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

# FORM 10-Q

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

For the Quarterly Period Ended March 31, 2015

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 ☒ 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 ☒ No ☐

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

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

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

As of May 5, 2015, the registrant had 52,472,334 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, 2015 | Three Months Ended March 31, 2014 |
|---|---|---|
| Net sales | $ 841,887 | $ 777,420 |
| Cost of sales | 541,681 | 501,646 |
| Gross profit | 300,206 | 275,774 |
| Operating expenses: | | |
| Selling and marketing | 175,358 | 167,240 |
| General and administrative | 56,590 | 55,910 |
| Depreciation and amortization | 11,249 | 10,756 |
| Total operating expenses | 243,197 | 233,906 |
| **Operating income** | 57,009 | 41,868 |
| Other income (expense): | | |
| Interest income | 40 | 69 |
| Interest expense | (3,337) | (1,768) |
| Total other expense, net | (3,297) | (1,699) |
| **Income before income taxes** | 53,712 | 40,169 |
| Income tax provision | (20,023) | (15,987) |
| **Net income** | $ 33,689 | $ 24,182 |
| **Net income per share:** | | |
| **Basic** | $ 0.64 | $ 0.45 |
| **Diluted** | $ 0.63 | $ 0.45 |
| **Shares used in computing earnings per share:** | | |
| **Basic** | 52,573 | 53,160 |
| **Diluted** | 53,760 | 54,165 |
| **Dividends declared per share** | $ 10.35 | $ 0.25 |

*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, | |
|---|---|---|
| | **2015** | **2014** |
| Net income | $ 33,689 | $ 24,182 |
| Other comprehensive loss: | | |
| Change in fair value of derivative instrument, net of tax | (499) | (20) |
| **Other comprehensive loss, net of tax** | (499) | (20) |
| **Comprehensive income** | $ 33,190 | $ 24,162 |

*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, 2015 | December 31, 2014 | March 31, 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | $ 77,547 | $ 159,985 | $ 160,868 |
| Accounts receivable, net of allowance of $16,997, $18,824 and $17,378, respectively | 218,651 | 317,785 | 206,857 |
| Inventories | 435,902 | 398,705 | 365,847 |
| Deferred income taxes | 31,055 | 32,668 | 28,309 |
| Prepaid expenses and other current assets | 57,547 | 44,728 | 56,454 |
| Total current assets | 820,702 | 953,871 | 818,335 |
| Property and equipment, net | 194,023 | 193,889 | 175,798 |
| Intangible assets, net | 261,864 | 261,962 | 262,198 |
| Goodwill | 9,858 | 9,858 | 9,858 |
| Other non-current assets | 17,499 | 12,614 | 19,643 |
| **TOTAL ASSETS** | $ 1,303,946 | $ 1,432,194 | $ 1,285,832 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities:** | | | |
| Accounts payable, trade | $ 211,553 | $ 255,287 | $ 211,160 |
| Current maturities of long-term debt | 6,250 | 17,188 | 12,500 |
| Accrued expenses and other current liabilities | 221,596 | 241,074 | 196,755 |
| Total current liabilities | 439,399 | 513,549 | 420,415 |
| Long-term debt, less current maturities | 668,750 | 210,938 | 225,000 |
| Deferred income taxes | 84,944 | 88,787 | 84,533 |
| Other long-term liabilities | 18,124 | 16,579 | 15,089 |
| Total liabilities | 1,211,217 | 829,853 | 745,037 |
| 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; 52,565,318, 52,425,895 and 53,188,408 issued shares at March 31, 2015, December 31, 2014 and March 31, 2014, respectively | 526 | 524 | 532 |
| Additional paid-in capital | 1,167,777 | 1,710,581 | 1,797,622 |
| Accumulated deficit | (1,075,202) | (1,108,891) | (1,257,693) |
| Accumulated other comprehensive (loss) income | (372) | 127 | 334 |
| Total shareholders' equity | 92,729 | 602,341 | 540,795 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 1,303,946 | $ 1,432,194 | $ 1,285,832 |

