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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2013

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

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

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 S 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 S 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 S	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 S

As of November 5, 2013, the registrant had 52,881,489 shares of common stock, $0.01 par value per share, outstanding.

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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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net sales	$ 798,890	$ 778,769	$ 2,384,147	$ 2,283,864
Cost of sales	510,300	493,253	1,506,633	1,437,986
Gross profit	288,590	285,516	877,514	845,878
Operating expenses:				
Selling and marketing	165,395	163,169	504,812	481,351
General and administrative	51,708	63,341	157,495	170,364
Depreciation and amortization	10,402	9,694	30,305	28,250
Total operating expenses	227,505	236,204	692,612	679,965
Operating income	61,085	49,312	184,902	165,913
Other income (expense):				
Interest income	48	59	150	313
Interest expense	(1,673)	(3,738)	(5,078)	(18,858)
Loss on debt extinguishment	—	(18,309)	—	(18,627)
Total other expense, net	(1,625)	(21,988)	(4,928)	(37,172)
Income from continuing operations before income taxes	59,460	27,324	179,974	128,741
Income tax provision	(17,408)	(9,766)	(63,098)	(48,284)
Income from continuing operations	42,052	17,558	116,876	80,457
Income (loss) from discontinued operations, net of tax	—	128	—	(5,854)
Net income	$ 42,052	$ 17,686	$ 116,876	$ 74,603
Income from continuing operations per share:				
Basic	$ 0.79	$ 0.32	$ 2.17	$ 1.41
Diluted	$ 0.77	$ 0.31	$ 2.12	$ 1.37
Net income per share:				
Basic	$ 0.79	$ 0.32	$ 2.17	$ 1.31
Diluted	$ 0.77	$ 0.31	$ 2.12	$ 1.27
Shares used in computing earnings per share:				
Basic	53,234	55,476	53,849	56,913
Diluted	54,379	57,085	55,123	58,524
Dividends declared per share	$ 0.18	$ 0.125	$ 0.54	$ 0.375

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

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Net income	$ 42,052	$ 17,686	$ 116,876	$ 74,603
Other comprehensive (loss) income:				
Change in fair value of derivative instrument, net of tax	(751)	—	867	—
Other comprehensive (loss) income, net of tax	(751)	—	867	—
Comprehensive income	$ 41,301	$ 17,686	$ 117,743	$ 74,603

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

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30, 2013	December 31, 2012	September 30, 2012
ASSETS			
Current assets:			
Cash and cash equivalents	$ 108,251	$ 222,092	$ 129,938
Accounts receivable, net of allowance of $13,456, $14,537 and $11,840, respectively	192,931	249,890	178,144
Inventories	383,144	330,936	391,316
Deferred income taxes	29,560	27,603	22,640
Prepaid expenses and other current assets	59,216	46,172	54,022
Total current assets	773,102	876,693	776,060
Property and equipment, net	170,903	171,303	159,026
Intangible assets, net	265,761	266,876	267,466
Goodwill	9,858	9,858	9,858
Other non-current assets	6,692	7,222	6,753
TOTAL ASSETS	$ 1,226,316	$ 1,331,952	$ 1,219,163
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable, trade	$ 228,296	$ 267,061	$ 233,904
Current maturities of long-term debt	12,500	9,375	6,250
Accrued expenses and other current liabilities	171,114	215,389	170,951
Total current liabilities	411,910	491,825	411,105
Long-term debt, less current maturities	231,250	240,625	243,750
Deferred income taxes	89,893	79,002	76,051
Other long-term liabilities	11,619	15,986	15,716
Total liabilities	744,672	827,438	746,622
Commitments and contingencies (Note 13)			
SHAREHOLDERS' EQUITY:			
Preferred stock $0.01 par value; 25,000,000 authorized shares; no issued shares	—	—	—
Common stock $0.01 par value; 300,000,000 authorized shares; 53,015,019, 54,853,684 and 54,820,212 issued shares at September 30, 2013, December 31, 2012 and September 30, 2012, respectively	531	549	548
Additional paid-in capital	1,824,165	1,964,760	1,988,389
Accumulated deficit	(1,343,448)	(1,460,324)	(1,516,396)
Accumulated other comprehensive income (loss)	396	(471)	—
Total shareholders' equity	481,644	504,514	472,541
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,226,316	$ 1,331,952	$ 1,219,163

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

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2011	—	$ —	58,414	$ 584	$ 2,180,112	$ (1,590,999)	$ —	$ 589,697
Net income	—	—	—	—	—	130,675	—	130,675
Other comprehensive loss	—	—	—	—	—	—	(471)	(471)
Stock-based compensation expense for equity awards	—	—	—	—	14,440	—	—	14,440
Cash dividend declared on common stock	—	—	—	—	(31,049)	—	—	(31,049)
Issuance of common stock from stock-based compensation awards, including tax benefit of $18,900	—	—	1,901	19	21,797	—	—	21,816
Repurchases of common stock	—	—	(5,461)	(54)	(220,540)	—	—	(220,594)
Balance as of December 31, 2012	—	—	54,854	549	1,964,760	(1,460,324)	(471)	504,514
Net income	—	—	—	—	—	116,876	—	116,876
Other comprehensive income	—	—	—	—	—	—	867	867
Stock-based compensation expense for equity awards	—	—	—	—	10,279	—	—	10,279
Cash dividend declared on common stock	—	—	—	—	(29,046)	—	—	(29,046)
Issuance of common stock from stock-based compensation awards, including tax benefit of $7,090	—	—	708	7	15,172	—	—	15,179
Repurchases of common stock	—	—	(2,547)	(25)	(137,000)	—	—	(137,025)
Balance as of September 30, 2013	—	$ —	53,015	$ 531	$ 1,824,165	$ (1,343,448)	$ 396	$ 481,644

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

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash flows from operating activities attributable to continuing operations:		
Net income	$ 116,876	$ 74,603
Loss from discontinued operations, net of tax	—	(5,854)
Income from continuing operations	116,876	80,457
Adjustments to reconcile income from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Depreciation and amortization	30,305	28,250
Stock-based compensation expense	10,279	15,278
Loss on debt extinguishment	—	18,627
Amortization of debt issuance costs	847	1,491
Loss on disposition of fixed assets	1,069	449
Deferred income taxes	8,412	(418)
Bad debt expense	15,001	16,547
Excess tax benefits from stock-based awards	(7,754)	(16,162)
Other	—	42
Changes in current assets and liabilities:		
Accounts receivable	41,745	27,182
Inventories	(52,208)	(96,497)
Prepaid expenses and other assets	(12,725)	(10,819)
Accounts payable, accrued expenses and other current liabilities	(56,698)	(59,322)
Net cash provided by operating activities attributable to continuing operations	95,149	5,105
Cash flows from investing activities attributable to continuing operations:		
Capital expenditures	(34,088)	(28,230)
Acquisition of business, net of cash received	—	(22,875)
Proceeds received on sale of subsidiary	—	6,580
Net cash used in investing activities attributable to continuing operations	(34,088)	(44,525)
Cash flows from financing activities attributable to continuing operations:		
Redemption of Senior Notes	—	(253,500)
Borrowing under term loan	—	250,000
Repayment of long-term debt	(6,250)	—
Payments of debt issuance costs	—	(4,607)
Repurchase of common stock	(137,025)	(184,652)
Cash dividends paid	(29,046)	(21,272)
Proceeds from issuance of common stock	5,886	6,357
Tax withholdings related to stock-based awards	(13,897)	(15,482)
Excess tax benefits from stock-based awards	7,754	16,162
Payment of contingent consideration obligation	(2,172)	—
Net cash used in financing activities attributable to continuing operations	(174,750)	(206,994)
Total cash used in continuing operations	(113,689)	(246,414)
Cash flows from discontinued operations:		
Net cash used in operating activities attributable to discontinued operations	(152)	(5,294)
Net cash used in investing activities attributable to discontinued operations	—	(162)
Total cash used in discontinued operations	(152)	(5,456)
Net decrease in cash and cash equivalents	(113,841)	(251,870)
Cash and cash equivalents at beginning of period	222,092	381,808
Cash and cash equivalents at end of period	$ 108,251	$ 129,938

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

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, Ballard Designs, Chasing Fireflies, Frontgate, Garnet Hill, Grandin Road, Improvements and TravelSmith; (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 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 household, home design, 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

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). 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, 2012. The consolidated balance sheet as of December 31, 2012 and the consolidated statement of shareholders' equity for the year ended December 31, 2012 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.

The operating results of Smith+Noble and The Territory Ahead, two Cornerstone brands that were sold in the second and third quarters of 2012, respectively, are presented as discontinued operations in the consolidated statements of operations and the consolidated statements of cash flows for all periods presented. See Note 12 for further discussion of discontinued operations.

Reclassifications

Reclassifications were made to prior period amounts within the operating activities section in the consolidated statements of cash flows to conform to the current year's presentation.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

HSNi prepares its financial statements in conformity with GAAP. These principles require management to make certain estimates and assumptions during the preparation of its consolidated financial statements. These estimates and assumptions impact the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates. 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 assets; the impairment of intangible assets; the annual expected effective tax rate, 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 incentive compensation and contingent consideration.

