
**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 March 31, 2014
Or
£ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 001-34061

HSN, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

1 HSN Drive, St. Petersburg, Florida

(Address of principal executive offices)

26-2590893

(I.R.S. Employer
Identification No.)

33729

(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 Website, 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 April 30, 2014, the registrant had 53,215,901 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 March 31, | |
|---|------------------------------|------------|
| | 2014 | 2013 |
| Net sales | \$ 777,420 | \$ 772,651 |
| Cost of sales | 501,646 | 492,504 |
| Gross profit | 275,774 | 280,147 |
| Operating expenses: | | |
| Selling and marketing | 167,240 | 164,542 |
| General and administrative | 55,910 | 53,135 |
| Depreciation and amortization | 10,756 | 9,952 |
| Total operating expenses | 233,906 | 227,629 |
| Operating income | 41,868 | 52,518 |
| Other income (expense): | | |
| Interest income | 69 | 70 |
| Interest expense | (1,768) | (1,710) |
| Total other expense, net | (1,699) | (1,640) |
| Income from continuing operations before income taxes | 40,169 | 50,878 |
| Income tax provision | (15,987) | (19,325) |
| Income from continuing operations | 24,182 | 31,553 |
| Loss from discontinued operations, net of tax | — | (9) |
| Net income | \$ 24,182 | \$ 31,544 |
| Income from continuing operations per share: | | |
| Basic | \$ 0.45 | \$ 0.58 |
| Diluted | \$ 0.45 | \$ 0.56 |
| Net income per share: | | |
| Basic | \$ 0.45 | \$ 0.58 |
| Diluted | \$ 0.45 | \$ 0.56 |
| Shares used in computing earnings per share: | | |
| Basic | 53,160 | 54,787 |
| Diluted | 54,165 | 56,278 |
| Dividends declared per share | \$ 0.25 | \$ 0.18 |

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 March 31, | |
|---|------------------------------|------------------|
| | 2014 | 2013 |
| Net income | \$ 24,182 | \$ 31,544 |
| Other comprehensive (loss) income: | | |
| Change in fair value of derivative instrument, net of tax | (20) | 55 |
| Other comprehensive (loss) income, net of tax | (20) | 55 |
| Comprehensive income | \$ 24,162 | \$ 31,599 |

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)

| | March 31, 2014 | December 31, 2013 | March 31, 2013 |
|---|---------------------|----------------------|---------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 160,868 | \$ 196,433 | \$ 150,872 |
| Accounts receivable, net of allowance of \$17,378, \$16,863 and \$15,470, respectively | 206,857 | 265,115 | 185,584 |
| Inventories | 365,847 | 327,319 | 341,627 |
| Deferred income taxes | 28,309 | 29,761 | 28,295 |
| Prepaid expenses and other current assets | 56,454 | 48,630 | 52,079 |
| Total current assets | 818,335 | 867,258 | 758,457 |
| Property and equipment, net | 175,798 | 178,720 | 168,643 |
| Intangible assets, net | 262,198 | 262,460 | 266,285 |
| Goodwill | 9,858 | 9,858 | 9,858 |
| Other non-current assets | 19,643 | 19,627 | 6,724 |
| TOTAL ASSETS | \$ 1,285,832 | \$ 1,337,923 | \$ 1,209,967 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable, trade | \$ 211,160 | \$ 255,627 | \$ 212,786 |
| Current maturities of long-term debt | 12,500 | 12,500 | 12,500 |
| Accrued expenses and other current liabilities | 196,755 | 207,984 | 179,148 |
| Total current liabilities | 420,415 | 476,111 | 404,434 |
| Long-term debt, less current maturities | 225,000 | 228,125 | 237,500 |
| Deferred income taxes | 84,533 | 88,034 | 80,979 |
| Other long-term liabilities | 15,089 | 16,572 | 11,703 |
| Total liabilities | 745,037 | 808,842 | 734,616 |
| Commitments and contingencies (Note 12) | | | |
| 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; 53,188,408, 53,002,368 and 54,061,037 issued shares at March 31, 2014, December 31, 2013 and March 31, 2013, respectively | 532 | 530 | 541 |
| Additional paid-in capital | 1,797,622 | 1,810,072 | 1,904,006 |
| Accumulated deficit | (1,257,693) | (1,281,875) | (1,428,780) |
| Accumulated other comprehensive income (loss) | 334 | 354 | (416) |
| Total shareholders' equity | 540,795 | 529,081 | 475,351 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,285,832 | \$ 1,337,923 | \$ 1,209,967 |