*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 | | | | Accumulated Other | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Accumulated Deficit | Comprehensive (Loss) Income | Total |
| **Balance as of December 31, 2013** | — | $ — | 53,002 | $ 530 | $ 1,810,072 | $ (1,281,875) | $ 354 | $ 529,081 |
| Net income | — | — | — | — | — | 172,984 | — | 172,984 |
| Other comprehensive loss | — | — | — | — | — | — | (227) | (227) |
| Stock-based compensation expense for equity awards | — | — | — | — | 15,606 | — | — | 15,606 |
| Cash dividends declared on common stock | — | — | — | — | (57,824) | — | — | (57,824) |
| Issuance of common stock from stock-based compensation awards, including tax benefit of $8,293 | — | — | 435 | 4 | (1,816) | — | — | (1,812) |
| Repurchases of common stock | — | — | (1,011) | (10) | (55,457) | — | — | (55,467) |
| **Balance as of December 31, 2014** | — | — | 52,426 | 524 | 1,710,581 | (1,108,891) | 127 | 602,341 |
| Net income | — | — | — | — | — | 33,689 | — | 33,689 |
| Other comprehensive loss | — | — | — | — | — | — | (499) | (499) |
| Stock-based compensation expense for equity awards | — | — | — | — | 4,657 | — | — | 4,657 |
| Cash dividends declared on common stock | — | — | — | — | (542,748) | — | — | (542,748) |
| Issuance of common stock from stock-based compensation awards, including tax benefit of $3,905 | — | — | 257 | 3 | 3,181 | — | — | 3,184 |
| Repurchases of common stock | — | — | (118) | (1) | (7,894) | — | — | (7,895) |
| **Balance as of March 31, 2015** | — | $ — | 52,565 | $ 526 | $ 1,167,777 | $ (1,075,202) | $ (372) | $ 92,729 |

*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, | |
|---|---|---|
| | **2015** | **2014** |
| **Cash flows from operating activities:** | | |
| Net income | $ 33,689 | $ 24,182 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 11,249 | 10,756 |
| Stock-based compensation expense | 4,657 | 4,026 |
| Amortization of debt issuance costs | 831 | 275 |
| Deferred income taxes | (1,925) | (2,031) |
| Bad debt expense | 5,415 | 4,594 |
| Excess tax benefits from stock-based awards | (3,905) | (3,583) |
| Other | 235 | (5) |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 93,717 | 53,679 |
| Inventories | (37,197) | (38,528) |
| Prepaid expenses and other assets | (12,159) | (7,603) |
| Accounts payable, accrued expenses and other current liabilities | (58,258) | (54,461) |
| **Net cash provided by (used in) operating activities** | 36,349 | (8,699) |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (13,145) | (7,262) |
| Other | — | (540) |
| **Net cash used in investing activities** | (13,145) | (7,802) |
| **Cash flows from financing activities:** | | |
| Borrowings under term loan | 500,000 | — |
| Repayment of term loan | (228,125) | (3,125) |
| Borrowings under revolving credit facility | 200,000 | — |
| Repayment of revolving credit facility | (25,000) | — |
| Repurchase of common stock | (6,987) | (1,467) |
| Payments of debt issuance costs | (6,584) | — |
| Cash dividends paid | (542,748) | (13,292) |
| Proceeds from issuance of common stock | 3,816 | 715 |
| Tax withholdings related to stock-based awards | (3,919) | (5,478) |
| Excess tax benefits from stock-based awards | 3,905 | 3,583 |
| **Net cash used in financing activities** | (105,642) | (19,064) |
| **Net decrease in cash and cash equivalents** | (82,438) | (35,565) |
| Cash and cash equivalents at beginning of period | 159,985 | 196,433 |
| **Cash and cash equivalents at end of period** | $ 77,547 | $ 160,868 |

*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 and other direct-response television marketing; (ii) catalogs, consisting 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 seven branded websites operated by Cornerstone; (iv) mobile applications; 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 normal recurring adjustments 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, 2014. The consolidated balance sheet as of December 31, 2014 and the consolidated statement of shareholders' equity for the year endedDecember 31, 2014 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.