NOTE 3—PROPERTY AND EQUIPMENT

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

	September 30, 2013	December 31, 2012	September 30, 2012
Capitalized software	$ 211,145	$ 196,529	$ 201,513
Computer and broadcast equipment	86,209	83,038	95,176
Buildings and leasehold improvements	101,316	98,241	96,180
Furniture and other equipment	82,170	79,748	78,918
Projects in progress	8,666	18,494	7,677
Land and land improvements	10,312	10,734	10,646
	499,818	486,784	490,110
Less: accumulated depreciation and amortization	(328,915)	(315,481)	(331,084)
Total property and equipment, net	$ 170,903	$ 171,303	$ 159,026

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, 2012. Intercompany accounts and transactions have been eliminated in consolidation.

HSNi's primary performance 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) other significant items. Significant items, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, thereby affecting the comparability of results. 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 has certain limitations in that it does not take into account the impact to HSNi's consolidated statements of operations of certain expenses, gains and losses that are excluded from the company's definition of Adjusted EBITDA.

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 September 30, 2013			Three Months Ended September 30, 2012		
	HSN	Cornerstone	Total	HSN	Cornerstone	Total
Adjusted EBITDA	$ 57,136	$ 17,426	$ 74,562	$ 56,790	$ 14,969	$ 71,759
Stock-based compensation expense	(2,128)	(896)	(3,024)	(2,771)	(1,857)	(4,628)
Depreciation and amortization	(7,368)	(3,034)	(10,402)	(6,665)	(3,029)	(9,694)
Sales tax settlement	—	—	—	—	(7,750)	(7,750)
Loss on disposition of fixed assets	(10)	(41)	(51)	(374)	(1)	(375)
Operating income	$ 47,630	$ 13,455	61,085	$ 46,980	$ 2,332	49,312
Total other expense, net			(1,625)			(21,988)
Income from continuing operations before income taxes			59,460			27,324
Income tax provision			(17,408)			(9,766)
Income from continuing operations			42,052			17,558
Income from discontinued operations, net of tax			—			128
Net income			$ 42,052			$ 17,686

	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	HSN	Cornerstone	Total	HSN	Cornerstone	Total
Adjusted EBITDA	$ 173,205	$ 53,350	$ 226,555	$ 166,821	$ 50,819	$ 217,640
Stock-based compensation expense	(7,712)	(2,567)	(10,279)	(8,810)	(6,468)	(15,278)
Depreciation and amortization	(21,226)	(9,079)	(30,305)	(19,839)	(8,411)	(28,250)
Sales tax settlement	—	—	—	—	(7,750)	(7,750)
Loss on disposition of fixed assets	(1,028)	(41)	(1,069)	(418)	(31)	(449)
Operating income	$ 143,239	$ 41,663	184,902	$ 137,754	$ 28,159	165,913
Total other expense, net			(4,928)			(37,172)
Income from continuing operations before income taxes			179,974			128,741
Income tax provision			(63,098)			(48,284)
Income from continuing operations			116,876			80,457
Loss from discontinued operations, net of tax			—			(5,854)
Net income			$ 116,876			$ 74,603

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales:				
HSN	$ 538,639	$ 537,393	$ 1,614,949	$ 1,581,268
Cornerstone	260,251	241,376	769,198	702,596
Total	$ 798,890	$ 778,769	$ 2,384,147	$ 2,283,864

NOTE 5—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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss):				
Continuing operations	$ 42,052	$ 17,558	$ 116,876	$ 80,457
Discontinued operations	—	128	—	(5,854)
Net income	$ 42,052	$ 17,686	$ 116,876	$ 74,603
Weighted average number of shares outstanding:				
Basic	53,234	55,476	53,849	56,913
Dilutive effect of stock-based compensation awards	1,145	1,609	1,274	1,611
Diluted	54,379	57,085	55,123	58,524
Net income (loss) per share - basic:				
Continuing operations	$ 0.79	$ 0.32	$ 2.17	$ 1.41
Discontinued operations	—	—	—	(0.10)
Net income	$ 0.79	$ 0.32	$ 2.17	$ 1.31
Net income (loss) per share - diluted:				
Continuing operations	$ 0.77	$ 0.31	$ 2.12	$ 1.37
Discontinued operations	—	—	—	(0.10)
Net income	$ 0.77	$ 0.31	$ 2.12	$ 1.27
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	431	731	432	807

NOTE 6—LONG-TERM DEBT

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

	September 30, 2013	December 31, 2012	September 30, 2012
Secured credit agreement expiring April 24, 2017:			
Term loan	$ 243,750	$ 250,000	$ 250,000
Revolving credit facility	—	—	—
Total long-term debt	243,750	250,000	250,000
Less: current maturities	(12,500)	(9,375)	(6,250)
Long-term debt, less current maturities	$ 231,250	$ 240,625	$ 243,750

On April 24, 2012, HSNi entered into a$600 million five-year syndicated credit agreement ("Credit Agreement") which is secured by 100% of the voting equity securities of HSNi's U.S. subsidiaries and 65% of HSNi's first-tier foreign subsidiaries. This Credit Agreement replaced the credit agreement that was set to expire in July 2013. Certain HSNi subsidiaries have unconditionally guaranteed HSNi's obligations under the Credit Agreement. The Credit Agreement, which includes a $350 million revolving credit facility and a $250 million delayed draw term loan, may be increased up to$850 million subject to certain conditions and expires April 24, 2017. HSNi drew $250 million from its term loan on July 31, 2012 to fund the redemption of the Senior Notes, as discussed below. HSNi capitalized $5.5 million in financing costs related to the Credit Agreement and is amortizing these costs to interest expense over the Credit Agreement's five-year life.

The Credit Agreement includes various covenants, limitations and events of default customary for similar facilities including a maximum leverage ratio of 3.00x and a minimum interest coverage ratio of 3.00x. HSNi was in compliance with all such covenants as of September 30, 2013 with a leverage ratio of 0.75x and an interest coverage ratio of 58.72x. The Credit Agreement also contains covenants that limit our ability and the ability of our subsidiaries to, among other things, incur additional indebtedness, pay dividends or make other distributions to third parties, repurchase or redeem our stock, make investments, sell assets, incur liens, enter into agreements restricting our subsidiaries' ability to pay dividends, enter into transactions with affiliates and consolidate, merge or sell all or substantially all of our assets. Dividend payments, loans or advances to HSNi by its subsidiaries are not restricted by the Credit Agreement.

Loans under the Credit Agreement bear interest at a per annum rate equal to LIBOR plus a predetermined margin that ranges from 1.50% to 2.25% or the Base Rate (as defined in the Credit Agreement) plus a predetermined margin that ranges from 0.50% to 1.25%. HSNi can elect to borrow at either LIBOR or the Base Rate and the predetermined margin is based on HSNi's leverage ratio. The term loan interest rate as of September 30, 2013 was 1.68%. HSNi pays a commitment fee ranging from 0.25% to 0.40% (based on the leverage ratio) on the unused portion of the revolving credit facility.

The amount available to HSNi under the revolving credit facility portion of the Credit Agreement is reduced by the amount of outstanding letters of credit issued under the revolving credit facility, which totaled $36.7 million as of September 30, 2013. The ability to draw funds under the revolving credit facility is dependent upon meeting the aforementioned financial covenants. As of September 30, 2013, the amount that could be borrowed under the revolving credit facility, in consideration of the financial covenants and the outstanding letters of credit, was approximately $313.3 million. As of September 30, 2013, there was no outstanding balance due under the revolving credit facility.

On July 28, 2008, HSNi issued $240 million of 11.25% senior notes due 2016 (the “Senior Notes”). The Senior Notes were fully redeemed on August 1, 2012 for $253.5 million, or 105.625% of the principal amount, plus accrued and unpaid interest to the redemption date, at which time the Senior Notes were no longer deemed to be outstanding, interest ceased to accrue thereon and all rights of the holders of the Senior Notes ceased to exist, except for the right to receive the redemption price. HSNi drew $250 million from its term loan on July 31, 2012 and used its cash on hand to fund the redemption. HSNi reported approximately $18.3 million in pre-tax charges associated with redemption of the Senior Notes in the quarter ended September 30, 2012. These charges resulted from the redemption premium of $13.5 million and $4.8 million related to the write-off of unamortized issuance costs and original issue discount.

NOTE 7—DERIVATIVE INSTRUMENTS

HSNi uses derivatives in the management of its interest rate risk with respect to its variable rate debt. HSNi's strategy is to eliminate the cash flow risk on a portion of its variable rate debt caused by changes in the benchmark interest rate (LIBOR). Derivative instruments are not entered into for speculative purposes.

HSNi entered into a forward-starting interest rate swap agreement on December 20, 2012 with a notional amount of $187.5 million at a fixed rate of 0.8525%, resulting in an all-in fixed rate of 2.3525% based on HSNi's leverage ratio as of September 30, 2013. The interest rate swap takes effect on January 31, 2014 with a maturity date in April 2017. Under this swap, HSNi pays at a fixed rate and receives payments at a variable rate based on one-month LIBOR. The swap effectively fixes the floating LIBOR-based interest of our outstanding LIBOR-based debt. The interest rate swap was designated and qualified as a cash flow hedge; therefore, the effective portion of the changes in fair value is recorded in accumulated other comprehensive income. Any ineffective portions of the changes in fair value of the interest rate swap will be immediately recognized directly to earnings in the consolidated statement of operations. The change in fair value of the interest rate swap for the three and nine months ended September 30, 2013 was a loss of $0.8 million and a gain of $0.9 million, respectively, net of tax, and were included in other comprehensive (loss) income. See Note 8 for discussion of the fair value measurements concerning this interest rate swap.