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, 2012 | — | \$ — | 54,854 | \$ 549 | \$ 1,964,760 | \$ (1,460,324) | \$ (471) | \$ 504,514 |
| Net income | — | — | — | — | — | 178,449 | — | 178,449 |
| Other comprehensive income | — | — | — | — | — | — | 825 | 825 |
| Stock-based compensation expense for equity awards | — | — | — | — | 14,043 | — | — | 14,043 |
| Cash dividend declared on common stock | — | — | — | — | (42,281) | — | — | (42,281) |
| Issuance of common stock from stock-based compensation awards, including tax benefit of \$9,788 | — | — | 885 | 9 | 20,416 | — | — | 20,425 |
| Repurchases of common stock | — | — | (2,737) | (28) | (146,866) | — | — | (146,894) |
| Balance as of December 31, 2013 | — | — | 53,002 | 530 | 1,810,072 | (1,281,875) | 354 | 529,081 |
| Net income | — | — | — | — | — | 24,182 | — | 24,182 |
| Other comprehensive loss | — | — | — | — | — | — | (20) | (20) |
| Stock-based compensation expense for equity awards | — | — | — | — | 4,026 | — | — | 4,026 |
| Cash dividend declared on common stock | — | — | — | — | (13,292) | — | — | (13,292) |
| Issuance of common stock from stock-based compensation awards, including tax benefit of \$3,582 | — | — | 213 | 2 | (1,717) | — | — | (1,715) |
| Repurchases of common stock | — | — | (27) | — | (1,467) | — | — | (1,467) |
| Balance as of March 31, 2014 | — | \$ — | 53,188 | \$ 532 | \$ 1,797,622 | \$ (1,257,693) | \$ 334 | \$ 540,795 |

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

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

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------------|
| | 2014 | 2013 |
| Cash flows from operating activities attributable to continuing operations: | | |
| Net income | \$ 24,182 | \$ 31,544 |
| Loss from discontinued operations, net of tax | — | (9) |
| Income from continuing operations | 24,182 | 31,553 |
| Adjustments to reconcile income from continuing operations to net cash (used in) provided by operating activities attributable to continuing operations: | | |
| Depreciation and amortization | 10,756 | 9,952 |
| Stock-based compensation expense | 4,026 | 3,709 |
| Amortization of debt issuance costs | 275 | 280 |
| Deferred income taxes | (2,031) | 1,251 |
| Bad debt expense | 4,594 | 5,195 |
| Excess tax benefits from stock-based awards | (3,583) | (3,925) |
| Other | (5) | 661 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 53,679 | 58,931 |
| Inventories | (38,528) | (10,691) |
| Prepaid expenses and other assets | (7,603) | (5,690) |
| Accounts payable, accrued expenses and other current liabilities | (54,461) | (71,775) |
| Net cash (used in) provided by operating activities attributable to continuing operations | (8,699) | 19,451 |
| Cash flows from investing activities attributable to continuing operations: | | |
| Capital expenditures | (7,262) | (10,659) |
| Other | (540) | — |
| Net cash used in investing activities attributable to continuing operations | (7,802) | (10,659) |
| Cash flows from financing activities attributable to continuing operations: | | |
| Repayment of long-term debt | (3,125) | — |
| Repurchase of common stock | (1,467) | (62,563) |
| Cash dividends paid | (13,292) | (9,915) |
| Proceeds from issuance of common stock | 715 | 1,863 |
| Tax withholdings related to stock-based awards | (5,478) | (11,142) |
| Excess tax benefits from stock-based awards | 3,583 | 3,925 |
| Payment of contingent consideration obligation | — | (2,172) |
| Net cash used in financing activities attributable to continuing operations | (19,064) | (80,004) |
| Total cash used in continuing operations | (35,565) | (71,212) |
| Total cash used in discontinued operations | — | (8) |
| Net decrease in cash and cash equivalents | (35,565) | (71,220) |
| Cash and cash equivalents at beginning of period | 196,433 | 222,092 |
| Cash and cash equivalents at end of period | \$ 160,868 | \$ 150,872 |

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 proprietary 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) mobile devices; and (v) retail and outlet stores. 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 & health, and home & other (including household, home design, electronics and culinary). Merchandise offered by Cornerstone primarily consists of home furnishings (including indoor/outdoor furniture, home décor, tabletop, textiles 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, 2013. The consolidated balance sheet as of December 31, 2013 and the consolidated statement of shareholders’ equity for the year ended December 31, 2013 were derived from the audited consolidated financial statements at that date but may not include all disclosures required by GAAP. Intercompany transactions and accounts have been eliminated in consolidation.

Reclassifications

Reclassifications were made to prior period amounts within 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):

| | March 31, 2014 | December 31, 2013 | March 31, 2013 |
|---|-------------------|----------------------|-------------------|
| Capitalized software | \$ 219,537 | \$ 215,893 | \$ 196,752 |
| Computer and broadcast equipment | 85,602 | 85,521 | 84,986 |
| Buildings and leasehold improvements | 103,561 | 102,437 | 100,189 |
| Furniture and other equipment | 87,651 | 83,779 | 81,301 |
| Projects in progress | 8,472 | 12,528 | 14,452 |
| Land and land improvements | 10,460 | 10,460 | 10,835 |
| | 515,283 | 510,618 | 488,515 |
| Less: accumulated depreciation and amortization | (339,485) | (331,898) | (319,872) |
| Total property and equipment, net | <u>\$ 175,798</u> | <u>\$ 178,720</u> | <u>\$ 168,643</u> |

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, 2013. 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; including stock-based compensation, amortization of intangibles, depreciation, gains and losses on asset dispositions, asset impairment charges, acquisition-related accounting expenses and other significant items.

