Table of Contents

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2012

Or

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

For the transition period from to

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 33729
(Address of principal executive offices, including zip code)

(727) 872-1000
(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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

As of April 30, 2012, the registrant had 57,632,449 shares of common stock, $0.01 par value per share, outstanding.

Table of Contents

HSN, INC. AND SUBSIDIARIES
INDEX TO FORM 10-Q

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net sales	$747,312	$710,561
Cost of sales	476,631	462,644
Gross profit	270,681	247,917
Operating expenses:		
Selling and marketing	155,388	144,275
General and administrative	56,534	52,953
Depreciation and amortization	9,047	9,268
Total operating expenses	220,969	206,496
Operating income	49,712	41,421
Other income (expense):		
Interest income	154	114
Interest expense	(7,547)	(8,058)
Total other expense, net	(7,393)	(7,944)
Income from continuing operations before income taxes	42,319	33,477
Income tax provision	(16,026)	(13,105)
Income from continuing operations	26,293	20,372
Loss from discontinued operations, net of tax	(123)	(91)
Net income	$ 26,170	$ 20,281
Income from continuing operations per share		
Basic	$ 0.45	$ 0.35
Diluted	$ 0.44	$ 0.34
Net income per share:		
Basic	$ 0.45	$ 0.35
Diluted	$ 0.44	$ 0.34
Shares used in computing earnings per share:		
Basic	58,310	58,214
Diluted	60,053	60,338
Dividends declared per common share	$ 0.125	$ —

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

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

	March 31, 2012	December 31, 2011	March 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	$ 309,232	$ 381,808	$ 344,187
Accounts receivable, net of allowance of $14,317, $13,127 and $14,631, respectively	173,357	222,583	160,700
Inventories	305,197	296,460	307,790
Deferred income taxes	23,606	24,302	27,465
Prepaid expenses and other current assets	50,418	44,966	51,411
Total current assets	861,810	970,119	891,553
Property and equipment, net	158,352	158,434	150,567
Intangible assets, net	258,048	258,048	260,482
Other non-current assets	7,572	8,372	10,872
TOTAL ASSETS	$ 1,285,782	$ 1,394,973	$ 1,313,474
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable, trade	$ 202,084	$ 270,227	$ 204,916
Current maturities of long-term debt	—	—	11,640
Accrued expenses and other current liabilities	165,774	193,991	195,886
Total current liabilities	367,858	464,218	412,442
Long-term debt, net of current maturities	239,160	239,111	297,166
Deferred income taxes	76,483	78,131	77,470
Other long-term liabilities	25,299	23,816	21,271
Total liabilities	708,800	805,276	808,349
Commitments and contingencies (Note 11)			
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; 58,199,408, 58,414,019 and 58,476,491 issued shares at March 31, 2012, December 31, 2011 and March 31, 2011, respectively	582	584	585
Additional paid-in capital	2,141,229	2,180,112	2,198,328
Accumulated deficit	(1,564,829)	(1,590,999)	(1,693,788)
Total shareholders' equity	576,982	589,697	505,125
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,285,782	$ 1,394,973	$ 1,313,474

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
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 related tax benefit of $9,330	—	—	1,238	12	6,689	—	6,701
Repurchase 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
Comprehensive income	—	—	—	—	—	26,170	26,170
Stock-based compensation expense for equity awards	—	—	—	—	4,471	—	4,471
Cash dividend declared on common stock	—	—	—	—	(7,326)	—	(7,326)
Issuance of common stock from stock-based compensation awards, including related tax benefit of $12,875	—	—	909	9	5,235	—	5,244
Repurchase of common stock	—	—	(1,124)	(11)	(41,263)	—	(41,274)
Balance as of March 31, 2012	—	$ —	58,199	$ 582	$ 2,141,229	$(1,564,829)	$576,982

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cash flows from operating activities attributable to continuing operations:		
Net income	$ 26,170	$ 20,281
Loss from discontinued operations, net of tax	(123)	(91)
Income from continuing operations:	26,293	20,372
Adjustments to reconcile income from continuing operations to net cash used in operating activities attributable to continuing operations:		
Depreciation and amortization	9,047	9,268
Stock-based compensation expense	6,000	6,327
Amortization of cable and satellite distribution fees	42	839
Amortization of debt issuance costs	532	642
Loss on disposition of fixed assets	44	258
Deferred income taxes	(952)	(1,397)
Bad debt expense	5,553	5,093
Excess tax benefits from stock-based awards	(13,297)	(3,511)
Changes in current assets and liabilities:		
Accounts receivable	43,780	30,659
Inventories	(8,737)	(11,400)
Prepaid expenses and other assets	(4,546)	(8,609)
Accounts payable, accrued expenses and other liabilities	(87,134)	(58,140)
Net cash used in operating activities attributable to continuing operations	(23,375)	(9,599)
Cash flows from investing activities attributable to continuing operations:		
Capital expenditures	(8,758)	(5,187)
Net cash used in investing activities attributable to continuing operations	(8,758)	(5,187)
Cash flows from financing activities attributable to continuing operations:		
Repurchase of common stock	(39,139)	—
Cash dividends paid	(7,326)	—
Proceeds from issuance of common stock	4,140	3,905
Tax withholdings related to stock-based awards	(11,592)	(3,963)
Excess tax benefits from stock-based awards	13,297	3,511
Net cash (used in) provided by financing activities attributable to continuing operations	(40,620)	3,453
Total cash used in continuing operations	(72,753)	(11,333)
Cash flows from discontinued operations:		
Net cash provided by operating activities attributable to discontinued operations	236	1,292
Net cash used in investing activities attributable to discontinued operations	(59)	(31)
Total cash provided by discontinued operations	177	1,261
Net decrease in cash and cash equivalents:	(72,576)	(10,072)
Cash and cash equivalents at beginning of period	381,808	354,259
Cash and cash equivalents at end of period	$309,232	$344,187