### Recent Accounting Developments

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. ASU 2014-09 is effective for annual periods beginning after December 15, 2016, including interim periods within that annual period. HSNi is in the process of assessing the impact of the adoption of ASU 2014-09 to its consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 simplifies the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability. ASU 2015-03 is effective for periods beginning after December 15, 2015, including interim periods within that annual period. HSNi will adopt ASU 2015-03 in the first quarter of 2016.

## 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, 2015 | December 31, 2014 | March 31, 2014 |
|---|---|---|---|
| Capitalized software | $ 225,455 | $ 223,436 | $ 219,537 |
| Computer and broadcast equipment | 90,821 | 89,739 | 85,602 |
| Buildings and leasehold improvements | 105,940 | 105,086 | 103,561 |
| Furniture and other equipment | 91,106 | 88,174 | 87,651 |
| Projects in progress | 34,549 | 30,794 | 8,472 |
| Land and land improvements | 10,542 | 10,541 | 10,460 |
| | 558,413 | 547,770 | 515,283 |
| Less: accumulated depreciation and amortization | (364,390) | (353,881) | (339,485) |
| Total property and equipment, net | $ 194,023 | $ 193,889 | $ 175,798 |

## 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 and/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, 2014. 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, 2015 | | | Three Months Ended March 31, 2014 | | |
|---|---|---|---|---|---|---|
| | HSN | Cornerstone | Total | HSN | Cornerstone | Total |
| **Adjusted EBITDA** | $ 66,190 | $ 6,961 | $ 73,151 | $ 59,142 | $ 615 | $ 59,757 |
| Stock-based compensation expense | (3,607) | (1,050) | (4,657) | (3,145) | (881) | (4,026) |
| Depreciation and amortization | (7,419) | (3,830) | (11,249) | (7,436) | (3,320) | (10,756) |
| CPSC settlement (a) | — | — | — | — | (3,100) | (3,100) |
| Loss on disposition of fixed assets | (236) | — | (236) | — | (7) | (7) |
| **Operating income (loss)** | $ 54,928 | $ 2,081 | 57,009 | $ 48,561 | $ (6,693) | 41,868 |
| Total other expense, net | | | (3,297) | | | (1,699) |
| Income before income taxes | | | 53,712 | | | 40,169 |
| Income tax provision | | | (20,023) | | | (15,987) |
| **Net income** | | | $ 33,689 | | | $ 24,182 |

(a) In the first quarter of 2014, Cornerstone recorded a $3.1 million settlement of a civil penalty assessed by the Consumer Product Safety Commission.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Net sales:** | | |
| HSN | $ 600,492 | $ 544,487 |
| Cornerstone | 241,395 | 232,933 |
| **Total** | $ 841,887 | $ 777,420 |

## 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, | |
|---|---|---|
| | 2015 | 2014 |
| **Net income** | $ 33,689 | $ 24,182 |
| **Weighted average number of shares outstanding:** | | |
| Basic | 52,573 | 53,160 |
| Dilutive effect of stock-based compensation awards | 1,187 | 1,005 |
| Diluted | 53,760 | 54,165 |
| **Net income per share:** | | |
| Basic | $ 0.64 | $ 0.45 |
| Diluted | $ 0.63 | $ 0.45 |
| 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 | 527 | 746 |

**NOTE 6—LONG-TERM DEBT**

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

| | March 31, 2015 | December 31, 2014 | March 31, 2014 |
|---|---|---|---|
| Secured credit agreement terminated January 27, 2015: | | | |
| Term loan | $ — | $ 228,126 | $ 237,500 |
| Revolving credit facility | — | — | — |
| Secured credit agreement expiring January 27, 2020: | | | |
| Term loan | 500,000 | — | — |
| Revolving credit facility | 175,000 | — | — |
| Total long-term debt | 675,000 | 228,126 | 237,500 |
| Less: current maturities | (6,250) | (17,188) | (12,500) |
| Long-term debt, less current maturities | $ 668,750 | $ 210,938 | $ 225,000 |