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

| | Three Months Ended March 31, 2014 | | | Three Months Ended March 31, 2013 | | |
|---|-----------------------------------|-------------------|------------------|-----------------------------------|-----------------|------------------|
| | HSN | Cornerstone | Total | HSN | Cornerstone | Total |
| Adjusted EBITDA | \$ 59,142 | \$ 615 | \$ 59,757 | \$ 58,934 | \$ 7,906 | \$ 66,840 |
| Stock-based compensation expense | (3,145) | (881) | (4,026) | (2,823) | (886) | (3,709) |
| Depreciation and amortization | (7,436) | (3,320) | (10,756) | (6,821) | (3,131) | (9,952) |
| CPSC settlement (a) | — | (3,100) | (3,100) | — | — | — |
| Loss on disposition of fixed assets | — | (7) | (7) | (661) | — | (661) |
| Operating income | <u>\$ 48,561</u> | <u>\$ (6,693)</u> | <u>41,868</u> | <u>\$ 48,629</u> | <u>\$ 3,889</u> | <u>52,518</u> |
| Total other expense, net | | | (1,699) | | | (1,640) |
| Income from continuing operations before income taxes | | | 40,169 | | | 50,878 |
| Income tax provision | | | (15,987) | | | (19,325) |
| Income from continuing operations | | | 24,182 | | | 31,553 |
| Loss from discontinued operations, net of tax | | | — | | | (9) |
| Net income | | | <u>\$ 24,182</u> | | | <u>\$ 31,544</u> |

(a) The company reached a \$3.1 million tentative settlement related to a civil penalty assessed by the Consumer Product Safety Commission. For further discussion, see Note 12-Commitments and Contingencies.

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

| | Three Months Ended March 31, | |
|-------------------|------------------------------|-------------------|
| | 2014 | 2013 |
| Net sales: | | |
| HSN | \$ 544,487 | \$ 550,129 |
| Cornerstone | 232,933 | 222,522 |
| Total | <u>\$ 777,420</u> | <u>\$ 772,651</u> |

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 March 31, | |
|--|------------------------------|------------------|
| | 2014 | 2013 |
| Net income (loss): | | |
| Continuing operations | \$ 24,182 | \$ 31,553 |
| Discontinued operations | — | (9) |
| Net income | <u>\$ 24,182</u> | <u>\$ 31,544</u> |
| Weighted average number of shares outstanding: | | |
| Basic | 53,160 | 54,787 |
| Dilutive effect of stock-based compensation awards | 1,005 | 1,491 |
| Diluted | <u>54,165</u> | <u>56,278</u> |
| Net income per share - basic: | | |
| Continuing operations | \$ 0.45 | \$ 0.58 |
| Discontinued operations | — | — |
| Net income | <u>\$ 0.45</u> | <u>\$ 0.58</u> |
| Net income per share - diluted: | | |
| Continuing operations | \$ 0.45 | \$ 0.56 |
| Discontinued operations | — | — |
| Net income | <u>\$ 0.45</u> | <u>\$ 0.56</u> |
| 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 | <u>746</u> | <u>515</u> |

NOTE 6—LONG-TERM DEBT

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

| | March 31, 2014 | December 31, 2013 | March 31, 2013 |
|---|-------------------|----------------------|-------------------|
| Secured credit agreement expiring April 24, 2017: | | | |
| Term loan | \$ 237,500 | \$ 240,625 | \$ 250,000 |
| Revolving credit facility | — | — | — |
| Total long-term debt | 237,500 | 240,625 | 250,000 |
| Less: current maturities | (12,500) | (12,500) | (12,500) |
| Long-term debt, less current maturities | <u>\$ 225,000</u> | <u>\$ 228,125</u> | <u>\$ 237,500</u> |

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. 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 term loan, may be increased up to \$850 million subject to certain conditions and expires April 24, 2017. 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 term.

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 March 31, 2014 with a leverage ratio of 0.74x and an interest coverage ratio of 58.74x. 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. Dividends, 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 .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 March 31, 2014 was 1.65%. 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 \$7.9 million as of March 31, 2014. The ability to draw funds under the revolving credit facility is dependent upon meeting the aforementioned financial covenants. As of March 31, 2014, 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 \$342.1 million. As of March 31, 2014, there was no outstanding balance due under the revolving credit facility.

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 March 31, 2014. The interest rate swap took 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 (loss). Any ineffective portions of the changes in fair value of the interest rate swap will be immediately recognized directly to earnings in the consolidated statements of operations. The change in fair value of the interest rate swap (inclusive of reclassifications to net income) for the three months ended March 31, 2014 and March 31, 2013 was a loss of less than \$0.1 million and a gain of approximately \$0.1 million, respectively, net of tax, and was included in other comprehensive (loss) income.