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

HSN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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, home décor, tabletop, textiles, 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, 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 operating results of Smith+Noble, a Cornerstone brand that specializes in window treatments, is presented as a discontinued operation in the consolidated statements of operations and the consolidated statements of cash flows for all periods presented. See Note 10 for further discussion of discontinued operations.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of HSNi's management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. The accompanying unaudited consolidated financial statements should be read in conjunction with HSNi's audited consolidated financial statements and notes thereto for the year ended December 31, 2011. The consolidated balance sheet as of December 31, 2011 and the consolidated statement of shareholders' equity for the year ended December 31, 2011 were derived from the audited consolidated financial statements at that date but may not include all disclosures required by GAAP. Intercompany transactions and accounts have been eliminated in consolidation.

Reclassifications

In addition to the reclassifications made in the consolidated statements of operations and cash flows to present Smith+Noble as a discontinued operation, certain other reclassifications were made to prior period amounts in the consolidated statements of operations and the consolidated statements of cash flows to conform to the current year presentation. See Note 10 for further discussion of discontinued operations.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

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 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. In the opinion of HSNi's management, the assumptions underlying these interim unaudited financial statements are reasonable.

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

NOTE 3—PROPERTY AND EQUIPMENT

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

	March 31, 2012	December 31, 2011	March 31, 2011
Capitalized software	$ 198,803	$ 197,842	$ 211,988
Computer and broadcast equipment	95,170	93,364	93,122
Buildings and leasehold improvements	96,320	93,941	90,297
Furniture and other equipment	78,513	75,185	72,627
Projects in progress	8,209	8,881	5,840
Land and land improvements	10,957	10,962	10,921
	487,972	480,175	484,795
Less: accumulated depreciation and amortization	(329,620)	(321,741)	(334,228)
Total property and equipment, net	$ 158,352	$ 158,434	$ 150,567

NOTE 4—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 included in HSNi's Annual Report on Form 10-K for the year ended December 31, 2011. 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 for HSNi's operating segments and to HSNi's consolidated net income (in thousands):

	Three Months Ended March 31, 2012			Three Months Ended March 31, 2011		
	HSN	Cornerstone	Total	HSN	Cornerstone	Total
Adjusted EBITDA	$57,322	$ 7,481	$ 64,803	$52,198	$ 5,076	$ 57,274
Stock-based compensation expense	(3,287)	(2,713)	(6,000)	(4,176)	(2,151)	(6,327)
Depreciation and amortization	(6,565)	(2,482)	(9,047)	(7,199)	(2,069)	(9,268)
Loss on disposition of fixed assets	(13)	(31)	(44)	(54)	(204)	(258)
Operating income	$47,457	$ 2,255	49,712	$40,769	$ 652	41,421
Interest expense, net			(7,393)			(7,944)
Income from continuing operations before income taxes			42,319			33,477
Income tax provision			(16,026)			(13,105)
Income from continuing operations			26,293			20,372
Loss from discontinued operations, net of tax			(123)			(91)
Net income			$ 26,170			$ 20,281

The net sales for each of HSNi's reportable segments are as follows (in thousands):

	Three Months Ended March 31,	
	2012	2011
Net sales:		
HSN	$541,932	$526,175
Cornerstone	205,380	184,386
Total	$747,312	$710,561

NOTE 5—STOCK-BASED AWARDS

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 March 31, 2012, there were approximately 3.1 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 $11.6 million and $4.0 million for the three months ended March 31, 2012 and 2011, respectively.

During the three months ended March 31, 2012, HSNi granted approximately 241,000 RSUs and 339,000 SARs. The RSUs have a weighted average fair value of $35.68 and they primarily vest after three years. The SARs have a weighted average exercise price of $35.63, have a fair value of $12.94 and primarily vest ratably over three years. The following are the assumptions used in the Black-Scholes option pricing model to value SARs for the three months ended March 31, 2012: volatility factor of 46.51%, risk-free interest rate of 0.92%, expected term of 5 years and a dividend yield of 1.40%. Also during the three months ended March 31, 2012, HSNi granted approximately 26,528 options under the HSN, Inc. 2010 Employee Stock Purchase Plan ("ESPP") which had a weighted average fair value of $11.53. The following are the assumptions used in the Black-Scholes option pricing model to value options granted under the ESPP for the three months ended March 31, 2012: volatility factor of 59.70%, risk-free interest rate of 0.06%, expected term of six months and a dividend yield of 1.36%.

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 March 31, 2012, a liability of approximately $13.8 million was recorded for these awards.

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

	Three Months Ended March 31,	
	2012	2011
Selling and marketing	$ 1,182	$ 1,244
General and administrative	4,818	5,083
Stock-based compensation expense before income taxes	6,000	6,327
Income tax benefit	(2,126)	(2,128)
Stock-based compensation expense after income taxes	$ 3,874	$ 4,199

As of March 31, 2012, there was approximately $24.8 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards, which is currently expected to be recognized over a weighted average period of approximately 2.1 years.