As of September 30, 2013, the fair value of the interest rate swap was an asset of $0.6 million and was recorded in "Other non-current assets" in the consolidated balance sheets. As of December 31, 2012, the fair value of the interest rate swap was a liability of $0.8 million and was recorded in "Other long-term liabilities" in the consolidated balance sheets. As of September 30, 2013, HSNi estimates that approximately $0.8 million of unrealized losses included in accumulated other comprehensive income related to this swap will be realized and reported in earnings within the next twelve months.

NOTE 8—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. Fair value assumptions are made at a specific point in time and changes in underlying assumptions could significantly affect these estimates. HSNi applies the following framework for measuring fair value which is based on a three-level hierarchy:

Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these items. The following table summarizes the fair value of HSNi's other financial assets and liabilities which are measured at fair value on a recurring basis in the consolidated balance sheets (in thousands):

	September 30, 2013			
	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
Assets:				
Interest rate swap	$ 635	$ —	$ 635	$ —

	December 31, 2012			
	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap	$ 755	$ —	$ 755	$ —

HSNi's interest rate swap was carried on the balance sheet at fair value as of September 30, 2013 and December 31, 2012. The swap was entered into in December 2012 for the purpose of hedging the variability of interest expense and interest payments on HSNi's long-term variable rate debt. Because this swap is not actively traded, the fair value was based on a valuation model. Interest rate yield curves and credit spreads are the significant inputs included in the valuation model. These inputs are observable in active markets (level 2 criteria). HSNi considers credit risk associated with its own standing as well as the credit standing of any counterparties involved in the valuation of its financial instruments.

The following table summarizes the fair value of HSNi’s financial assets and liabilities which are carried at cost (in thousands):

	September 30, 2013				
			Fair Value Measurement Category		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Term Loan	$ 243,750	$ 243,750	$ —	$ 243,750	$ —

	December 31, 2012				
			Fair Value Measurement Category		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Term Loan	$ 250,000	$ 250,000	$ —	$ 250,000	$ —

	September 30, 2012				
			Fair Value Measurement Category		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Term Loan	$ 250,000	$ 250,000	$ —	$ 250,000	$ —

The fair value of the term loan was estimated by discounting expected cash flows at the rates currently offered to HSNi for debt of the same remaining maturities, as advised by HSNi's bankers (level 2 criteria).

As of June 30, 2012, the assets and liabilities of The Territory Ahead were considered a disposal group held for sale. During the three months ended June 30, 2012, an impairment charge of $5.9 million, or $3.7 million net of tax, was recorded to reduce the carrying value of the net assets to their estimated net realizable value. See Note 12 - Discontinued Operations for further discussion of this impairment charge.

HSNi measures certain assets, such as property and equipment and intangible assets, at fair value on a nonrecurring basis. These assets are recognized at fair value if they are deemed to be impaired. During the nine months ended September 30, 2013 and 2012, there were no assets, other than The Territory Ahead disposal group, that were required to be recorded at fair value as no impairment indicators were present.

NOTE 9—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 beginning-of-the-year deferred taxes 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 and nine months ended September 30, 2013, HSNi recorded a tax provision of$17.4 million and $63.1 million, respectively, which represents effective tax rates of 29.3% and 35.1%, respectively. For the three and nine months ended September 30, 2012, HSNi recorded a tax provision of $9.8 million and $48.3 million, respectively, which represents effective tax rates of 35.7% and 37.5%, respectively. The change in the effective tax rates from the prior periods was primarily due to discrete tax benefits of $3.7 million realized in the current quarter.

The Internal Revenue Service ("IRS") has concluded its examination of HSNi's consolidated federal income tax return for the year ended December 31, 2010 and its limited scope examination of HSNi's consolidated federal income tax return for the year ended December 31, 2011. No material adjustments resulted from these IRS examinations. Various state income tax examinations are in process. HSNi does not anticipate any material adjustments to its tax liabilities resulting from any of these examinations.

HSNi and several companies previously owned by IAC/InterActiveCorp, or IAC, were spun-off from IAC on August 20, 2008. In connection with the spin-off, HSNi entered into a Tax Sharing Agreement with IAC pursuant to which, among other things, each of the companies included in the spin-off (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 IRS private letter ruling and/or tax opinions. In the event an adjustment with respect to a pre-spin-off period for which IAC is responsible results in a tax benefit to HSNi in a post-spin-off period, HSNi will be required to pay such tax benefit to IAC. In general, IAC controls all audits and administrative matters and other tax proceedings relating to the consolidated federal income tax return of the IAC group and any other tax returns for which the IAC group is responsible. The provisions set forth in the Tax Sharing Agreement could subject HSNi to future tax contingencies.

The IRS has substantially completed its review of the IAC consolidated tax returns for the years ended December 31, 2001 through 2008, which includes the operations of HSNi. The settlement for these years has been submitted to and approved by the Joint Committee on Taxation. 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 2006. 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 10—STOCK-BASED AWARDS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Selling and marketing	$ 818	$ 932	$ 2,674	$ 2,744
General and administrative	2,206	3,696	7,605	12,534
Stock-based compensation expense before income taxes	3,024	4,628	10,279	15,278
Income tax benefit	(1,108)	(1,574)	(3,697)	(5,220)
Stock-based compensation expense after income taxes	$ 1,916	$ 3,054	$ 6,582	$ 10,058

As of September 30, 2013, there was approximately $25.7 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards which is currently expected to be recognized on a straight-line basis over a weighted average period of approximately 2.6 years.

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 September 30, 2013, there were approximately 2.7 million shares of common stock available for grants under the Plan.

HSNi can grant restricted stock units ("RSUs"), market stock units ("MSUs"), 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 as the underlying RSUs 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 for the nine months ended September 30, 2013 and 2012 were $13.9 million and $15.5 million, respectively.

A summary of the stock-based awards granted during the nine months ended September 30, 2013 is as follows:

	Nine Months Ended September 30, 2013	
	Number of Awards Granted	Weighted Average per Share Fair Value
Stock appreciation rights	346,301	$22.57
Restricted stock units	200,940	$58.31
Market stock units	100,723	$82.67
Employee stock purchase plan options	43,521	$11.75

The fair values of the options granted under the HSN, Inc. 2010 Employee Stock Purchase Plan and the SARs are estimated on the grant date using the Black-Scholes option pricing model. The fair values of the MSUs were measured on the grant date by applying a Monte Carlo simulation pricing model. The weighted average assumptions used in each valuation model for the nine months ended September 30, 2013 are as follows:

	Nine Months Ended September 30, 2013		
	Monte Carlo	Black-Scholes	
	Market Stock Units	Stock Appreciation Rights	Employee Stock Purchase Plan Options
Volatility factor	39.7%	49.1%	23.4%
Risk-free interest rate	1.00%	0.85%	0.10%
Expected term	4.0	4.8	0.5
Dividend yield	1.1%	1.2%	1.3%

Performance-Based Awards

During the first quarter of 2010, HSNi implemented a performance-based equity compensation program for certain key members of Cornerstone’s management. The amount payable was based on the extent to which certain pre-established performance goals for Cornerstone were achieved during the three-year period ended December 31, 2012. These equity awards were accounted for as liabilities which were remeasured each reporting period based on the probability of achievement of the performance conditions. The amount earned pursuant to the award at the end of the December 31, 2012 service period was $16.8 million which was settled in shares of HSNi common stock in the first quarter of 2013.

During the third quarter of 2013, HSNi granted MSUs to its Chief Executive Officer based upon the total shareholder return of HSNi's common stock over a three years and five years period. Payout percentages range between 0% and 200% of the target award depending on the awards' market condition, the future price of HSNi's stock. The fair values of the MSUs were $8.3 million and were measured on the grant date by applying a Monte Carlo simulation pricing model which estimates the potential outcome of reaching the market condition based on simulated future stock prices and is recognized over the performance period.

NOTE 11—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 repurchases and actual number of shares repurchased depends 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 nine months ended September 30, 2013, HSNi acquired under the program approximately 2.5 million shares of its outstanding common stock for $137.0 million at an average price of $53.79. For the nine months ended September 30, 2012, HSNi acquired under the program approximately 4.8 million shares of its outstanding common stock for $187.4 million at an average price of $39.15. As of September 30, 2013, approximately 1.2 million shares remained authorized for repurchase under the plan.

Shares repurchased pursuant to HSNi’s share repurchase program are immediately retired upon purchase. Repurchased common stock is reflected as a reduction of stockholders’ equity. HSNi’s accounting policy related to its share repurchases is to reduce its common stock based on the par value of the shares and to reduce its capital surplus for the excess of the repurchase price over the par value. Since the inception of its share repurchase program in September 2011, HSNi has had an accumulated deficit balance; therefore, the excess over the par value has been applied to additional paid-in capital. Once HSNi has retained earnings, the excess will be charged entirely to retained earnings.

Dividend Policy

Effective August 1, 2013, HSNi's Board of Directors approved a quarterly cash dividend of $0.18 per common share. The dividend was paid on September 18, 2013 to HSNi's shareholders of record as of September 4, 2013.

Effective November 6, 2013, HSNi's Board of Directors approved a quarterly cash dividend of $0.25 per common share. This represents an increase over the prior quarterly dividend of 39% or $.07 per common share. The dividend will be paid on December 18, 2013 to HSNi's shareholders of record as of December 4, 2013.