As of March 31, 2014 and December 31, 2013, the fair value of the interest rate swap was an asset of \$0.5 million and \$0.6 million, respectively, and was recorded in "Other non-current assets" in the consolidated balance sheets. As of March 31, 2013, the fair value of the interest rate swap was a liability of \$0.7 million and was recorded in "Other non-current liabilities" in the consolidated balance sheets. HSNi estimates that approximately \$1.2 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. See Note 8 for discussion of the fair value measurements concerning this interest rate swap.

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):

| | | March 31, 2014 | | | |
|--------------------------|--|--|---------------------------------|---------|----------|
| | | Total Fair Value and Carrying Value on Balance Sheet | Fair Value Measurement Category | | |
| | | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | |
| Interest rate swap | | \$ 534 | \$ — | \$ 534 | \$ — |
| Liabilities: | | | | | |
| Contingent consideration | | \$ 1,052 | \$ — | \$ — | \$ 1,052 |
| | | December 31, 2013 | | | |
| | | Total Fair Value and Carrying Value on Balance Sheet | Fair Value Measurement Category | | |
| | | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | |
| Interest rate swap | | \$ 574 | \$ — | \$ 574 | \$ — |
| Liabilities: | | | | | |
| Contingent consideration | | \$ 1,032 | \$ — | \$ — | \$ 1,032 |
| | | March 31, 2013 | | | |
| | | Total Fair Value and Carrying Value on Balance Sheet | Fair Value Measurement Category | | |
| | | | Level 1 | Level 2 | Level 3 |
| Liabilities: | | | | | |
| Interest rate swap | | \$ 666 | \$ — | \$ 666 | \$ — |
| Contingent consideration | | \$ 4,384 | \$ — | \$ — | \$ 4,384 |

HSNi's interest rate swap was carried on the balance sheet at fair value as of March 31, 2014, December 31, 2013 and March 31, 2013. 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. The fair value is based on a valuation model which utilizes interest rate yield curves and credit spreads as the significant inputs to the 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.

In connection with the 2012 acquisition of Chasing Fireflies, the purchase price included contingent consideration that is based on achieving specific annual performance targets or a cumulative three-year performance target. The fair value of the contingent consideration is based on a probability-weighted discounted cash flow approach (level 3 criteria). Key inputs used in this calculation include estimates related to the operating performance over the remaining performance period and discount rates. HSNi reassessed its current estimates of performance relative to the stated targets as of March 31, 2014 and March 31, 2013 and determined there was no fair value adjustment to be recorded.

The change in the fair value of the contingent consideration liability is summarized as follows (in thousands):

| | 2014 | 2013 |
|------------------------|----------|----------|
| As of January 1, | \$ 1,032 | \$ 6,832 |
| Accretion | 20 | 135 |
| Payments | — | (2,583) |
| Fair value adjustments | — | — |
| As of March 31, | \$ 1,052 | \$ 4,384 |

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

| | March 31, 2014 | | | | |
|-----------|-------------------|------------|---------------------------------|------------|---------|
| | Carrying Value | Fair Value | Fair Value Measurement Category | | |
| | | | Level 1 | Level 2 | Level 3 |
| Term Loan | \$ 237,500 | \$ 237,500 | \$ — | \$ 237,500 | \$ — |
| | December 31, 2013 | | | | |
| | Carrying Value | Fair Value | Fair Value Measurement Category | | |
| | | | Level 1 | Level 2 | Level 3 |
| Term Loan | \$ 240,625 | \$ 240,625 | \$ — | \$ 240,625 | \$ — |
| | March 31, 2013 | | | | |
| | Carrying Value | Fair Value | Fair Value Measurement Category | | |
| | | | 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 (level 2 criteria).

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 three months ended March 31, 2014 and 2013, there were no assets evaluated for impairment as there were no events or changes in circumstances indicating their carrying amounts may not be recoverable.

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 months ended March 31, 2014, HSNi recorded a tax provision of \$16.0 million which represents an effective tax rate of 39.8%. For the three months ended March 31, 2013, HSNi recorded a tax provision of \$19.3 million which represents an effective tax rate of 38.0%. The change in the quarterly effective tax rate from the prior period was primarily due to the non-deductibility of the \$3.1 million civil penalty accrued for the CPSC tentative settlement. See further discussion of the CPSC settlement in Note 12-Commitments and Contingencies.

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 "Spinco's") has indemnified IAC and the other Spinco's 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 completed its review of the IAC consolidated tax returns for the years ended December 31, 2001 through 2009, 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 March 31, | |
|--|------------------------------|----------|
| | 2014 | 2013 |
| Selling and marketing | \$ 1,193 | \$ 962 |
| General and administrative | 2,833 | 2,747 |
| Stock-based compensation expense before income taxes | 4,026 | 3,709 |
| Income tax benefit | (1,436) | (1,306) |
| Stock-based compensation expense after income taxes | \$ 2,590 | \$ 2,403 |

As of March 31, 2014, there was approximately \$33.3 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 March 31, 2014, there were approximately 2.3 million shares of common stock available for grants under the Plan.