NOTE 6—INCOME TAXES

HSNi calculates its interim income tax provision in accordance with the accounting guidance for income taxes in interim periods. At the end of each interim period, HSNi makes its best estimate of the annual expected effective tax rate and applies that rate to its ordinary year-to-date income or loss. The tax or benefit related to significant, unusual, or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur.

In addition, the effect of changes in enacted tax laws or rates, tax status, or judgment on the realizability of a beginning-of-the-year deferred tax asset in future years is recognized in the interim period in which the change occurs.

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income for the year, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or the tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in tax expense for the current quarter.

For the three months ended March 31, 2012 and 2011, HSNi recorded a tax provision of $16.0 million and $13.1 million, respectively, which represents effective tax rates of 37.9% and 39.1%, respectively. The decrease in the effective tax rate is due largely to a decrease in state income taxes as well as a decrease in permanent unfavorable book to tax differences. The effective tax rates exceed the federal statutory rate of 35.0% due principally to the effect of state income taxes.

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.

Table of Contents

The IRS has begun an examination of HSNi's consolidated federal income tax return for the year ended December 31, 2010. In addition, the State of New York has notified HSNi that it intends to audit HSNi's income tax returns for the periods ended December 31, 2008 through 2010. We do not anticipate any material adjustments to our tax liabilities resulting from either of these examinations.

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 2008 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 7—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.

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

	Three Months Ended March 31,	
	2012	2011
Net income (loss):		
Continuing operations	$26,293	$20,372
Discontinued operations	(123)	(91)
Net income	$26,170	$20,281
Weighted average number of shares outstanding:		
Basic	58,310	58,214
Dilutive effect of non-cash compensation awards	1,743	2,124
Diluted	60,053	60,338
Net income (loss) per share - basic:		
Continuing operations	$ 0.45	$ 0.35
Discontinued operations	0.00	0.00
Net income	$ 0.45	$ 0.35
Net income (loss) per share - diluted:		
Continuing operations	$ 0.44	$ 0.34
Discontinued operations	0.00	0.00
Net income	$ 0.44	$ 0.34
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	939	1,401

NOTE 8—LONG-TERM DEBT

The balance of long-term debt, including current maturities, is as follows (in thousands):

	March 31, 2012	December 31, 2011	March 31, 2011
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 1st and August 1st	240,000	240,000	240,000
Unamortized original issue discount on Senior Notes	(840)	(889)	(1,035)
Total long-term debt	239,160	239,111	308,806
Less: current maturities	—	—	(11,640)
Long-term debt, net of current maturities	$239,160	$ 239,111	$297,166

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 obligations 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 March 31, 2012, with a leverage ratio of 0.80x and an interest coverage ratio of 10.77. The amount available to HSNi 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 March 31, 2012, there were $25.7 million of outstanding commercial and standby letters of credit issued under the revolving credit facility. The ability to draw funds under the revolving credit facility is dependent upon meeting the aforementioned financial covenants, which may limit HSNi's ability to draw the full amount of the facility. As of March 31, 2012, 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 $124.3 million. HSNi capitalized $7.3 million in financing costs related to the credit agreement and amortizes 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 March 31, 2012, there was no outstanding balance due under the revolving credit facility.

On April 24, 2012, HSNi entered into a new $600 million five-year credit facility with a syndicate of banks, replacing the existing $150 million revolving credit facility that was set to expire in July 2013. See Note 13-Subsequent Events for discussion of the new 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.

NOTE 9—FAIR VALUE MEASUREMENTS

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, accounts payable and accrued expenses approximate fair value because of the short maturity of these items. The following table summarizes the fair value of HSNi's other financial assets and liabilities which are carried at cost (in thousands):

	March 31, 2012				
			Fair Value Measurement Category		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Senior Notes	$ 240,000	$ 260,712	$ 260,712	$ —	$ —
Term Loan	—	—	—	—	—

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

	March 31, 2011				
			Fair Value Measurement Category		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Senior Notes	$ 240,000	$ 270,600	$ 270,600	$ —	$ —
Term Loan	69,841	69,841	—	—	69,841

The fair value of the Senior Notes is based upon quoted market information (level 1 criteria) and the fair value of the term loan is based upon discounted cash flows (level 3 criteria).

HSNi measures certain assets, such as intangible assets and property and equipment, at fair value on a non-recurring basis. These assets are recognized at fair value if they are deemed to be impaired. During the three months ended March 31, 2012 and 2011, there were no assets that were required to be recorded at fair value as no impairment indicators were present.

NOTE 10—DISCONTINUED OPERATIONS

In the first quarter of 2012, Cornerstone initiated a formal plan to sell Smith+Noble, a business specializing in window treatments, as it was determined that the business was no longer consistent with Cornerstone's long-term strategic objectives. HSNi does not expect to have any significant involvement or continuing cash flows from Smith+Noble after it is sold. Based upon these factors, HSNi concluded that it has met the criteria for presenting Smith+Noble as held for sale and as discontinued operations. Accordingly, the operating results for Smith+Noble are presented separately as "loss from discontinued operations, net of tax" in the consolidated statements of operations for all periods presented, and the cash flows from Smith+Noble are presented separately as discontinued operations in the consolidated statements of cash flows for all periods presented. The assets and liabilities of Smith+Noble are not material, and are included within the assets and liabilities of continuing operations in the consolidated balance sheets.