NOTE 12—DISCONTINUED OPERATIONS

In May 2012, substantially all of the assets and certain liabilities of Smith+Noble, a Cornerstone brand specializing in window treatments, were sold for $5.5 million. HSNi does not expect to have any significant continuing involvement or cash flows from Smith+Noble; therefore, the results of operations 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.

In July 2012, substantially all of the assets and certain liabilities of The Territory Ahead, a Cornerstone brand specializing in casual apparel for men and women, were sold for approximately $1.1 million. HSNi does not expect to have any significant continuing involvement or cash flows from The Territory Ahead; therefore, the results of operations for The Territory Ahead 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 The Territory Ahead are presented separately as discontinued operations in the consolidated statements of cash flows for all periods presented. An impairment charge of $5.9 million, or $3.7 million net of taxes, was recorded in the second quarter of 2012 to reduce the carrying value of the net assets to their estimated net realizable value and is included in "Loss from discontinued operations, net of tax" in the accompanying consolidated statement of operations.

The following table reflects the results of HSNi's discontinued operations for all periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales	$ —	$ —	$ —	$ 40,153
Income (loss) from discontinued operations	$ —	$ 228	$ —	$ (9,398)
Income tax (expense) benefit	—	(100)	—	3,544
Income (loss) from discontinued operations, net of tax	$ —	$ 128	$ —	$ (5,854)

NOTE 13—COMMITMENTS AND CONTINGENCIES

In cooperation with the United States Consumer Product Safety Commission ("CPSC), Frontgate, one of the Cornerstone brands, announced in January 2011 a voluntary recall of a product sold from December 2005 through July 2010. In June 2013, the CPSC notified the company that the CPSC is investigating whether the company complied with certain reporting requirements of the Consumer Product Safety Act. At this time it is not yet possible to determine what, if any, actions will be taken by the CPSC, whether a civil penalty will be assessed or, if assessed, the amount thereof.

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, product recalls, 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 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 9 for discussion related to income tax contingencies.

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

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

FORWARD-LOOKING STATEMENTS

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, 2012 and the following:

- our ability to attract new and retain existing customers in a cost-effective manner;
- changes in our relationships with pay television operators, vendors, manufacturers and other third parties;
- the influence of the macroeconomic environment and its impact on consumer confidence and spending levels;
- changes in product shipping and handling costs particularly if we are unable to offset them;
- any technological or regulatory developments that could negatively impact the way we do business, including developments requiring us to collect and remit 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;
- our ability to offer new or innovative products and services through various platforms in a cost effective manner and consumer acceptance of these products and services; 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. Sales taxes collected are not included in net sales. Digital sales include sales placed through our internet websites and our mobile applications, including tablets and smart phones.

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 September 30,			Nine Months Ended September 30,		
	2013	Change	2012	2013	Change	2012
	(Dollars in thousands)			(Dollars in thousands)		
HSN	$ 538,639	—%	$ 537,393	$ 1,614,949	2%	$ 1,581,268
Cornerstone	260,251	8%	241,376	769,198	9%	702,596
Total HSNi net sales	$ 798,890	3%	$ 778,769	$ 2,384,147	4%	$ 2,283,864

HSNi net sales in the third quarter of 2013 increased 3%, or $20.1 million, primarily due to 8% sales growth at Cornerstone. Digital sales grew 8% with penetration increasing 230 basis points to 46.5%, up from 44.2% in the prior year. The gross units shipped in the third quarter of 2013 increased 1% to 15.0 million while the average price point decreased by less than 1% to $60.33.

HSNi net sales in the nine months ended September 30, 2013 increased 4%, or $100.3 million, due to 2% sales growth at HSN and 9% sales growth at Cornerstone. Digital sales grew 9% with penetration increasing 200 basis points to 45.4%, up from 43.4% in the prior year. The number of units shipped in the first nine months of 2013 increased 6% to 43.8 million while the average price point decreased 2% to $61.84.

HSN

HSN net sales in the third quarter of 2013 were relatively unchanged at $538.6 million. Digital sales grew 7% and penetration increased 220 basis points to 36.8%, up from 34.6% in the prior year. Sales grew in home design and household, offset by lower sales in jewelry, apparel & accessories and culinary. The return rate decreased 180 basis points to 18.7% from 20.5% in the prior year primarily due to the shift in product mix to categories with historically lower return rates as well as experiencing overall lower return rates in many product categories. The gross units shipped increased 3% to 11.3 million while average price point decreased 5% to $55.70 primarily due to changes in product mix.

HSN net sales in the nine months ended September 30, 2013 increased 2%, or $33.7 million. Sales grew in home design and beauty, offset by lower sales in jewelry and culinary. Digital sales grew 7% and penetration increased 160 basis points to 36.0%, up from 34.4% in the prior year. Digital sales were tempered in the first quarter by the launch of the digital site redesign across all HSN digital platforms that occurred early in the year. The return rate decreased 60 basis points to 19.3% from 19.9% in the prior year primarily due to the shift in product mix to categories with lower return rates as well as experiencing lower return rates in many of its product categories. The gross units shipped increased 7% to 33.7 million while average price point decreased 6% to $56.68 primarily due to an increase in clearance activity and changes in product mix.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Jewelry	11.6%	13.8%	12.2%	14.3%
Fashion (apparel & accessories)	14.1%	15.2%	14.9%	14.3%
Beauty & Wellness	18.3%	17.9%	19.1%	18.6%
Home & Other (including household, home design, electronics, culinary, fitness and other)	56.0%	53.1%	53.8%	52.8%
Total	100.0%	100.0%	100.0%	100.0%

Cornerstone

Cornerstone net sales in the third quarter of 2013 increased 8%, or $18.9 million. The increase in net sales was driven by sales growth in the home brands. Digital sales grew 10% with penetration increasing 100 basis points to 66.5%, up from 65.5% in the prior year. The return rate decreased 40 basis points to 13.2% due to changes in product mix. Catalog circulation increased 6% compared to the prior year.

Cornerstone net sales in the nine months ended September 30, 2013 increased 9%, or $66.6 million. The increase in net sales was driven by sales growth in the home brands. Digital sales grew 12% with penetration increasing 170 basis points to 65.3%, up from 63.6% in the prior year. The return rate decreased 60 basis points to 13.1% due to changes in product mix. Catalog circulation increased 6% compared to the prior year.

The brand mix at Cornerstone is provided in the table below (based on net sales):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Home brands (Ballard Designs, Frontgate, Grandin Road and Improvements)	71.8%	67.9%	74.4%	72.2%
Apparel brands (Chasing Fireflies, Garnet Hill and TravelSmith) (a)	28.2%	32.1%	25.6%	27.8%
Total	100.0%	100.0%	100.0%	100.0%

(a) Chasing Fireflies was acquired in April 2012.

Cost of Sales and Gross Profit

Cost of sales consists primarily of the cost of products sold, shipping and handling costs and compensation and other employee-related costs for personnel engaged in warehouse functions. Cost of products sold includes merchandise cost, inbound freight and duties and certain allocable general and administrative costs, including certain warehouse costs.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	Change	2012	2013	Change	2012
		(Dollars in thousands)			(Dollars in thousands)	
Gross profit:						
HSN	$ 186,240	(3)%	$ 191,786	$ 566,059	1%	$ 561,890
HSN gross margin percentage	34.6%	(110 bp)	35.7%	35.1%	(40 bp)	35.5%
Cornerstone	$ 102,350	9%	$ 93,730	$ 311,455	10%	$ 283,988
Cornerstone gross margin percentage	39.3%	50 bp	38.8%	40.5%	10 bp	40.4%
HSNi	$ 288,590	1%	$ 285,516	$ 877,514	4%	$ 845,878
HSNi gross margin percentage	36.1%	(60 bp)	36.7%	36.8%	(20 bp)	37.0%

bp = basis points

HSN

Gross profit for HSN in the third quarter of 2013 decreased 3%, or $5.5 million, compared to the prior year. Gross margin decreased 110 basis points to 34.6% primarily due to the product mix shift and increased promotional activity.

Gross profit for HSN in the nine months ended September 30, 2013 increased 1%, or $4.2 million, compared to the prior year. Gross margin decreased 40 basis points to 35.1% primarily due to lower shipping margins driven by an increase in shipping and handling promotions.

Cornerstone

Gross profit for Cornerstone in the third quarter of 2013 increased 9%, or $8.6 million, compared to the prior year. Gross margin increased 50 basis points to 39.3% primarily due to higher product margins. Net shipping margins also improved primarily due to lower shipping costs.

Gross profit for Cornerstone in the nine months ended September 30, 2013 increased 10%, or $27.5 million, compared to the prior year. Gross margin increased 10 basis points to 40.5% primarily due to an increase in product margins, offset by an increase in shipping and handling promotions.