HSNi can grant restricted stock, restricted stock units (“RSUs”), stock options, stock appreciation rights (“SARs”), dividend equivalents and other stock-based awards under the Plan. Stock-based awards have a maximum term of 10 years. The exercise price of options and SARs granted under the Plan is required to be at, or above, the fair market value of HSNi’s stock on the date of grant. RSUs have rights to receive dividend equivalents that vest at the same time 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 three months ended March 31, 2014 and 2013 were \$5.5 million and \$11.1 million, respectively.

A summary of the stock-based awards granted during the three months ended March 31, 2014 is as follows:

| | Three Months Ended March 31, 2014 | |
|--------------------------------------|-----------------------------------|---------------------------------------|
| | Number of Awards Granted | Weighted Average per Share Fair Value |
| Stock appreciation rights | 404,141 | \$15.17 |
| Restricted stock units | 204,330 | \$55.04 |
| Employee stock purchase plan options | 21,776 | \$12.85 |

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 weighted average assumptions used in the valuation of each for the three months ended March 31, 2014 are as follows:

| | Three Months Ended March 31, 2014 | |
|-------------------------|-----------------------------------|--------------------------------------|
| | Black-Scholes | |
| | Stock Appreciation Rights | Employee Stock Purchase Plan Options |
| Volatility factor | 36.4 % | 22.1 % |
| Risk-free interest rate | 1.54 % | 0.09 % |
| Expected term | 4.7 | 0.5 |
| Dividend yield | 1.8 % | 1.6 % |

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 three months ended March 31, 2014, HSNi acquired under the program approximately 27,000 shares of its outstanding common stock for \$1.5 million at an average price of \$54.10. As of March 31, 2014, approximately 1.0 million shares remained authorized for repurchase under the program.

Dividend Policy

Effective February 20, 2014, HSNi's Board of Directors approved a quarterly cash dividend of \$0.25 per common share. The dividend was paid on March 19, 2014 to HSNi's shareholders of record as of March 5, 2014.

Effective May 1, 2014, HSNi's Board of Directors approved a quarterly cash dividend of \$0.25 per common share. The dividend will be paid on June 18, 2014 to HSNi's shareholders of record as of June 4, 2014.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes the cumulative gains and losses of derivative instruments that qualify as cash flow hedges. The following table provides a rollforward of accumulated other comprehensive income (loss) for the three months ended March 31, 2014 and 2013 (in thousands):

| | 2014 | 2013 |
|--|--------|-----------|
| Accumulated other comprehensive income (loss) as of January 1, | \$ 354 | \$ (471) |
| Other comprehensive (loss) income before reclassifications | (253) | 89 |
| Amounts reclassified from accumulated other comprehensive income (loss) to interest expense in the consolidated statements of operations | 214 | — |
| Income tax benefit (expense) | 19 | (34) |
| Other comprehensive (loss) income, net of tax | (20) | 55 |
| Accumulated other comprehensive income (loss) as of March 31, | \$ 334 | \$ (416) |

NOTE 12—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 was investigating whether the company complied with certain reporting requirements of the Consumer Product Safety Act. In April 2014, the company reached a tentative settlement of \$3.1 million.

that is pending the final approval of the CPSC. The company accrued the \$3.1 million penalty in the first quarter of 2014 in “general and administrative” expenses in its consolidated statements of operations.

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, 2013 and the following:

- the influence of the macroeconomic environment and its impact on consumer confidence and spending levels;
- our ability to attract new and retain existing customers in a cost-effective manner;
- our exposure to intense competition and our ability to effectively compete for customers;
- changes in our relationships with pay television operators, vendors, manufacturers and other third parties;
- 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;
- risks associated with acquisitions including the ability to successfully integrate new businesses and achieve expected benefits and results; 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 March 31, | | |
|----------------------|------------------------------|-----------|-------------------|
| | 2014 | Change | 2013 |
| | (Dollars in thousands) | | |
| HSN | \$ 544,487 | (1)% | \$ 550,129 |
| Cornerstone | 232,933 | 5% | 222,522 |
| Total HSNi net sales | <u>\$ 777,420</u> | <u>1%</u> | <u>\$ 772,651</u> |

HSNi net sales in the first quarter of 2014 increased 1%, or \$4.8 million, due to 5% sales growth at Cornerstone offset by a 1% sales decline at HSN. Digital sales grew 6% with penetration increasing 220 basis points to 46.8%. The gross units shipped in the first quarter of 2014 increased 2% to 14.6 million while the average price point decreased 2% to \$59.96.

HSN

HSN net sales in the first quarter of 2014 decreased 1%, or \$5.6 million. Digital sales grew 5% and penetration increased 220 basis points to 37.9%. Sales grew in the Home & Other division, offset by lower sales in the Jewelry and Beauty & Health divisions. Within Home & Other, there was a significant increase in the home design category, offset by a decrease in electronics. The return rate decreased 170 basis points to 18.3% from 20.0% in the prior year primarily due to the shift in merchandise with lower return rates. Gross units shipped increased 1% to 11.2 million while average price point decreased 3% to \$56.38 primarily due to changes in product mix to categories with lower price points, offset by a decrease in clearance sales.