On January 27, 2015, HSNi entered into a $1.25 billion 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 April 2017. Certain HSNi subsidiaries have unconditionally guaranteed HSNi's obligations under the Credit Agreement. The Credit Agreement, which includes a $750 million revolving credit facility and a $500 million term loan, may be increased up to $1.75 billion subject to certain conditions and expires January 27, 2020. HSNi drew $200 million from its term loan under the Credit Agreement on January 27, 2015 to repay in full its existing term loan of $228.1 million. HSNi drew the remaining $300 million from the term loan and $200 million under the revolving credit facility, both under the Credit Agreement, on February 18, 2015 to fund a $524 million special cash dividend that was paid on February 19, 2015.

In connection with the termination of the prior credit agreement, $0.5 million of the $2.4 million of unamortized deferred financing costs were expensed in the first quarter of 2015 and are included in "Interest expense" in the consolidated statements of operations. The remaining balance of $1.9 million and the $6.6 million in capitalized financing costs related to the Credit Agreement will be amortized to interest expense over the five-year term of the Credit Agreement.

The Credit Agreement includes various covenants, limitations and events of default customary for similar facilities including a maximum leverage ratio of 3.50x and a minimum interest coverage ratio of 3.00x. HSNi was in compliance with all such covenants as of March 31, 2015 with a leverage ratio of 1.91x and an interest coverage ratio of 49.06x. 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 1.25% to 2.25% or the Base Rate (as defined in the Credit Agreement) plus a predetermined margin that ranges from 0.25% to 1.25%. HSNi can elect to borrow at either LIBOR or the Base Rate plus a predetermined margin which is determined by HSNi's leverage ratio. The interest rate on the $675 million outstanding long-term debt balance as of March 31, 2015 was 1.68%. HSNi pays a commitment fee ranging from 0.20% 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 $4.6 million as of March 31, 2015. The ability to draw funds under the revolving credit facility is dependent upon meeting the aforementioned financial covenants. As of March 31, 2015, the amount that could be borrowed under the revolving credit facility, after consideration of the financial covenants and the outstanding letters of credit, was approximately $570.4 million.

**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, 2015. 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 in earnings in the consolidated statements of operations. The changes in fair value of the interest rate swap (inclusive of reclassifications to net income and net of tax) for the three months ended March 31, 2015 and 2014 were losses of approximately $0.5 million and less than $0.1 million, respectively, and were included in other comprehensive loss.

The fair value of the interest rate swap at March 31, 2015 was a liability of $0.6 million and was recorded in "Other long-term liabilities" in the consolidated balance sheet. The fair value of the interest rate swap at December 31, 2014 and March 31, 2014 was an asset of $0.2 million and $0.5 million, respectively, and was recorded in "Other non-current assets" in the consolidated balance sheets. HSNi estimates that approximately $1.0 million of unrealized losses included in accumulated other comprehensive loss 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, 2015 | | | |
|---|---|---|---|---|
| | Total Fair Value and Carrying Value on Balance Sheet | Fair Value Measurement Category | | |
| | | Level 1 | Level 2 | Level 3 |
| Liabilities: | | | | |
| Interest rate swap | $ 596 | $ — | $ 596 | $ — |

| | December 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 | $ 208 | $ — | $ 208 | $ — |

| | 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 | $ — |

HSNi's interest rate swap is carried on the balance sheet at fair value. 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.