Selling and Marketing Expense

Selling and marketing expense consists primarily of advertising and promotional expenditures, compensation and other employee-related costs (including stock-based compensation) for personnel engaged in customer service, sales and merchandising, production and programming 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 September 30,			Nine Months Ended September 30,		
	2013	Change	2012	2013	Change	2012
	(Dollars in thousands)			(Dollars in thousands)		
HSN	$ 93,656	(3)%	$ 96,853	$ 287,652	1%	$ 283,853
As a percentage of HSN net sales	17.4%	(60 bp)	18.0%	17.8%	(20 bp)	18.0%
Cornerstone	$ 71,739	8%	$ 66,316	$ 217,160	10%	$ 197,498
As a percentage of Cornerstone net sales	27.6%	10 bp	27.5%	28.2%	10 bp	28.1%
HSNi	$ 165,395	1%	$ 163,169	$ 504,812	5%	$ 481,351
As a percentage of HSNi net sales	20.7%	(30 bp)	21.0%	21.2%	10 bp	21.1%

HSNi's selling and marketing expense in the third quarter of 2013 increased 1%, or $2.2 million, and was 20.7% of net sales compared to 21.0% in the prior year. The increase was primarily due to additional catalog costs associated with a 6% increase in Cornerstone's catalog circulation; an increase in employee-related costs; and investments in digital and brand marketing; offset by the timing of marketing events and lower on-air distribution costs at HSN.

HSNi's selling and marketing expense in the nine months ended September 30, 2013 increased 5%, or $23.5 million, and was 21.2% of net sales compared to 21.1% in the prior year. The increase was primarily due to additional catalog costs associated with a 6% increase in Cornerstone's catalog circulation; an increase in employee-related costs; and investments in digital and brand marketing, partially offset by lower on-air distribution costs at HSN.

General and Administrative Expense

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	Change	2012	2013	Change	2012
	(Dollars in thousands)			(Dollars in thousands)		
HSN	$ 37,587	(9)%	$ 41,288	$ 113,942	(5)%	$ 120,444
As a percentage of HSN net sales	7.0%	(70 bp)	7.7%	7.1%	(50 bp)	7.6%
Cornerstone	$ 14,121	(36)%	$ 22,053	$ 43,553	(13)%	$ 49,920
As a percentage of Cornerstone net sales	5.4%	(370 bp)	9.1%	5.7%	(140 bp)	7.1%
HSNi	$ 51,708	(18)%	$ 63,341	$ 157,495	(8)%	$ 170,364
As a percentage of HSNi net sales	6.5%	(160 bp)	8.1%	6.6%	(90 bp)	7.5%

HSNi’s general and administrative expense in the third quarter of 2013 decreased 18%, or $11.6 million, and was 6.5% of net sales compared to 8.1% in the prior year. The decrease was primarily due to a $7.8 million sales tax settlement at Cornerstone that occurred in the prior year and lower bad debt expense related to HSN's Flexpay program in the current year. Additionally, there was an increase in severance-related costs and a decrease in stock-based compensation expense.

HSNi’s general and administrative expense in the nine months ended September 30, 2013 decreased 8%, or $12.9 million, and was 6.6% of net sales compared to 7.5% in the prior year. The decrease in expense was primarily due to a $7.8 million sales tax settlement at Cornerstone that occurred in the prior year and lower bad debt expense related to HSN's Flexpay program, partially offset by an increase in employee-related costs and the incremental expenses from the addition of Chasing Fireflies to the portfolio in April 2012. Additionally, there was an increase in severance-related costs that was offset by a decrease in stock-based compensation expense.

Depreciation and Amortization

	Three Months Ended September 30,					Nine Months Ended September 30,				
	2013		Change	2012		2013		Change	2012	
			(Dollars in thousands)					(Dollars in thousands)		
HSN	$	7,367	11%	$	6,665	$	21,226	7%	$	19,839
Cornerstone		3,035	—%		3,029		9,079	8%		8,411
HSNi	$	10,402	7%	$	9,694	$	30,305	7%	$	28,250
As a percentage of HSNi net sales		1.3%	10 bp		1.2%		1.3%	10 bp		1.2%

Depreciation and amortization in the third quarter of 2013 increased 7%, or $0.7 million, compared to the prior year. The increase was primarily due to the incremental depreciation associated with recent capital expenditures. Depreciation and amortization for the nine months ended September 30, 2013 increased 7%, or $2.1 million, compared to the prior year. The increase was primarily due to the incremental depreciation associated with recent capital expenditures and the amortization of intangibles acquired in the second quarter of 2012 related to the Chasing Fireflies acquisition.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure and is defined in Note 4 of Notes to Consolidated Financial Statements.

	Three Months Ended September 30,					Nine Months Ended September 30,				
	2013		Change	2012		2013		Change	2012	
			(Dollars in thousands)					(Dollars in thousands)		
HSN	$	57,136	1%	$	56,790	$	173,205	4%	$	166,821
As a percentage of HSN net sales		10.6%	0 bp		10.6%		10.7%	20 bp		10.5%
Cornerstone	$	17,426	16%	$	14,969	$	53,350	5%	$	50,819
As a percentage of Cornerstone net sales		6.7%	50 bp		6.2%		6.9%	(30 bp)		7.2%
HSNi	$	74,562	4%	$	71,759	$	226,555	4%	$	217,640
As a percentage of HSNi net sales		9.3%	10 bp		9.2%		9.5%	0 bp		9.5%

HSNi's Adjusted EBITDA in the third quarter of 2013 increased 4%, or $2.8 million, and was 9.3% of net sales compared to 9.2% in the prior year. The increase in Adjusted EBITDA was mainly due to a 3% increase in net sales, partially offset by a 60 basis point decline in gross margin. HSN's Adjusted EBITDA increased 1%, or $0.3 million, primarily due to a 4% decrease in operating expenses (excluding non-cash charges), offset by a 110 basis point decline in gross margin. The decrease in operating expenses is primarily due to the timing of marketing events, lower bad debt expense related to the Flexpay program and lower on-air distribution costs, partially offset by an increase in employee-related costs and digital marketing expense. Cornerstone's Adjusted EBITDA increased 16%, or $2.5 million, primarily due to the 8% increase in net sales and 50 basis point improvement in gross margin, partially offset by an 8% increase in operating expenses (excluding non-cash charges and a $7.8 million sales tax settlement in the prior year) primarily for catalog production and distribution costs.

HSNi's Adjusted EBITDA in the nine months ended September 30, 2013 increased 4%, or $8.9 million, and remained flat as a percentage of net sales at 9.5%. The increase in Adjusted EBITDA was due to a 4% increase in net sales, partially offset by a 4% increase in operating expenses (excluding non-cash charges and $7.8 million sales tax settlement in the prior year). HSN's Adjusted EBITDA increased 4%, or $6.4 million, primarily due to a 2% increase in net sales, partially offset by a 40 basis point decline in gross margin. Cornerstone's Adjusted EBITDA increased 5%, or $2.5 million, primarily due to a 9% increase in net sales, partially offset by an 11% increase in operating expenses (excluding non-cash charges and a $7.8 million sales tax settlement in the prior year). The increase in operating expenses was largely due to catalog production and distribution costs; employee-related costs; and the incremental expenses from the addition of Chasing Fireflies to the portfolio in April 2012.

Operating Income

	Three Months Ended September 30,					Nine Months Ended September 30,				
	2013		Change	2012		2013		Change	2012	
	(Dollars in thousands)					(Dollars in thousands)				
HSN	$	47,630	1%	$	46,980	$	143,239	4%	$	137,754
As a percentage of HSN net sales		8.8%	10 bp		8.7%		8.9%	20 bp		8.7%
Cornerstone	$	13,455	477%	$	2,332	$	41,663	48%	$	28,159
As a percentage of Cornerstone net sales		5.2%	420 bp		1.0%		5.4%	140 bp		4.0%
HSNi	$	61,085	24%	$	49,312	$	184,902	11%	$	165,913
As a percentage of HSNi net sales		7.6%	130 bp		6.3%		7.8%	50 bp		7.3%

HSNi's operating income in the third quarter of 2013 increased 24%, or $11.8 million, and was 7.6% of net sales compared to 6.3% in the prior year. The increase was primarily due to a 3% increase in net sales and a 4% decrease in operating expenses, partially offset by a 60 basis point decrease in gross margin. The decrease in operating expenses was primarily due to a $7.8 million sales tax settlement at Cornerstone in the prior year and the timing of marketing programs at HSN, partially offset by an increase in catalog costs at Cornerstone, employee-related costs, and investments in digital marketing.

HSNi's operating income in the nine months ended September 30, 2013 increased 11%, or $19.0 million, and was 7.8% of net sales compared to 7.3% in the prior year. The increase was primarily due to a 4% increase in net sales, partially offset by a 2% increase in operating expenses. Operating expenses increased primarily for Cornerstone's catalog circulation, employee-related costs, digital marketing and the incremental expenses from the addition of Chasing Fireflies, partially offset by a $7.8 million sales tax settlement in the prior year.

Other Income (Expense)

	Three Months Ended September 30,					Nine Months Ended September 30,				
	2013		Change	2012		2013		Change	2012	
	(Dollars in thousands)					(Dollars in thousands)				
Interest income	$	48	(19)%	$	59	$	150	(52)%	$	313
Interest expense		(1,673)	(55)%		(3,738)		(5,078)	(73)%		(18,858)
Loss on debt extinguishment		—	(100)%		(18,309)		—	(100)%		(18,627)
Total other expense, net	$	(1,625)	(93)%	$	(21,988)	$	(4,928)	(87)%	$	(37,172)
As a percentage of HSNi net sales		0.2%	(260 bp)		2.8%		0.2%	(140 bp)		1.6%

Interest Expense

Interest expense in the current year periods was related to the term loan outstanding under the Credit Agreement. Interest expense in the prior year periods was primarily related to the Senior Notes which bore interest at 11.25% through the August 1, 2012 redemption date.