Table of Contents

The following table reflects the results of Smith+Noble that are reported as discontinued operations for all periods presented (in thousands):

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net sales	$12,606	$13,421
Loss before income taxes	$ (198)	$ (146)
Income tax benefit	75	55
Net loss	$ (123)	$ (91)

NOTE 11—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. The state presented the subsidiary with an assessment relating to this matter in the amount of $22.6 million, including penalties and interest. HSNi has appealed this assessment, with a preliminary trial date scheduled in October 2012. Also 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 it was 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 also evaluates other contingent matters, including tax contingencies, to assess the probability and estimated extent of potential loss. See Note 6 for discussion related to income tax contingencies.

NOTE 12 – SHAREHOLDERS' EQUITY

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. For the three months ended March 31, 2012, HSNi acquired under the program approximately 1.1 million shares of our outstanding common stock for $41.3 million at an average price of $36.73, which were immediately retired upon purchase. As of March 31, 2012, approximately 8.1 million shares remained authorized for repurchase under the program.

Dividend Policy

On February 22, 2012, HSNi's Board of Directors approved a cash dividend of $0.125 per common share. The dividend was paid on March 21, 2012 to HSNi's record holders as of March 7, 2012.

NOTE 13—SUBSEQUENT EVENTS

Acquisition

On April 2, 2012, HSNi, through Cornerstone, acquired substantially all of the assets and liabilities of Chasing Fireflies LLC, a leading direct-to-consumer premium children's and family lifestyle brand. Chasing Fireflies generated net sales of approximately $39 million in 2011, and the results of its operations will be included in the Cornerstone segment results beginning in the second quarter of 2012.

New Credit Facility

On April 24, 2012, HSNi entered into a new $600 million five-year Credit Facility ("Credit Facility") with a syndicate of banks, replacing the credit facility that was set to expire in July 2013. The new Credit Facility, which includes a $350 million revolving credit facility and a $250 million delayed draw term loan, expires April 24, 2017. The Credit Facility may be increased up to a maximum of $850 million, subject to certain conditions.

Loans under the Credit Facility bear interest at a per annum rate equal to (at HSNi's election) either LIBOR plus a predetermined margin that ranges from 1.50% to 2.25% or the Base Rate (as defined in the Credit Agreement), in each case, based on HSNi's leverage ratio (the beginning LIBOR margin will be 1.50%). The term loan must be drawn by December 31, 2012. Proceeds from the Credit Facility are available for general corporate purposes, including working capital, capital expenditures, acquisitions, share repurchases and redemption of HSNi's $240 million 11.25% Senior Notes due August 2016 and callable August 1, 2012 at a price of 105.625%.

Certain HSNi subsidiaries have unconditionally guaranteed HSNi's obligations under the Credit Facility. In addition, HSNi and certain HSNi subsidiaries pledged, subject to certain exceptions, 100% of the voting equity securities of their U.S. subsidiaries and 65% of their first-tier foreign subsidiaries. The Credit Agreement includes various covenants, limitations and events of default customary for similar facilities for similarly rated borrowers including a maximum leverage ratio of 3.00x and a minimum interest coverage ratio of 3.00x.

In connection with the termination of the prior credit facility, of the unamortized deferred financing costs of $1.2 million, $0.3 million will be written-off in the second quarter of 2012 and the balance of $0.9 million will be amortized over the five-year life of the new Credit Facility.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Information

This quarterly report on Form 10-Q 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," included in HSNi's Annual Report on Form 10-K for the year ended December 31, 2011 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 sales 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.

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.

	Three Months Ended March 31,		
	2012	Change	2011
	(Dollars in thousands)		
HSN	$541,932	3%	$526,175
Cornerstone	205,380	11%	184,386
Total net sales	$747,312	5%	$710,561

HSNi's net sales in the first quarter of 2012 increased 5%, or $36.8 million, compared to the prior year due to a 3% increase at HSN and an 11% increase at Cornerstone. Digital sales grew 12% in 2012 representing 42.8% of HSNi's net sales compared to 40.3% in the prior year. The number of units shipped in the first quarter of 2012 increased 1% to 13.3 million from 13.1 million and the average price point increased 2% to $64.69 from $63.64.

HSN

Net sales for HSN in the first quarter of 2012 increased 3%, or $15.8 million, driven by strength in beauty, home fashions and culinary, offset by lower sales in electronics, fashion and fitness. Digital sales grew 8% with penetration increasing 170 basis points to 34.9%, up from 33.2% in the prior year. Average price point declined 2% and units shipped increased 3% primarily due to changes in product mix. The return rate decreased 140 basis points to 19.3% from 20.7%. The prior year return rate included an adjustment for higher than anticipated returns of certain product sold in the fourth quarter of 2010.

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

	Three Months Ended March 31,	
	2012	2011
Jewelry	13.8%	14.1%
Fashion (apparel & accessories)	12.8%	13.7%
Beauty & wellness	18.3%	17.0%
Home & other (including housewares, home fashions, electronics, culinary, fitness and other)	55.1%	55.2%
Total	100.0%	100.0%

Cornerstone

Net sales for Cornerstone in the first quarter of 2012 increased 11%, or $21.0 million, primarily due to strength in the home brands and a 160 basis point decrease in the return rate. Digital sales grew 18% with penetration increasing 330 basis points to 63.7%. Catalog circulation increased 16% 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 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.

	Three Months Ended March 31,		
	2012	Change	2011
Gross profit:		(Dollars in thousands)	
HSN	$188,379	6%	$177,171
HSN gross profit margin	34.8%	110 bp	33.7%
Cornerstone	$ 82,302	16%	$ 70,746
Cornerstone gross profit margin	40.1%	170 bp	38.4%
HSNi	$270,681	9%	$247,917
HSNi gross profit margin	36.2%	130 bp	34.9%

bp = basis points

HSN

Gross profit for HSN in the first quarter of 2012 increased 6%, or $11.2 million, compared to the prior year. Gross profit margin improved 110 basis points to 34.8% compared to 33.7%. The margin increase was primarily attributable to the product mix shift and lower transaction costs, partially offset by higher shipping and handling promotions.