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

| | March 31, 2015 | | | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurement Category | | |
| | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
| Term loan expiring January 27, 2020 | $ 500,000 | $ 500,000 | $ — | $ 500,000 | $ — |
| Revolving credit facility | $ 175,000 | $ 175,000 | $ — | $ 175,000 | $ — |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurement Category | | |
| | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
| Term loan terminated January 27, 2015 | $ 228,126 | $ 228,126 | $ — | $ 228,126 | $ — |

| | March 31, 2014 | | | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurement Category | | |
| | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
| Term loan terminated January 27, 2015 | $ 237,500 | $ 237,500 | $ — | $ 237,500 | $ — |

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 remeasured at fair value if they are deemed to be impaired. During the quarters ended March 31, 2015 and 2014, none of these assets were deemed to be impaired.

**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, 2015, HSNi recorded a tax provision of $20.0 million which represents an effective tax rate of 37.3%. For the three months ended March 31, 2014, HSNi recorded a tax provision of $16.0 million, which represents effective tax rates of 39.8% . The change in the effective tax rate for the current year compared to the prior year period was primarily due to the non-deductibility of the $3.1 million settlement with the Consumer Product Safety Commission in the first quarter of 2014.

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. There are currently no income tax examinations in progress.

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. As a result, the Tax Sharing Agreement could subject HSNi to tax contingencies. 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.

No IAC consolidated or combined federal or state tax returns for years including HSNi operations are under examination. 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, | |
|---|---|---|
| | 2015 | 2014 |
| Selling and marketing | $ 1,554 | $ 1,193 |
| General and administrative | 3,103 | 2,833 |
| Stock-based compensation expense before income taxes | 4,657 | 4,026 |
| Income tax benefit | (1,651) | (1,436) |
| Stock-based compensation expense after income taxes | $ 3,006 | $ 2,590 |

As of March 31, 2015, there was approximately $33.5 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 2.2 years.

The Second Amended and Restated 2008 Stock and Annual Incentive Plan, as amended (the "Plan"), authorizes the issuance of 8.0 million shares (8.8 million shares after giving effect to the special cash dividend) 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.

In connection with the special cash dividend of $10.00 per common share paid on February 19, 2015, and as required by the anti-dilution provisions of the Plan, adjustments were made to outstanding equity awards as of the ex-dividend date to preserve their value following the dividend, as follows: (i) the number of shares subject to outstanding restricted stock units was increased as a result of the reinvestment of the dividend; and (ii) the exercise prices of outstanding stock options and stock appreciation rights and the grant date fair value of market stock units were reduced and the number of shares subject to such awards was increased. These adjustments did not result in additional stock-based compensation expense as the fair value of the outstanding awards did not change. As further required by the Plan, the maximum number of shares issuable under the Plan was also proportionally adjusted, which resulted in approximately 0.8 million additional shares available to be issued. As of March 31, 2015, after adjustment for the special dividend, there were approximately 2.5 million shares of common stock available for grants under the Plan.

A summary of the stock-based awards granted during the three months ended March 31, 2015 is as follows:

| | Three Months Ended March 31, 2015 | |
|---|---|---|
| | Number of Awards Granted | Weighted Average per Share Fair Value |
| Stock appreciation rights | 508,420 | $13.65 |
| Restricted stock units | 168,510 | $65.81 |
| Employee stock purchase plan options | 18,428 | $15.45 |
| Stock appreciation rights and stock options due to special dividend | 343,485 | - |
| Restricted stock unit dividend equivalents due to special dividend and quarterly dividend | 94,351 | - |
| Market stock units related to special dividend | 15,078 | - |

The fair values of the options granted under the HSN, Inc. 2010 Employee Stock Purchase Plan and the stock appreciation rights 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, 2015 are as follows:

| | Three Months Ended March 31, 2015 | |
|---|---|---|
| | Stock Appreciation Rights | Employee Stock Purchase Plan Options |
| Volatility factor | 29.2% | 21.1% |
| Risk-free interest rate | 1.49% | 0.11% |
| Expected term | 4.4 | 0.5 |
| Dividend yield | 2.2% | 1.9% |

As a result of the special cash dividend, the exercise prices of outstanding stock options and stock appreciation rights were reduced and the number of shares subject as of the ex-dividend date. The following table summarizes the information about stock options and stock appreciation rights outstanding and exercisable (after giving effect to the special cash dividend) as of March 31, 2015:

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| | Number Outstanding at March 31, 2015 | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term in Years | Number Exercisable at March 31, 2015 | Weighted Average Exercise Price |
| $0.00 to $9.99 | 110,525 | $ 4.92 | 3.7 | 110,525 | $ 4.92 |
| $10.00 to $19.99 | 136,476 | 15.62 | 3.6 | 136,476 | 15.62 |
| $20.00 to $29.99 | 442,407 | 28.85 | 1.4 | 442,407 | 28.85 |
| $30.00 to $39.99 | 1,042,977 | 34.63 | 4.7 | 1,036,087 | 34.64 |
| $40.00 to $49.99 | 430,238 | 47.73 | 8.9 | 129,400 | 47.73 |
| $50.00 to $59.99 | 312,883 | 51.57 | 8.0 | 188,557 | 51.58 |
| $60.00 to $69.99 | 508,420 | 65.24 | 9.9 | — | — |
| | 2,983,926 | | | 2,043,452 | |

## NOTE 11—SHAREHOLDERS' EQUITY

### Share Repurchase Program

Effective September 27, 2011, HSNi's Board of Directors approved a share repurchase program which allowed HSNi to purchase 10 million shares of its common stock from time to time through privately negotiated and/or open market transactions. During the three months ended March 31, 2014, HSNi acquired approximately 27,000 shares of its outstanding common stock for $1.5 million at an average price of $54.10. In July 2014, HSNi completed this share repurchase program at an aggregate cost of $451.0 million, representing an average cost of $45.10 per share. All shares were retired immediately following purchase.

Effective January 27, 2015, HSNi's Board of Directors approved a new share repurchase program which allows HSNi to purchase up to 4 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. During the three months ended March 31, 2015, HSNi acquired approximately 118,000 shares of its outstanding common stock for $7.9 million at an average price of $66.70. All shares were retired immediately following purchase.

### Dividend Policy

Effective January 27, 2015, HSNi's Board of Directors approved a special cash dividend of $10.00 per common share resulting in a payment of $524.3 million on February 19, 2015 to HSNi shareholders of record as of February 9, 2015. The special cash dividend was part of a leveraged recapitalization transaction. The special cash dividend was financed through a combination of existing cash and proceeds from the debt financing disclosed in Note 6-Long-Term Debt that was completed during the three months ended March 31, 2015.

In the first quarter of 2015, HSNi's Board of Directors approved a quarterly cash dividend of$0.35 per common share resulting in a payment of$18.4 million on March 25, 2015 to HSNi's shareholders of record as of March 11, 2015. In the first quarter of 2014, HSNi's Board of Directors approved a quarterly cash dividend of $0.25 per common share resulting in a payment of $13.3 million on March 19, 2014 to HSNi's shareholders of record as of March 5, 2014.

In the second quarter of 2015, HSNi's Board of Directors approved a quarterly cash dividend of$0.35 per common share. The dividend will be paid on June 17, 2015 to HSNi's shareholders of record as of June 3, 2015.

**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, 2015 and 2014 (in thousands):

| | 2015 | 2014 |
|---|---|---|
| Accumulated other comprehensive income as of January 1, | $ 127 | $ 354 |
| Other comprehensive loss before reclassifications | (1,124) | (253) |
| Amounts reclassified from accumulated other comprehensive income (loss) to interest expense in the consolidated statements of operations | 320 | 214 |
| Income tax benefit | 305 | 19 |
| Other comprehensive loss, net of tax | (499) | (20) |
| Accumulated other comprehensive (loss) income as of March 31, | $ (372) | $ 334 |

## NOTE 12—COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, HSNi is a party to various audits, claims 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, employment matters and other claims. HSNi has established reserves for specific legal or tax compliance matters for which 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, 2014 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 litigation;
- 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 using 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, | | |
|---|---|---|---|
| | 2015 | Change | 2014 |
| | (Dollars in thousands) | | |
| HSN | $ 600,492 | 10% | $ 544,487 |
| Cornerstone | 241,395 | 4% | 232,933 |
| Total HSNi net sales | $ 841,887 | 8% | $ 777,420 |

HSNi net sales in the first quarter of 2015 increased 8%, or $64.5 million, due to 10% sales growth at HSN and 4% sales growth at Cornerstone. Digital sales grew 12% with penetration increasing 180 basis points to 48.6%. The gross units shipped in the first quarter of 2015 increased 4% to 15.2 million and the average price point increased 3% to $61.83.