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

| | Three Months Ended March 31, | |
|---|------------------------------|----------------|
| | 2014 | 2013 |
| Jewelry | 10.6 % | 11.6 % |
| Fashion (apparel & accessories) | 15.1 % | 14.8 % |
| Beauty & Health | 26.1 % | 27.7 % |
| Home & Other (including household, home design, electronics and culinary) | 48.2 % | 45.9 % |
| Total | <u>100.0 %</u> | <u>100.0 %</u> |

Cornerstone

Cornerstone net sales in the first quarter of 2014 increased 5%, or \$10.4 million. The increase in net sales was driven by strong sales growth in the home brands, partially offset by declines in the apparel brands, particularly Garnet Hill. Digital sales grew 6% with penetration increasing 80 basis points to 67.6%, up from 66.8% in the prior year. Catalog circulation increased 8% compared to the prior year.

The brand mix at Cornerstone is provided in the table below (as a percentage of net sales):

| | Three Months Ended March 31, | |
|---|------------------------------|---------------|
| | 2014 | 2013 |
| Home brands (Ballard Designs, Frontgate, Grandin Road and Improvements) | 73.3% | 70.9% |
| Apparel brands (Chasing Fireflies, Garnet Hill and TravelSmith) | 26.7% | 29.1% |
| Total | <u>100.0%</u> | <u>100.0%</u> |

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 March 31, | | |
|-------------------------------------|------------------------------|----------|------------|
| | 2014 | Change | 2013 |
| | (Dollars in thousands) | | |
| Gross profit: | | | |
| HSN | \$ 190,589 | (1)% | \$ 192,359 |
| HSN gross margin percentage | 35.0% | - | 35.0% |
| Cornerstone | \$ 85,185 | (3)% | \$ 87,788 |
| Cornerstone gross margin percentage | 36.6% | (290 bp) | 39.5% |
| HSNi | \$ 275,774 | (2)% | \$ 280,147 |
| HSNi gross margin percentage | 35.5% | (80 bp) | 36.3% |

bp = basis points

HSN

Gross profit for HSN in the first quarter of 2014 decreased 1%, or \$1.8 million. Gross margin was 35.0%, consistent with the prior year. The gross margin was favorably impacted by product mix (primarily from the shift from electronics to home design) and less clearance sales, offset by lower net shipping margins.

Cornerstone

Gross profit for Cornerstone in the first quarter of 2014 decreased 3%, or \$2.6 million, compared to the prior year. Gross margin decreased 290 basis points to 36.6% primarily due to increased promotional activity and liquidations to sell through year end inventory positions in the apparel brands, particularly Garnet Hill, and lower net shipping margins overall.

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 March 31, | | |
|--|------------------------------|---------|------------|
| | 2014 | Change | 2013 |
| | (Dollars in thousands) | | |
| HSN | \$ 96,824 | (1)% | \$ 98,210 |
| As a percentage of HSN net sales | 17.8% | (10 bp) | 17.9% |
| Cornerstone | \$ 70,416 | 6% | \$ 66,332 |
| As a percentage of Cornerstone net sales | 30.2% | 40 bps | 29.8% |
| HSNi | \$ 167,240 | 2% | \$ 164,542 |
| As a percentage of HSNi net sales | 21.5% | 20 bp | 21.3% |

HSNi's selling and marketing expense in the first quarter of 2014 increased 2%, or \$2.7 million, and was 21.5% of net sales compared to 21.3% in the prior year. The increase was primarily due to additional catalog costs associated with an 8% increase in Cornerstone's catalog circulation; an increase in digital marketing; and an increase in call center costs at Cornerstone; offset by decreases in brand marketing and consulting fees 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 March 31, | | |
|--|------------------------------|---------|-----------|
| | 2014 | Change | 2013 |
| | (Dollars in thousands) | | |
| HSN | \$ 37,767 | (2)% | \$ 38,699 |
| As a percentage of HSN net sales | 6.9% | (10 bp) | 7.0% |
| Cornerstone | \$ 18,143 | 26% | \$ 14,436 |
| As a percentage of Cornerstone net sales | 7.8% | 130 bp | 6.5% |
| HSNi | \$ 55,910 | 5% | \$ 53,135 |
| As a percentage of HSNi net sales | 7.2% | 30 bp | 6.9% |

In June 2013, the Consumer Product Safety Commission ("CPSC") notified the Company that the CPSC was investigating whether the Company complied with certain reporting requirements of the Consumer Product Safety Act related to a product sold from December 2005 through July 2010 at one of the Cornerstone brands. In April 2014, the Company reached a \$3.1 million tentative settlement for the civil penalty assessed by the CPSC which was accrued in the first quarter of 2014 in "general and administrative" expense in its consolidated statements of operations. Excluding the impact of the CPSC settlement, Cornerstone's general and administrative expense would have increased 4.2%, or \$0.6 million, and would have been 6.5% of net sales, consistent with the prior year.