Cornerstone

Gross profit for Cornerstone in the first quarter of 2012 increased 16%, or $11.6 million, compared to the prior year. Gross profit margin improved 170 basis points to 40.1% from 38.4%. The margin increase was primarily attributable to lower inbound freight costs in the home brands and leverage over fixed warehousing costs.

Selling and Marketing Expense

Selling and marketing expense consists primarily of advertising and promotional expenditures, 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.

	Three Months Ended March 31,		
	2012	Change	2011
	(Dollars in thousands)		
HSN	$ 93,814	2%	$ 91,576
As a percentage of HSN net sales	17.3%	(10 bp)	17.4%
Cornerstone	$ 61,574	17%	$ 52,699
As a percentage of Cornerstone net sales	30.0%	140 bp	28.6%
HSNi	$155,388	8%	$144,275
As a percentage of HSNi net sales	20.8%	50 bp	20.3%

HSNi’s selling and marketing expense in the first quarter of 2012 increased 8%, or $11.1 million, and was 20.8% of net sales compared to 20.3% in the prior year. The increase in expense is primarily due to additional expenses incurred at Cornerstone for catalog production and distribution costs associated with a 16% increase in catalog circulation, an increase in employee-related costs primarily due to increased headcount and investments in digital marketing, offset by lower on-air distribution costs.

General and Administrative Expense

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

	Three Months Ended March 31,		
	2012	Change	2011
	(Dollars in thousands)		
HSN	$40,543	8%	$37,628
As a percentage of HSN net sales	7.5%	30 bp	7.2%
Cornerstone	$15,991	4%	$15,325
As a percentage of Cornerstone net sales	7.8%	(50 bp)	8.3%
HSNi	$56,534	7%	$52,953
As a percentage of HSNi net sales	7.6%	10 bp	7.5%

HSNi's general and administrative expense for the first quarter of 2012 increased 7%, or $3.6 million, and was 7.6% of net sales compared to 7.5% in the prior year. The increase in expense is primarily attributable to an increase in employee-related costs.

Depreciation and Amortization

	Three Months Ended March 31,		
	2012	Change	2011
	(Dollars in thousands)		
HSN	$6,565	(9%)	$7,199
Cornerstone	2,482	20%	2,069
HSNi	$9,047	(2%)	$9,268
As a percentage of HSNi net sales	1.2%	(10 bp)	1.3%

HSNi's depreciation in the first quarter of 2012 decreased 2%, or $0.2 million, and was 1.2% of net sales compared to 1.3% in the prior year. The decrease in depreciation is primarily due to certain fixed assets becoming fully depreciated during the period, partially offset by incremental depreciation associated with recent capital expenditures. The capital expenditures were primarily for investments in information technology and warehouse improvements.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure. The definition of Adjusted EBITDA and its reconciliation to operating income for HSNi's operating segments and to HSNi's consolidated net income are in Note 4 of Notes to Consolidated Financial Statements.

	Three Months Ended March 31,		
	2012	Change	2011
	(Dollars in thousands)		
HSN	$57,322	10%	$52,198
As a percentage of HSN net sales	10.6%	70 bp	9.9%
Cornerstone	$ 7,481	47%	$ 5,076
As a percentage of Cornerstone net sales	3.6%	80 bp	2.8%
HSNi	$64,803	13%	$57,274
As a percentage of HSNi net sales	8.7%	60 bp	8.1%

HSNi's Adjusted EBITDA in the first quarter of 2012 increased 13%, or $7.5 million, and was 8.7% of net sales compared to 8.1% in the prior year. The increase in HSNi's Adjusted EBITDA is primarily due to a 5% increase in net sales and a 130 basis point improvement in gross profit margin, partially offset by an 8% increase in operating expenses (excluding non-cash charges). HSN's Adjusted EBITDA increased 10%, or $5.1 million, primarily due to a 3% increase in net sales and a 110 basis point improvement in gross profit margin, offset by a 5% increase in operating expenses (excluding non-cash charges) primarily for employee-related costs and investments in digital marketing. Cornerstone's Adjusted EBITDA increased 47%, or $2.4 million, primarily due to an 11% increase in net sales and a 170 basis point improvement in gross profit margin, partially offset by a 14% increase in operating expenses (excluding non-cash charges) primarily for catalog production and distribution costs.

Operating Income

	Three Months Ended March 31,		
	2012	Change	2011
	(Dollars in thousands)		
HSN	$47,457	16%	$40,769
As a percentage of HSN net sales	8.8%	110 bp	7.7%
Cornerstone	$ 2,255	246%	$ 652
As a percentage of Cornerstone net sales	1.1%	70 bp	0.4%
HSNi	$49,712	20%	$41,421
As a percentage of HSNi net sales	6.7%	90 bp	5.8%

HSNi's operating income in the first quarter of 2012 increased 20%, or $8.3 million, and was 6.7% of net sales compared to 5.8% in the prior year. The increase is primarily due to 5% growth in net sales and a 130 basis point improvement in gross profit margin, partially offset by a 7% increase in operating expenses primarily for investments in Cornerstone's catalog circulation, employee-related costs and investments in digital marketing.