Loss on debt extinguishment

On August 1, 2012, HSNi fully redeemed $240 million of its Senior Notes. The Senior Notes were redeemed for $253.5 million, or 105.625% of the principal amount. HSNi reported approximately $18.3 million in "loss on debt extinguishment" associated with redemption of the Senior Notes in the third quarter of 2012. These charges resulted from the redemption premium of $13.5 million and $4.8 million related to the write-off of unamortized issuance costs and original issue discount.

Income Tax Provision

For the three and nine months ended September 30, 2013, HSNi recorded a tax provision of$17.4 million and $63.1 million, respectively, which represents effective tax rates of 29.3% and 35.1%, respectively. For the three and nine months ended September 30, 2012, HSNi recorded a tax provision of $9.8 million and $48.3 million, respectively, which represents effective tax rates of 35.7% and 37.5%, respectively. The change in the effective tax rates from the prior periods was primarily due to discrete tax benefits of $3.7 million realized in the current quarter. Excluding the impact of these items, the third quarter effective tax rate for continuing operations would have been 35.5%. HSNi expect its annual 2013 effective tax rate to be approximately 36%.

Discontinued Operations

Discontinued operations in the accompanying consolidated statements of operations include Smith+Noble and The Territory Ahead, two brands that were divested from the Cornerstone portfolio in May 2012 and July 2012, respectively.

Liquidity and Capital Resources

As of September 30, 2013, HSNi had $108.3 million of cash and cash equivalents compared to $222.1 million as of December 31, 2012 and $129.9 million as of September 30, 2012.

Net cash provided by operating activities attributable to continuing operations for the nine months ended September 30, 2013 was $95.1 million compared to $5.1 million in the prior year period, an improvement of $90.0 million primarily due to improved operating performance and changes in working capital. Cash used to fund inventory decreased compared to prior year due to lower inventory receipts and an increase in sales. Working capital was also positively impacted by the cash collected from HSN's Flexpay program. HSN had significantly increased its Flexpay offerings in the fourth quarter of 2012 resulting in the increase in cash collected during the current year.

Net cash used in investing activities attributable to continuing operations for the nine months ended September 30, 2013 was $34.1 million for capital expenditures. The capital expenditures were primarily at HSN and were for investments in information technology, facilities and digital-related initiatives.

Net cash used in financing activities attributable to continuing operations for the nine months ended September 30, 2013 was $174.8 million. HSNi paid $137.0 million for approximately 2.5 million shares of common stock repurchased during the nine months ended September 30, 2013. HSNi also paid three cash dividends of $0.18 per common share resulting in payments totaling $29.0 million. HSNi repaid $6.3 million of its term loan during 2013. HSNi had a cash inflow of $5.9 million from the proceeds of stock option exercises and a cash outflow of $13.9 million used to cover withholding taxes for stock-based awards. Additionally, HSNi had an inflow of $7.8 million for excess tax benefits from stock-based awards. This decreased from the inflow of $16.2 million in the prior period primarily due to a lower volume of stock-based awards that vested or were exercised in the nine months ended September 30, 2013.

HSNi's $600 million Credit Agreement is secured by 100% of the voting equity securities of HSNi's U.S. subsidiaries and 65% of the voting equity securities of HSNi's first-tier foreign subsidiaries. This Credit Agreement replaced the credit agreement that was set to expire in July 2013. Certain HSNi subsidiaries have unconditionally guaranteed HSNi's obligations under the Credit Agreement. The Credit Agreement, which includes a $350 million revolving credit facility and a $250 million delayed draw term loan, may be increased up to $850 million subject to certain conditions and expires April 24, 2017. HSNi drew $250 million from its term loan on July 31, 2012 to fund the redemption of the $240 million of 11.25% Senior Notes due 2016. As of September 30, 2013, the balance of the term loan was $243.8 million.

The Credit Agreement contains various covenants, limitations and events of default customary for similar facilities including a maximum leverage ratio of 3.00x and a minimum interest coverage ratio of 3.00x. HSNi was in compliance with all such covenants as of September 30, 2013, with a leverage ratio of 0.75x and an interest coverage ratio of 58.72x.

Loans under the Credit Agreement bear interest at a per annum rate equal to LIBOR plus a predetermined margin that ranges from 1.50% to 2.25% or the Base Rate (as defined in the Credit Agreement) plus a predetermined margin that ranges from 0.50% to 1.25%. HSNi can elect to borrow at either LIBOR or the Base Rate and the predetermined margin is based on HSNi's leverage ratio. The term loan interest rate as of September 30, 2013 was 1.68%. HSNi pays a commitment fee ranging from 0.25% to 0.40% (based on the leverage ratio) on the unused portion of the revolving credit facility.

The amount available under the Credit Agreement is reduced by the amount of commercial and standby letters of credit issued under the revolving credit facility, which totaled $36.7 million as of September 30, 2013. 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 September 30, 2013, 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 $313.3 million.

To reduce our future exposure to rising interest rates under our credit facility, we entered into a forward-starting swap in December 2012 that effectively converts $187.5 million of our variable rate term loan to a fixed-rate basis beginning January

2014 through April 2017. For additional information related to our interest rate swap, refer to Note 7 of Notes to Consolidated Financial Statements.

HSNi does not currently have any material commitments for capital expenditures; however, management does anticipate that HSNi will need to make capital and other expenditures in connection with the development and expansion of its operations. HSNi's ability to fund its cash and capital needs will be affected by its ongoing ability to generate cash from operations, the overall capacity and terms of its financing arrangements as discussed above, and access to the capital markets. HSNi believes that its cash on hand, its anticipated operating cash flows, its available unused portion of the revolving credit facility and its access to capital markets will be sufficient to fund its operating needs, capital, investing and other commitments and contingencies for the foreseeable future.

On September 27, 2011, HSNi's Board of Directors approved a share repurchase program which allows HSNi to purchase 10 million shares of its common stock from time to time through privately negotiated and/or open market transactions. The timing of repurchases and the actual number of shares repurchased depends 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 nine months ended September 30, 2013, HSNi repurchased approximately 2.5 million shares at a cost of $137.0 million, or an average cost of $53.79 per share. As of September 30, 2013, approximately 1.2 million shares remained authorized for repurchase under the program.

Effective November 6, 2013, HSNi's Board of Directors approved a cash dividend of $0.25 per common share. This represents an increase over the prior quarterly dividend of 39% or $0.07 per common share. The dividend will be paid on December 18, 2013 to HSNi's record holders as of December 4, 2013.

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, 2012. No material changes have occurred in HSNi's market risks since December 31, 2012.

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 September 30, 2013. 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 September 30, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

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, product recalls, 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 13 - 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, 2012, 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

Issuer Purchases of Equity Security

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

For the quarter ended September 30, 2013, we repurchased approximately 0.4 million shares at an average price of $55.79 per share. Below is a summary of our common stock repurchases during the third quarter of 2013, as well as the number of shares still available for purchase as of September 30, 2013:

Period	Number of Shares Purchased	Average Price Paid Per Share	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
July 1, 2013 - July 31, 2013	32,400	$ 54.31	32,400	1,561,315
August 1, 2013 - August 31, 2013	262,904	$ 56.63	262,904	1,298,411
September 1, 2013 - September 30, 2013	97,652	$ 54.03	97,652	1,200,759
	392,956	$ 55.79	392,956	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit No.	Description of Document	Method of Filing
10.1	Form of Deferred Restricted Stock Unit Agreement *	Filed herewith
10.2	Form of Market Stock Unit Agreement *	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 September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language) and filed electronically herewith: (i) Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2013 and 2012, (ii) Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2013 and 2012, (iii) Consolidated Balance Sheets as of September 30, 2013, December 31, 2012 and September 30, 2012, (iv) Consolidated Statements of Shareholders' Equity for the Nine Months Ended September 30, 2013 and Year Ended December 31, 2012, (v) Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012, and (vi) 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: November 6, 2013

By: /S/ JUDY A. SCHMELING

Judy A. Schmeling,
Chief Operating Officer and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

EXHIBIT 10.1

DEFERRED RESTRICTED STOCK UNIT AGREEMENT

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

1. Award and Vesting of DSUs

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

(b) Subject to the terms and conditions of this Agreement and the provisions of the Plan, the DSUs shall vest and no longer be subject to any restriction in whole on the earlier of (i) the first anniversary of the Award Date, or (ii) the date of the Company's next annual meeting of its shareholders which is approximately one year after the Award Date; provided, however, that in each case the director remains a board member through the end of the day prior to such date (the "Vesting Period").

(c) Notwithstanding the provisions of Section 1(b) and except as provided in Section 5 of this Agreement, in the event of a Separation of Service (as defined below) between the Grantee and the Corporation during the Vesting Period for any reason, all remaining unvested DSUs shall be forfeited by the Grantee and canceled in their entirety effective immediately upon such termination. For purposes of this Agreement, "Separation from Service" shall mean a "separation from service" as defined in Section 409A of the Internal Revenue Code, as amended (the "Code").

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

2. Settlement of DSUs

(a) Except as provided in this Section 2, DSUs that are no longer subject to the vesting period shall be settled on the later of (A) on or after January 15th of the calendar year following the calendar year in which the Grantee's Separation from Service occurs or (B) the first day of the seventh month following the date on which the Grantee's Separation from Service occurs (and otherwise in compliance with applicable law), with any successive annual installment payments to be made not earlier than January 15th of each such year.