HSNi's general and administrative expense in the first quarter of 2014 increased 5%, or \$2.8 million, and was 7.2% of net sales compared to 6.9% in the prior year. The increase was primarily due to the \$3.1 million settlement with the CPSC and other legal fees, partially offset by a decrease in losses from the disposition of fixed assets.

Depreciation and Amortization

| | Three Months Ended March 31, | | |
|-----------------------------------|------------------------------|--------|----------|
| | 2014 | Change | 2013 |
| | (Dollars in thousands) | | |
| HSN | \$ 7,436 | 9% | \$ 6,821 |
| Cornerstone | 3,320 | 6% | 3,131 |
| HSNi | \$ 10,756 | 8% | \$ 9,952 |
| As a percentage of HSNi net sales | 1.4% | 10 bp | 1.3% |

Depreciation and amortization in the first quarter of 2014 increased 8%, or \$0.8 million, compared to the prior year. The increase was primarily due to the incremental depreciation associated with recent capital expenditures at HSN.

Adjusted EBITDA

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

| | Three Months Ended March 31, | | |
|--|------------------------------|----------|-----------|
| | 2014 | Change | 2013 |
| | (Dollars in thousands) | | |
| HSN | \$ 59,142 | —% | \$ 58,934 |
| As a percentage of HSN net sales | 10.9% | 20 bp | 10.7% |
| Cornerstone | \$ 615 | (92)% | \$ 7,906 |
| As a percentage of Cornerstone net sales | 0.3% | (330 bp) | 3.6% |
| HSNi | \$ 59,757 | (11)% | \$ 66,840 |
| As a percentage of HSNi net sales | 7.7% | (100 bp) | 8.7% |

HSNi's Adjusted EBITDA in the first quarter of 2014 decreased 11%, or \$7.1 million, and was 7.7% of net sales compared to 8.7% in the prior year. The decrease in Adjusted EBITDA was primarily due to a 2% decrease in gross profit and

1% increase in operating expenses (excluding the \$3.1 million CPSC settlement and non-cash charges). HSN's Adjusted EBITDA increased 20 basis points, or \$0.2 million. Cornerstone's Adjusted EBITDA decreased 92%, or \$7.3 million, primarily due to the unfavorable results in the apparel brands, particularly Garnet Hill. The decrease in Cornerstone's Adjusted EBITDA is attributable to the gross margin decline of 290 basis points and a 6% increase operating expenses (excluding the \$3.1 million CPSC settlement and non-cash charges) primarily for catalog and digital marketing costs.

Operating Income

| | Three Months Ended March 31, | | |
|--|------------------------------|----------|-----------|
| | 2014 | Change | 2013 |
| | (Dollars in thousands) | | |
| HSN | \$ 48,561 | —% | \$ 48,629 |
| As a percentage of HSN net sales | 8.9 % | 10 bp | 8.8 % |
| Cornerstone | \$ (6,693) | (272)% | \$ 3,889 |
| As a percentage of Cornerstone net sales | (2.9)% | (460 bp) | 1.7% |
| HSNi | \$ 41,868 | (20)% | \$ 52,518 |
| As a percentage of HSNi net sales | 5.4 % | (140 bp) | 6.8% |

HSNi's operating income in the first quarter of 2014 decreased 20%, or \$10.7 million, and was 5.4% of net sales compared to 6.8% in the prior year. The decrease was primarily due to the decrease in gross margin and a 3% increase in operating expenses. The increase in operating expenses was primarily due to the \$3.1 million CPSC settlement and an increase in catalog and digital marketing costs at Cornerstone.

Other Income (Expense)

| | Three Months Ended March 31, | | |
|-----------------------------------|------------------------------|--------|------------|
| | 2014 | Change | 2013 |
| | (Dollars in thousands) | | |
| Interest income | \$ 69 | (1)% | \$ 70 |
| Interest expense | (1,768) | 3% | (1,710) |
| Total other expense, net | \$ (1,699) | 4% | \$ (1,640) |
| As a percentage of HSNi net sales | 0.2 % | (0 bp) | 0.2% |

Interest expense is primarily related to the term loan outstanding under the Credit Agreement. The change in interest expense between periods is primarily due to a higher average interest rate, partially offset by a lower average outstanding balance. HSNi executed an interest rate swap with a notional amount of \$187.5 million that took effect on January 31, 2014 which effectively fixes the floating LIBOR-based interest on \$187.5 million of the outstanding term loan resulting in an all-in fixed rate of 2.3525% based on HSNi's leverage ratio as of March 31, 2014.

Income Tax Provision

For the three months ended March 31, 2014, HSNi recorded a tax provision of \$16.0 million which represents an effective tax rate of 39.8%. For the three months ended March 31, 2013, HSNi recorded a tax provision of \$19.3 million which represents an effective tax rate of 38.0%. The change in the effective tax rate from the prior period was primarily due to the non-deductibility of the \$3.1 million CPSC settlement. Excluding the impact of this item, the first quarter effective tax rate for continuing operations would have been 36.9%. HSNi expects its annual 2014 effective tax rate to be approximately 38%.