Other Income (Expense)

	Three Months Ended March 31,		
	2012	Change	2011
	(Dollars in thousands)		
Interest income	$ 154	35%	$ 114
Interest expense	(7,547)	(6%)	(8,058)
Other expense, net	$(7,393)	(7%)	$(7,944)
As a percentage of HSNi net sales	1.0%	(10 bp)	1.1%

Interest expense primarily relates to the $240 million of Senior Notes and the five-year term loan which were issued in the third quarter of 2008 in connection with the Spin-off from IAC. HSNi's interest expense in the first quarter of 2012 decreased 7%, or $0.6 million, compared to the prior period due to the repayment of the term loan in 2011.

Income Tax Provision

For the three months ended March 31, 2012, HSNi recorded a tax provision of $16.0 million, which represents an effective tax rate of 37.9%. For the three months ended March 31, 2011, HSNi recorded a tax provision of $13.1 million, which represents an effective tax rate of 39.1%. The decrease in the effective tax rate is due largely to a decrease in state income taxes as well as a decrease in permanent unfavorable book to tax differences. The effective tax rates exceed the federal statutory rate of 35.0% due principally to the effect of state income taxes.

Discontinued Operations

In the first quarter of 2012, Cornerstone initiated a formal plan to sell Smith+Noble, a business specializing in window treatments, as it was determined that the business was no longer consistent with Cornerstone's long-term strategic objectives. The operating results for Smith+Noble are presented separately as "loss from discontinued operations, net of tax" in the consolidated statements of operations for all periods presented. Loss from discontinued operations, net of tax, was $0.1 million for the three months ended March 31, 2012 and 2011.

Liquidity and Capital Resources

As of March 31, 2012, HSNi had $309.2 million of cash and cash equivalents compared to $381.8 million as of December 31, 2011 and $344.2 million as of March 31, 2011.

Net cash used in operating activities for the three months ended March 31, 2012 was $23.4 million, compared to $9.6 million in the same period last year. The change was primarily due to the timing of payments of trade payables.

Net cash used in investing activities for the three months ended March 31, 2012 was $8.8 million resulting from capital expenditures for investments in information technology and warehouse improvements. Net cash used in investing activities in 2011 of $5.2 million was primarily for investments in information technology and headquarters renovations.

Net cash used in financing activities for the three months ended March 31, 2012 was $40.6 million and was primarily for $39.1 million of repurchases of our common stock. HSNi also declared a cash dividend of $0.125 per common share resulting in a $7.3 million payment during the first quarter of 2012. Additionally, in 2012 HSNi had an inflow of $13.3 million for excess tax benefits from stock-based awards and a net outflow of $7.5 million for the issuance of common stock which included $11.6 million used to cover withholding taxes for our stock-based awards, offset by $4.1 million of cash proceeds from stock option exercises.

Net cash provided by financing activities for the three months ended March 31, 2011 was $3.5 million and was primarily due to $3.5 million of excess tax benefits from stock-based awards. Additionally, in the first quarter of 2011, HSNi had an outflow of $0.1 million for the issuance of common stock which included $4.0 million used to cover withholding taxes for our stock-based awards, offset by $3.9 million of cash proceeds from stock option exercises.

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. The credit agreement that was set to expire July 2013 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. With a leverage ratio of 0.80x and an interest coverage ratio of 10.77x, HSNi was in compliance with the two principal financial covenants as well as the other covenants as of March 31, 2012. The ability to draw funds under the $150 million 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. The amount available under the credit agreement is also reduced by the amount of commercial and standby letters of credit issued under the $150 million revolving credit facility portion of the agreement. As of March 31, 2012, there were $25.7 million of outstanding commercial and standby letters of credit issued under the revolving credit facility. As of March 31, 2012, 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 $124.3 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, as well as 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. For the three months ended of March 31, 2012, HSNi repurchased approximately 1.1 million shares at a cost of $41.3 million, or an average cost of $36.73 per share. As of March 31, 2012, approximately 8.1 million shares remained authorized for repurchase under the program.

On May 1, 2012, HSNi's Board of Directors approved a cash dividend of $0.125 per common share. The dividend will be paid on June 20, 2012 to HSNi's record holders as of June 6, 2012.

New Credit Facility

On April 24, 2012, HSNi entered into a new $600 million five-year Credit Facility ("Credit Facility") with a syndicate of banks, replacing the credit facility that was set to expire in July 2013. The new Credit Facility, which includes a $350 million revolving credit facility and a $250 million delayed draw term loan, expires April 24, 2017. The Credit Facility may be increased up to a maximum of $850 million, subject to certain conditions.

Loans under the Credit Facility bear interest at a per annum rate equal to (at HSNi's election) either LIBOR plus a predetermined margin that ranges from 1.50% to 2.25% or the Base Rate (as defined in the Credit Agreement), in each case, based on HSNi's leverage ratio (the beginning LIBOR margin will be 1.50%). The term loan must be drawn by December 31, 2012. Proceeds from the Credit Facility are available for general corporate purposes, including working capital, capital expenditures, acquisitions, share repurchases and redemption of HSNi's $240 million 11.25% Senior Notes due August 2016 and callable August 1, 2012 at a price of 105.625%.

Certain HSNi subsidiaries have unconditionally guaranteed HSNi's obligations under the Credit Facility. In addition, HSNi and certain HSNi subsidiaries pledged, subject to certain exceptions, 100% of the voting equity securities of their U.S. subsidiaries and 65% of their first-tier foreign subsidiaries. The Credit Agreement includes various covenants, limitations and events of default customary for similar facilities for similarly rated borrowers including a maximum leverage ratio of 3.00x and a minimum interest coverage ratio of 3.00x.