(b) Subject to Section 14(d) of the Plan (pertaining to the withholding of taxes), at such time as the DSUs are settled pursuant to this Section 2, for each vested DSU settled the Corporation shall issue (either in book-entry form or otherwise) one share of Common Stock and cause to be delivered to the Grantee one or more unlegended, freely-transferable stock certificates in respect of such shares issued upon settlement of the vested DSUs. Notwithstanding the foregoing, the Corporation shall be entitled to hold the shares or cash issuable upon settlement of DSUs that have vested until the Corporation or the agent selected by the Corporation to manage the Plan under which the DSUs have been issued (the "Agent") shall have received from the Grantee a duly executed Form W-9 or W-8, as applicable; failure of the Grantee to provide such Form W-9 or W-8 during the period following termination of service shall result in forfeiture of the shares or cash issuable upon settlement of DSUs. In addition, the Corporation's obligation to deliver shares of Common Stock or otherwise make payment with respect to the DSUs is subject to the condition that the Grantee deliver to the Corporation any representations, other documents or assurances that the Committee may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements.

3. Non-Transferability of the DSUs

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

4. Rights as a Stockholder

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

5. Adjustment in the Event of Change in Stock; Change in Control

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

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

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

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

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

6. Payment of Transfer Taxes, Fees and Other Expenses

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

7. Other Restrictions

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

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

8. Notices

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

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

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

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

9. Effect of Agreement

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

10. Laws Applicable to Construction; Consent to Jurisdiction

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

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

11. Severability

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

12. Conflicts and Interpretation

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

13. Amendment

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

14. Headings

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

15. Counterparts

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

16. Data Protection

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

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

HSN, INC.

By:______________
Name:______________ Title:______________

«grantee»

EXHIBIT 10.2

MARKET STOCK UNIT AGREEMENT

THIS MARKET STOCK UNIT AGREEMENT (this “Agreement”), dated as of ________, 201__, is between HSN, Inc., a Delaware corporation (the “Company”), and ____________ (the “Grantee”).

1. Award and Vesting of Target MSUs

(a) Subject to the terms, definitions and provisions of this Agreement and the Company’s Second Amended and Restated 2008 Stock and Annual Incentive Plan, as amended (the “Plan”), the Company hereby grants to the Grantee the number of Market Stock Units set forth in the Summary of Award as the Target MSUs. Your Summary of Award that was delivered simultaneously with this Agreement sets forth the Target MSUs granted to you by the Company and the Grant Date (among other information), and is hereby incorporated by reference to, and shall be read as part and parcel of, this Agreement. Any defined terms not defined in this Agreement or the Summary of Award shall have the meanings ascribed to it in the Plan, and to the extent there is any inconsistency between definitions in the Plan or this Agreement, then the definition in this Agreement shall apply.

(b) Subject to the terms and conditions of this Agreement and the provisions of the Plan, one-half of the Target MSUs shall be eligible to vest and no longer be subject to any restriction on each of the____ and ____ anniversary of the Grant Date (in each case, a “Vest Date”); provided, however, that except as set forth in Section 5 below all of the Target MSUs will be forfeited unless ____. The actual number of Target MSUs that vest on each Vest Date is determined under Section 2(a).

(c) Notwithstanding the provisions of Section 1(b) and except as provided in Sections 5 and 6 of this Agreement, in the event of termination of the Grantee’s service with the Company during the Vesting Schedule for any reason, all remaining unvested Target MSUs shall be forfeited by the Grantee and canceled in their entirety effective immediately upon such termination.

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

2. **Vesting and Settlement of Target MSUs**

(a) The actual number of Target MSUs that vest shall be determined and settled in accordance with the following payment schedule:

i. ____________, with respect to the Target MSUs that vest on the first Vest Date; and

ii. ____________, with respect to the Target MSUs that vest on the second Vest Date.

The number of Target MSUs that vest on each of the Vest Dates shall be determined in accordance with the following formula: (i) one-half of the Target MSUs multiplied by (ii) the Vest Date Fair Market Value divided by the Grant Date Fair Market Value, up to a maximum of 200% of the applicable number of Target MSUs. Notwithstanding the formula in the preceding sentence, no Target MSUs will vest on the applicable Vest Date if the Vest Date Fair Market Value is less than ____________ of the Grant Date Fair Market Value, in which case, the MSUs that would otherwise vest on such Vest Date shall be automatically forfeited and cancelled. The Company will issue to the Grantee a number of shares of Common Stock equal to the number of Target MSUs that vest on each Vest Date, net of any withholding taxes in accordance with the Company's normal practices.

For purposes of this Agreement, the following defined terms shall apply:

"Grant Date Fair Market Value" means the average closing price of the Common Stock as reported by the Applicable Exchange for the 20 trading days ending on the Grant Date.

"Vest Date Fair Market Value" means the average closing price of the Common Stock as reported by the Applicable Exchange for the 20 trading days ending on the Vest Date.

(b) Subject to Section 14(d) of the Plan (pertaining to the withholding of taxes), for each Target MSU that vests and is settled pursuant to this Section 2, the Company shall (i) if the Grantee is employed within the United States, issue (either in book-entry form or otherwise) one share of Common Stock for each such Target MSU vesting at such time and cause to be delivered to the Grantee one or more unlegended, freely-transferable stock certificates in respect of such shares issued upon settlement of the vested Target MSUs or (ii) if the Grantee is employed outside the United States, pay, or cause to be paid, to the Grantee an amount of cash, at the Company's option, equal to the Fair Market Value of one share of Common Stock for each Target MSU vesting at such time. Notwithstanding the foregoing, the Company shall be entitled to hold the shares or cash issuable upon settlement of Target MSUs that have vested until the Company or the agent selected by the Company to manage the Plan under which the MSUs have been issued (the "Agent") shall have received from the Grantee a duly executed Form W-9 or W-8, as applicable.

3. <u>Non-Transferability of Target MSUs</u>

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

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

Except as otherwise specifically provided in this Agreement, the Grantee shall not be entitled to any rights of a stockholder with respect to the Target MSUs. Notwithstanding the foregoing, dividends and distributions other than regular quarterly cash dividends, if any, may result in an adjustment pursuant to Section 5.

5. <u>Effect of Corporate Capitalization or Change in Control</u>

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

(b) In the event of a Change in Control of the Company and the Award is assumed on equivalent terms (and regardless of the HSN, Inc. _______________ if the Change in Control occurs prior to the end of the ______ fiscal year), then this Award shall be converted into the right to receive time-based restricted stock units (with the Vest Dates and settlement as described in Section 1(b) and the first sentence of Section 2(b) above) and the number of restricted stock units shall be calculated in accordance with the following formula: (i) the number of Target MSUs multiplied by (ii) the price per share of Common Stock paid by the acquirer in the Change in Control transaction (the "Per Share Purchase Price") divided by the Grant Date Fair Market Value. The Committee shall determine the Per Share Purchase Price and such determination of the Committee shall be final and conclusive.

(c) In the event of a Change in Control of the Company and the Award is not assumed on equivalent terms (and regardless of the HSN, Inc. __________ if the Change in Control occurs prior to the end of the ____ fiscal year), then as of the closing date of the Change in Control transaction, this Award shall be converted into the right to receive a cash payment equal to the Fair Market Value of the shares of Common Stock calculated in accordance with the following formula: (i) the number of Target MSUs multiplied by (ii) the Per Share Purchase price divided by the Grant Date Fair Market Value. The Committee shall determine the Per Share Purchase Price and such determination of the Committee shall be final and conclusive. The cash payment shall be made to Grantee within ten (10) business days of the closing date of the Change in Control transaction.

(d) With respect to the awards evidenced by this Agreement, subject to paragraph (e) of Section 10 of the Plan, notwithstanding any provision of the Plan to the contrary (and regardless of the HSN, Inc. _______________ if the Change in Control occurs prior to the end of the ______ fiscal year), upon Grantee's Termination of Employment by the Company during the 90-day period preceding the consummation of a Change-in-Control, or during the one-year period following a Change in Control, for other than Cause or Disability or by the Grantee for Good Reason, then the restricted stock units into which the Target MSUs were converted pursuant to subsection (b) above shall be fully vested and become immediately payable upon the later of Grantee's Termination of Employment or the Change in Control, any and all restrictions and deferral limitations applicable to such securities shall lapse, and such restricted stock units outstanding as of such date of Termination of Employment which were outstanding (or would have been but for the Termination of Employment) as of the date of such Change in Control shall become free of all restrictions and become fully vested and transferable.

(e) As used in this Agreement, a "Change in Control" shall have the meaning set forth in the definition of Change in Control in the Plan, provided that, in the case of any distribution to be made to Grantee under this Agreement as a result of a Change in Control, the definition of Change in Control shall be modified as follows:

(i) clause (ii) of the definition shall only apply if a majority of the Incumbent Directors are replaced during any 12-month period (subject to the other qualifications of that clause (ii));

(ii) a Business Combination shall only be deemed to have occurred if (A) substantially all of the assets of the Company have a total gross fair market value equal to 40% or more of the total gross fair market value of all of the Company's assets, (B) the assets are not transferred to a Company stockholder or Affiliate of the Company; (C) less than 50% of the Resulting Voting Power shall reside in Outstanding Company Voting Securities retained by the Company's stockholders in the Business Combination and/or voting securities received by such stockholders in the Business Combination on account of Outstanding Company Voting Securities and

(iii) an event described in subsection (iv) of that definition shall not constitute a Change in Control for purposes of this Agreement.