Liquidity and Capital Resources

As of March 31, 2014, HSNi had \$160.9 million of cash and cash equivalents compared to \$196.4 million as of December 31, 2013 and \$150.9 million as of March 31, 2013.

Net cash used in operating activities for the three months ended March 31, 2014 was \$8.7 million compared to net cash provided by operating activities of \$19.5 million prior year period, a decline of \$28.2 million primarily due to an increase in working capital and a decline in operating performance. Working capital increased primarily as a result of increased inventory receipts offset by the timing of payments of current liabilities, including income taxes.

Net cash used in investing activities attributable to continuing operations for the three months ended March 31, 2014 was \$7.8 million and was primarily related to capital expenditures. The capital expenditures were primarily for investments in information technology and infrastructure.

Net cash used in financing activities attributable to continuing operations for the three months ended March 31, 2014 was \$19.1 million. HSNi paid \$1.5 million for approximately 27,000 shares of common stock repurchased during the three months ended March 31, 2014 and paid cash dividends of \$0.25 per common share resulting in payments totaling \$13.3 million, representing a 39% increase in the dividend paid in the prior year. HSNi repaid \$3.1 million of its term loan during the three months ended March 31, 2014. HSNi had a cash outflow of \$5.5 million used to cover withholding taxes for stock-based awards. Additionally, HSNi had \$3.6 million of excess tax benefits from stock-based awards.

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. 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 term loan, may be increased up to \$850 million subject to certain conditions and expires April 24, 2017. As of March 31, 2014, the balance of the term loan was \$237.5 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 March 31, 2014, with a leverage ratio of 0.74x and an interest coverage ratio of 58.74x.

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 March 31, 2014 was 1.65%. 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 \$7.9 million as of March 31, 2014. The ability to draw funds under the revolving credit facility is dependent upon meeting the aforementioned financial covenants, which may limit HSNi's ability to draw the full amount of the facility. As of March 31, 2014, 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 \$342.1 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 three months ended March 31, 2014, HSNi repurchased approximately 27,000 shares at a cost of \$1.5 million, or an average cost of \$54.10 per share. As of March 31, 2014, approximately 1.0 million shares remained authorized for repurchase under the program.

Effective May 1, 2014, HSNi's Board of Directors approved a cash dividend of \$0.25 per common share. The dividend will be paid on June 18, 2014 to HSNi's record holders as of June 4, 2014.

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, 2013. No material changes have occurred in HSNi's market risks since December 31, 2013.

ITEM 4. CONTROLS AND PROCEDURES

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of March 31, 2014. Based on that evaluation, management has concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2014 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 Note 12 - Commitments and Contingencies in Part I, Item 1 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, 2013, 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.

Below is a summary of our common stock repurchases during the first quarter of 2014, as well as the number of shares still available for purchase as of March 31, 2014:

| <u>Period</u> | <u>Number of Shares Purchased</u> | <u>Average Price Paid Per Share</u> | <u>Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs</u> |
|--------------------------------------|---------------------------------------|---|---|---|
| January 1, 2014 - January 31, 2014 | 100 | \$ 54.52 | 100 | 1,010,846 |
| February 1, 2014 - February 28, 2014 | 27,024 | \$ 54.09 | 27,024 | 983,822 |
| March 1, 2014 - March 31, 2014 | — | \$ — | — | 983,822 |
| | <u>27,124</u> | <u>\$ 54.10</u> | <u>27,124</u> | |

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 |
|--------------------|---|-------------------------|
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act. | Filed herewith |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act | Filed herewith |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act | Filed herewith |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act | Filed herewith |
| 101 | The following financial information from HSNI's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2014, formatted in XBRL (eXtensible Business Reporting Language) and filed electronically herewith: (i) Consolidated Statements of Operations for the Three Months Ended March 31, 2014 and 2013, (ii) Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 and 2013, (iii) Consolidated Balance Sheets as of March 31, 2014, December 31, 2013 and March 31, 2013, (iv) Consolidated Statements of Shareholders' Equity for the Three Months Ended March 31, 2014 and Year Ended December 31, 2013, (v) Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013, 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: May 1, 2014

By:

/s/ JUDY A. SCHMELING

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

CERTIFICATION

I, Mindy Grossman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2014 of HSN, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 1, 2014

/s/ MINDY GROSSMAN

Mindy Grossman
Chief Executive Officer

CERTIFICATION

I, Judy A. Schmeling, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2014 of HSN, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 1, 2014

/s/ JUDY A. SCHMELING

Judy A. Schmeling
Chief Operating Officer and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mindy Grossman, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

- (1) the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2014 of HSN, Inc. (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSN, Inc.

Dated: May 1, 2014

/s/ MINDY GROSSMAN

**Mindy Grossman
Chief Executive Officer**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Judy A. Schmeling, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

- (1) the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2014 of HSN, Inc. (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HSN, Inc.

Dated: May 1, 2014

/s/ JUDY A. SCHMELING

Judy A. Schmeling
Chief Operating Officer and Chief Financial Officer