Unaudited)

	Three Months Ended		Variance	
	December 30, 2006	December 29, 2007	Amount	%
Merchandise sales ⁽¹⁾ - (a non-GAAP financial measure):				
Category:				
Sporting goods	\$ 177,920	\$ 219,559	\$ 41,639	23%
Other	<u>377,979</u>	<u>513,265</u>	<u>135,286</u>	36%
Total merchandise sales ⁽¹⁾ - (a non-GAAP financial measure)	<u>\$ 555,899</u>	<u>\$ 732,824</u>	<u>\$ 176,925</u>	32%
Net revenues - (GAAP basis):				
Net revenues from product sales:				
Category:				
Sporting goods	\$ 147,839	\$ 182,568	\$ 34,729	23%
Other	<u>42,488</u>	<u>40,573</u>	<u>(1,915)</u>	-5%
Total net revenues from product sales	190,327	223,141	32,814	17%
Service fee revenues	<u>66,880</u>	<u>111,983</u>	<u>45,103</u>	67%
Total net revenues - (GAAP basis)	<u>\$ 257,207</u>	<u>\$ 335,124</u>	<u>\$ 77,917</u>	30%
Reconciliation of merchandise sales ⁽¹⁾ to net revenues:				
Merchandise sales ⁽¹⁾ - (a non-GAAP financial measure):				
Category:				
Sporting goods	\$ 177,920	\$ 219,559	\$ 41,639	23%
Other	<u>377,979</u>	<u>513,265</u>	<u>135,286</u>	36%
Total merchandise sales ⁽¹⁾ - (a non-GAAP financial measure)	555,899	732,824	176,925	32%
Less:				
Sales by partners ⁽²⁾ :				
Category:				
Sporting goods	(30,081)	(36,991)	(6,910)	23%
Other	<u>(335,491)</u>	<u>(472,692)</u>	<u>(137,201)</u>	41%
Total sales by partners ⁽²⁾	(365,572)	(509,683)	(144,111)	39%
Add:				
Service fee revenues	<u>66,880</u>	<u>111,983</u>	<u>45,103</u>	67%
Net revenues - (GAAP basis)	<u>\$ 257,207</u>	<u>\$ 335,124</u>	<u>\$ 77,917</u>	30%

(1) Merchandise sales represents the retail value of all sales transactions, inclusive of freight charges and net of allowances for returns and discounts, which flow through the GSI Commerce platform, whether or not GSI Commerce is the seller of the merchandise or records the full amount of such sales on its financial statements.

(2) Represents the retail value of all product sales through the GSI Commerce platform where the inventory is owned by the partner and the partner is the seller of the merchandise. GSI Commerce records service fee revenues on these sales.

GSI COMMERCE, INC. AND SUBSIDIARIES
MERCHANDISE SALES ⁽¹⁾ AND RECONCILIATION TO GAAP RESULTS
(Dollars in thousands)
(Unaudited)

	Twelve Months Ended		Variance	
	December 30, 2006	December 29, 2007	Amount	%
Merchandise sales ⁽¹⁾ - (a non-GAAP financial measure):				
Category:				
Sporting goods	\$ 385,950	\$ 471,928	\$ 85,978	22%
Other	801,849	1,215,123	413,274	52%
Total merchandise sales ⁽¹⁾ - (a non-GAAP financial measure)	<u>\$ 1,187,799</u>	<u>\$ 1,687,051</u>	<u>\$ 499,252</u>	42%
Net revenues - (GAAP basis):				
Net revenues from product sales:				
Category:				
Sporting goods	\$ 314,696	\$ 384,511	\$ 69,815	22%
Other	146,487	127,683	(18,804)	-13%
Total net revenues from product sales	461,183	512,194	51,011	11%
Service fee revenues	148,370	237,763	89,393	60%
Total net revenues - (GAAP basis)	<u>\$ 609,553</u>	<u>\$ 749,957</u>	<u>\$ 140,404</u>	23%
Reconciliation of merchandise sales ⁽¹⁾ to net revenues:				
Merchandise sales ⁽¹⁾ - (a non-GAAP financial measure):				
Category:				
Sporting goods	\$ 385,950	\$ 471,928	\$ 85,978	22%
Other	801,849	1,215,123	413,274	52%
Total merchandise sales ⁽¹⁾ - (a non-GAAP financial measure)	1,187,799	1,687,051	499,252	42%
Less:				
Sales by partners ⁽²⁾ :				
Category:				
Sporting goods	(71,254)	(87,417)	(16,163)	23%
Other	(655,362)	(1,087,440)	(432,078)	66%
Total sales by partners ⁽²⁾	(726,616)	(1,174,857)	(448,241)	62%
Add:				
Service fee revenues	148,370	237,763	89,393	60%
Net revenues - (GAAP basis)	<u>\$ 609,553</u>	<u>\$ 749,957</u>	<u>\$ 140,404</u>	23%

(1) Merchandise sales represents the retail value of all sales transactions, inclusive of freight charges and net of allowances for returns and discounts, which flow through the GSI Commerce platform, whether or not GSI Commerce is the seller of the merchandise or records the full amount of such sales on its financial statements.

(2) Represents the retail value of all product sales through the GSI Commerce platform where the inventory is owned by the partner and the partner is the seller of the merchandise. GSI Commerce records service fee revenues on these sales.