In connection with the termination of the prior credit facility, of the unamortized deferred financing costs of $1.2 million, $0.3 million will be written-off in the second quarter of 2012 and the balance of $0.9 million will be amortized over the five-year life of the new Credit Facility.

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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For a description of HSNi's market risks, see "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" in HSNi's Annual Report on Form 10-K for the year ended December 31, 2011. No material changes have occurred in HSNi's market risks since December 31, 2011.

Item 4. Controls and Procedures

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 March 31, 2012. Based on that evaluation, management has concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. 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 result in the diversion of significant operational resources.

See Part I. Item 1. Financial Statements – Note 11 – Commitments and Contingencies, for additional information regarding legal matters in which we are involved.

Item 1A. Risk Factors

See Part I. Item 1A., “Risk Factors,” of HSNi’s Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the risk factors affecting HSNi. There have been no material changes from the risk factors described in the annual report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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, 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 HSNi’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 March 31, 2012, we repurchased approximately 1.1 million shares at an average price of $36.73 per share. Below is a summary of our common stock repurchases during the first quarter of 2012:

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
January 1, 2012 - January 31, 2012	491,118	$ 36.11	491,118	8,717,572
February 1, 2012 - February 29, 2012	148,982	36.18	148,982	8,568,590
March 1, 2012 - March 31, 2012	483,700	37.53	483,700	8,084,890
	1,123,800		1,123,800	

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Table of Contents

Item 6. Exhibits

Exhibit Number	Description	Location
4.1	Third Supplemental Indenture, dated as of April 19, 2012, among HSN, Inc., as Issuer, the Guarantors listed on Appendix I and Appendix II, and The Bank of New York Mellon Trust Company, N.A., as Trustee.	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
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 Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Consolidated Statements of Operations for the Three Months Ended March 31, 2012 and 2011, (ii) Consolidated Balance Sheets as of March 31, 2012, December 31, 2011 and March 31, 2011, (iii) Consolidated Statements of Cash Flows for the Three Months ended March 31, 2012 and 2011, and (iv) Notes to the Consolidated Financial Statements.	Filed herewith

SIGNATURES

Pursuant to the requirements 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.

Date: May 2, 2012

HSN, INC.

By: /s/ JUDY A. SCHMELING
Judy A. Schmeling
Executive Vice President and Chief Financial Officer

Exhibit 4.1

THIRD SUPPLEMENTAL INDENTURE

This THIRD SUPPLEMENTAL INDENTURE dated as of April 19, 2012, is among HSN, Inc., a Delaware corporation (the "Issuer"), the Guarantors listed on Appendix I attached hereto (the "Existing Guarantors"); the new Guarantors listed on Appendix II attached hereto (the "New Guarantors" and, together with the Existing Guarantors, the "Guarantors"); and The Bank of New York Mellon Trust Company, N.A. as Trustee (the "Trustee").

RECITALS

WHEREAS, the Issuer, the Existing Guarantors and the Trustee are parties to an Indenture dated July 28, 2008, as supplemented by the First Supplemental Indenture, dated as of August 20, 2008; and the Second Supplemental Indenture, dated as of January 1, 2010 (as so supplemented, the "Indenture"), relating to the Issuer's 11.25% Senior Notes due 2016 (the "Notes");

WHEREAS, Section 4.13 of the Indenture provides the method by which the Issuer may amend the Indenture to add a new Domestic Subsidiary as an additional Guarantor under the Indenture;

WHEREAS, the Issuer desires to amend the Indenture to reflect the addition of the New Guarantors;

WHEREAS, pursuant to Section 9.01 of the Indenture, the Issuer, Guarantors and the Trustee can execute this Third Supplemental Indenture without the consent of the Holders; and

WHEREAS, all acts and things prescribed by the Indenture and by law necessary to make this Third Supplemental Indenture a valid instrument legally binding on the Company and the Guarantors, in accordance with its terms, have been duly done and performed.

NOW, THEREFORE, to comply with the provisions of the Indenture and in consideration of the mutual agreements hereinafter set forth, the Domestic Subsidiary and Trustee have agreed and do hereby agree as follows:

ARTICLE 1

Section 1.1 Capitalized Terms. Capitalized terms used herein and not otherwise defined herein are used as defined in the Indenture.

Section 1.2 Agreement to Guarantee. Each of the New Guarantors hereby agrees to guarantee the Issuer's obligations under the Notes and the Indenture on the terms and subject to the conditions set forth in Article 10 of the Indenture. From and after the date hereof, each of the New Guarantors shall be a Guarantor for all purposes under the Indenture and the Notes.

Section 1.3 Incorporation of Terms of Indenture. The obligations of each of the New Guarantors under the Guarantee shall be governed in all respects by the terms of the Indenture and shall constitute a Guarantee thereunder. The New Guarantor shall be bound by the terms of the Indenture as they relate to the Guarantee.

ARTICLE II

Section 2.1 Amendment of the Notes. Any corresponding provisions reflected in the Notes shall also be deemed amended in conformity herewith.

Section 2.2 Effectiveness of Amendments. This Third Supplemental Indenture shall be effective upon execution hereof by the Issuer, the Guarantors and the Trustee.