Notwithstanding the foregoing, in no event shall a Change in Control for purposes of any distribution be deemed to occur unless the event satisfies the requirements of Treasury Regulation Section 1.409A3-(i)(5).

6. <u>Effect of Termination of Employment</u>

(a) If, prior to either of the Vest Dates, there shall be a Termination of Employment of Grantee for reason of death or Disability, then subject to Section 6(d) the number of Target MSUs that vest on the date of such termination shall be calculated in accordance with the following formula: (i) the number of the completed months employed commencing on the Award Date plus twelve (12) divided by sixty (60); (ii) multiplied by the result of dividing (x) the average closing price of the Common Stock as reported by the Applicable Exchange for the 20 trading days ending on the date of Termination of Employment (the "Termination Date Fair Market Value") by (y) the Grant Date Fair Market Value. Notwithstanding the formula in clause (ii) of the preceding sentence, (x) the multiplier shall not exceed two (2) and (y) the multiplier shall be zero if the result is less than three tenths (0.3).

(b) If, prior to completion of either of the Vest Dates, there shall be a Termination of Employment of Grantee for reason of termination without Cause or resignation for Good Reason, then subject to Section 6(d) the number of MSUs that may vest on the date of such termination shall be calculated in accordance with the following formula: (i) the number of the completed months employed commencing on the Award Date plus twelve (12) divided by sixty (60); (ii) multiplied by the result of dividing the Termination Date Fair Market Value by the Grant Date Fair Market Value. Notwithstanding the formula in clause (ii) of the preceding sentence, (x) the multiplier shall not exceed two (2) and (y) the multiplier shall be zero if the result is less than three tenths (0.3).

(c) If, prior to completion of either of the Vest Dates, Grantee shall cease to be employed by the Company, its Subsidiaries or Affiliates, for reason of Retirement (as defined below), then the Target MSUs shall continue to be eligible to vest through the Vest Date (subject to the requirement that the HSN, Inc. _____________________), notwithstanding the termination of employment, and, upon the Vest Date, will be settled in accordance with Section 2 above. For purposes of this Agreement, "Retirement" means the termination of employment of Grantee from active service with the Company, or Subsidiary or Affiliate provided Grantee's completed years of service (including years of service with the Company's predecessor) shall total 10 or more at termination of employment and provided the Company has named a non-interim successor to Grantee as Chief Executive Officer.

(d) Notwithstanding anything to the contrary in Sections 6(a) and (b), if the Termination of Employment described therein occurs prior to the end of the HSN, Inc. ______________, no Target MSUs shall vest unless the HSN, Inc. ______________________. The vested MSUs will be settled as soon as practicable after the date of Termination of Employment, but in no event later than March 15 of the year immediately following the year that includes the date of Termination of Employment.

7. <u>Payment of Transfer Taxes, Fees and Other Expenses</u>

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

8. Other Restrictions

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

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

9. Limitation on Obligations.

The Company's obligation with respect to the MSUs granted hereunder is limited solely to the delivery to the Grantee of shares of Common Stock on the date when such shares are due to be delivered hereunder, and in no way shall the Company become obligated to pay cash in respect of such obligation, except as otherwise expressly provided for herein. This Award shall not be secured by any specific assets of the Company or any of its subsidiaries, nor shall any assets of the Company or any of its subsidiaries be designated as attributable or allocated to the satisfaction of the Company's obligations under this Agreement.

10. No Effect on Company Actions.

Notwithstanding any term or provision hereof to the contrary, the existence of the award, or of any outstanding MSUs awarded hereunder, shall not affect in any manner the right, power or authority of the Company to make, authorize or consummate: (i) any or all adjustments, recapitalizations, reorganizations, stock splits, stock dividends, combination of shares or other changes in the Company's capital structure or its business, (ii) any merger, consolidation or similar transaction by or of the Company, (iii) any offer, issue or sale by the Company of any capital stock of the Company, including any equity or debt securities, or preferred or preference stock that would rank prior to or on parity with the MSUs and/or that would include, have or possess other rights, benefits and/or preferences superior to those that the MSUs include, has or possesses, or any warrants, options or rights with respect to any of the foregoing, (iv) the dissolution or liquidation of the Company, (v) any sale, transfer or assignment of all or any part of the stock, assets or business of the Company or (vi) any other corporate transaction, act or proceeding (whether of a similar character or otherwise).

11. **Forfeiture and Company Right to Recover Fair Market Value of Shares Received Pursuant to MSUs**

The parties acknowledge and agree that this Award shall be subject to the terms of the Company's executive compensation recovery (or "clawback") policy provided for in the Company's Code of Business Conduct and Ethics, currently in place and as such policy may be amended from time to time.

12. **No Right To Employment.**

Subject to the terms of any employment agreement between the Company and Grantee, the grant of this Award shall not constitute a contract of employment or confer upon Grantee any right with respect to the continuance of her employment by or other service with the Company or any subsidiary, nor shall it or they be construed as affecting the rights of the Company (or any subsidiary) to terminate the service of Grantee at any time or otherwise change the terms of such service.

13. Compliance with Laws; Securities Law Compliance.

Upon vesting (or partial vesting) of the MSUs granted hereunder, Grantee shall make such representations and furnish such information as may, in the opinion of counsel for the Company, be appropriate to permit the Company to issue or transfer the shares of Common Stock in compliance with the provisions of applicable federal or state securities laws. No shares of Common Stock shall be issued upon vesting of an MSU granted hereunder unless and until the Company is satisfied, in its sole discretion, that there has been compliance with all legal requirements applicable to the issuance of such MSU Shares.

14**. Notices**

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

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

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

or to such other address or facsimile number as any party shall have furnished to the other in writing in accordance with this Section 14. Notice and communications shall be effective when actually received by the addressee. Notwithstanding the foregoing, the Grantee consents to electronic delivery of documents required to be delivered by the Company under the securities laws.

15. Effect of Agreement

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

16. Laws Applicable to Construction; Consent to Jurisdiction

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

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

17. Severability

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

18. Conflicts and Interpretation

Except as set forth in the last sentence of Section 1(a) above, in the event of any conflict between this Agreement and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan.

In the event of any (i) conflict between the Summary of Award (or any information posted on the Morgan Stanley Smith Barney Benefit Access System) and this Agreement, the Plan and/or the books and records of the Company, or (ii) ambiguity in the Summary of Award (or any information posted on the Morgan Stanley Smith Barney Benefit Access System), this Agreement, the Plan and/or the books and records of the Company, as applicable, shall control.

19. Amendment

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

20. Headings

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

21. Counterparts

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

22. Data Protection

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

22. Section 409A

The Parties agree that this Agreement shall be interpreted and administered in a manner so that any amount or benefit payable hereunder shall be paid or provided in a manner that is exempt from, or, if that is not possible, then compliant with the requirements of Internal Revenue Code Section 409A and applicable Internal Revenue Service guidance and Treasury Regulations issued there under (and any applicable transition relief under Internal Revenue Code Section 409A). Nevertheless, the tax treatment of the benefits provided under this Agreement is not warranted or guaranteed. Grantee acknowledges that she is responsible under U.S federal income tax law for any taxes, penalties, and interest imposed due to the failure of any payments hereunder to comply with Internal Revenue Code Section 409A. Any right to a series of installment payments under this Agreement shall, for purposes of Internal Revenue Code Section 409A, be treated as a right to a series of separate payments.

Additionally, notwithstanding anything in this Agreement to the contrary, any separation payments under this Agreement (to the extent that they constitute "deferred compensation" under Internal Revenue Code Section 409A and applicable regulations), and any other amount or benefit that would constitute non-exempt "deferred compensation" for purposes of Internal Revenue Code Section 409A and that would otherwise be payable or distributable hereunder by reason of Grantee's termination of employment, will not be payable or distributable to Grantee by reason of such circumstance unless the circumstances giving rise to such termination of employment meet any description or definition of "separation from service" in Internal Revenue Code Section 409A and applicable regulations (without giving effect to any elective provisions that may be available under such definition). If this provision prevents the payment or distribution of any amount or benefit, such payment or distribution shall be made on the date, if any, on which an event occurs that constitutes a Section 409A-compliant "separation from service."

In the event that Grantee is deemed a "specified employee" (as described in Internal Revenue Code Section 409A), and any payment or benefit payable pursuant to this Agreement constitutes deferred compensation under Internal Revenue Code Section 409A and would otherwise be payable upon Grantee's "separation from service" (as described in Internal Revenue Code Section 409A), then no such payment or benefit shall be made before the date that is six (6) months after Grantee's "separation from service" (or, if earlier, the date of Grantee's death). Any payment or benefit delayed by reason of the prior sentence shall be paid out or provided in a single lump sum at the end of such required delay period in order to catch up to the original payment schedule.

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

HSN, INC.

By:______________

Lisa Letizio
Chief Human Resources Officer

EXHIBIT 31.1

CERTIFICATION

I, Mindy Grossman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2013 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: November 6, 2013

/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 September 30, 2013 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: November 6, 2013

/S/ JUDY A. SCHMELING

Judy A. Schmeling
Chief Operating Officer 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 September 30, 2013 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: November 6, 2013

/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 September 30, 2013 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: November 6, 2013

/S/ JUDY A. SCHMELING

Judy A. Schmeling
Chief Operating Officer and Chief Financial Officer