Section 2.3 Interpretation; Severability. The Indenture shall be modified and amended in accordance with this Third Supplemental Indenture, and all the terms and conditions of both shall be read together as though they constitute one instrument, except that, in case of conflict, the provisions of this Third Supplemental Indenture will control. The Indenture, as modified and amended by this Third Supplemental Indenture, is hereby ratified and confirmed in all respects and shall bind every holder of Notes. In case of conflict between the terms and conditions contained in the Notes and those contained in the Indenture, as modified and amended by this Third Supplemental Indenture, the provisions of the Indenture, as modified by this Third Supplemental Indenture, shall control. In case any provision in this Third Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 2.4 Governing Law. This Third Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 2.5 Counterparts. This Third Supplemental Indenture may be signed in various counterparts which together will constitute one and the same instrument.

Section 2.6 Effect of Headings. The Section headings herein are for convenience only and shall not effect the construction hereof.

Section 2.7 Trustee. The recitals contained herein are made by the Issuer and the Guarantors, and not by the Trustee, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this Third Supplemental Indenture. All rights, protections, privileges, indemnities and benefits granted or afforded to the Trustee under the Indenture shall be deemed incorporated herein by this reference and shall be deemed applicable to all actions taken, suffered or omitted by the Trustee under this Third Supplemental Indenture.

[Signature Pages Follow]

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee

By: ____________________
Name: ____________________
Title: ____________________

HSN, INC., as the Issuer

By: ____________________
Arthur Singleton, Vice President and Treasurer

CHASING FIREFLIES, LLC
FRONTGATE MARKETING, INC.
VENTANA TELEVISION HOLDINGS, INC.
VENTANA TELEVISION, INC.,
as New Guarantors

By: ____________________
Name: Gregory J. Henchel
Title: Vice President

NLG MERGER CORP., as New Guarantor

By: ____________________
Name: Gregory J. Henchel
Title: Executive Vice President

EXCEPTION MANAGEMENT SERVICES, LLC
HSNi, LLC, formerly HSN LP, as Existing Guarantor

By: ____________________
Name: Gregory J. Henchel
Title: Executive Vice President

AST SUB, INC.
BALLARD DESIGNS, INC.
CINMAR, LLC
CORNERSTONE BRANDS, INC.
CORNERSTONE CONSOLIDATED SERVICES GROUP, INC.
CORNERSTONE SERVICES, INC.
GARNET HILL, INC.
HOME SHOPPING NETWORK EN ESPANOL, L.L.C.
HSN CATALOG SERVICES INC.
HSN FULFILLMENT LLC
HSN IMPROVEMENTS LLC
HSN INTERACTIVE LLC
HSN OF NEVADA LLC
HSN REALTY LLC
INGENIOUS DESIGNS LLC
SMITH & NOBLE, LLC
THE CORNERSTONE BRANDS GROUP, INC.
THE CORNERSTONE HOLDINGS GROUP, INC.
THE TERRITORY AHEAD, INC.
TRAVELSMITH OUTFITTERS, INC.
UNITED INDEPENDENT, INC.,
As Existing Guarantors

By: ______________________
Name: Gregory J. Henchel
Title: Vice President

H.O.T. NETWORKS HOLDINGS (DELAWARE) LLC,
As Existing Guarantor

By: ______________________
Name: Gregory J. Henchel
Title: President

HOME SHOPPING NETWORK EN ESPANOL, L.P.,
By: HOME SHOPPING NETWORK EN ESPANOL, L.L.C., as Existing Guarantor

By: ______________________
Name: Gregory J. Henchel
Title: Vice President

APPENDIX I
EXISTING GUARANTORS

AST SUB, INC.
BALLARD DESIGNS, INC.
CINMAR, LLC
CORNERSTONE BRANDS, INC.
CORNERSTONE CONSOLIDATED SERVICES GROUP, INC.
CORNERSTONE SERVICES, INC.
EXCEPTION MANAGEMENT SERVICES, LLC
GARNET HILL, INC.
HOME SHOPPING NETWORK EN ESPANOL, L.L.C.
HOME SHOPPING NETWORK EN ESPANOL, L.P.,
H.O.T. NETWORKS HOLDINGS (DELAWARE) LLC
HSN CATALOG SERVICES INC.
HSN FULFILLMENT LLC
HSN IMPROVEMENTS LLC
HSN INTERACTIVE LLC
HSN OF NEVADA LLC
HSN REALTY LLC
HSNi, LLC
INGENIOUS DESIGNS LLC
SMITH & NOBLE, LLC
THE CORNERSTONE BRANDS GROUP, INC.
THE CORNERSTONE HOLDINGS GROUP, INC.
THE TERRITORY AHEAD, INC.
TRAVELSMITH OUTFITTERS, INC.
UNITED INDEPENDENT, INC.,

APPENDIX II
NEW GUARANTORS

CHASING FIREFLIES, LLC
FRONTGATE MARKETING, INC.
NLG MERGER CORP.
VENTANA TELEVISION HOLDINGS, INC.
VENTANA TELEVISION, INC.

Exhibit 31.1

Certification

I, Mindy Grossman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2012 of HSN, Inc.

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 15d-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 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 control over financial reporting.

Dated: May 2, 2012

/s/ MINDY GROSSMAN
Mindy Grossman
Chief Executive Officer

Exhibit 31.2

Certification

I, Judy A. Schmeling, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2012 of HSN, Inc.

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 15d-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 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 control over financial reporting.

Dated: May 2, 2012

/s/ JUDY A. SCHMELING
Judy A. Schmeling
Executive Vice President and
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 Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012 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 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSN, Inc.

Dated: May 2, 2012

/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 Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012 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 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSN, Inc.

Dated: May 2, 2012

/s/ JUDY A. SCHMELING
Judy A. Schmeling
Executive Vice President and
Chief Financial Officer