### *HSN*

HSN net sales in the first quarter of 2015 increased 10%, or $56.0 million with sales growth in all divisions except jewelry.  These results include sales associated with a direct-response television marketing campaign that started during the fourth quarter of 2014 and contributed to 2% of this growth. Digital sales grew 18% and penetration increased 280 basis points to 40.7%. The return rate decreased 60 basis points from 18.3% to 17.7% primarily due to a change in product mix. Gross units shipped increased 8% to 12.0 million. Average price point increased 2% to $57.30.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Jewelry | 9.2% | 10.7% |
| Fashion (apparel & accessories) | 15.2% | 15.0% |
| Beauty & Health | 26.3% | 26.0% |
| Home & Other (including household, home design, electronics and culinary) | 49.3% | 48.3% |
| Total | 100.0% | 100.0% |

### *Cornerstone*

Cornerstone net sales in the first quarter of 2015 increased $8.5 million to $241.4 million. Sales grew in the home brands, offset by lower sales in the apparel brands. Digital sales penetration increased 60 basis points to 68.1%. Catalog circulation was relatively flat compared to the prior year; circulation increased in the home brands but were offset by strategic decisions to lower circulation in the apparel brands. The return rate improved 50 basis points to 13.3% primarily due to a sales mix shift to the home brands which typically carry lower return rates.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Home brands (Ballard Designs, Frontgate, Grandin Road and Improvements) | 75.2 % | 73.3% |
| Apparel brands (Chasing Fireflies, Garnet Hill and TravelSmith) | 24.8 % | 26.7% |
| Total | 100.0 % | 100.0% |

### 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 supply chain 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, | | |
|---|---|---|---|
| | 2015 | Change | 2014 |
| | (Dollars in thousands) | | |
| **Gross profit:** | | | |
| HSN | $ 207,530 | 9% | $ 190,589 |
| HSN gross margin percentage | 34.6% | (40 bp) | 35.0% |
| Cornerstone | $ 92,676 | 9% | $ 85,185 |
| Cornerstone gross margin percentage | 38.4% | 180 bp | 36.6% |
| HSNi | $ 300,206 | 9% | $ 275,774 |
| HSNi gross margin percentage | 35.7% | 20 bp | 35.5% |

bp = basis points

#### *HSN*

Gross profit for HSN in the first quarter of 2015 increased 9%, or $16.9 million. Gross margin decreased 40 basis points to 34.6% primarily due to an increase in inventory reserves.

#### *Cornerstone*

Gross profit for Cornerstone in the first quarter of 2015 increased 9%, or $7.5 million, compared to the prior year. Gross margin increased 180 basis points to 38.4% due to higher product and shipping margins, particularly at Garnet Hill. The increase in the product margin was primarily due to lower promotional activity and selective price increases. The increase in the shipping margin was largely due to fewer shipping 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 March 31, | | |
|---|---|---|---|
| | 2015 | Change | 2014 |
| | (Dollars in thousands) | | |
| HSN | $ 104,757 | 8% | $ 96,824 |
| As a percentage of HSN net sales | 17.4% | (40 bp) | 17.8% |
| Cornerstone | $ 70,601 | —% | $ 70,416 |
| As a percentage of Cornerstone net sales | 29.2% | (100 bp) | 30.2% |
| HSNi | $ 175,358 | 5% | $ 167,240 |
| As a percentage of HSNi net sales | 20.8% | (70 bp) | 21.5% |

HSNi's selling and marketing expense in the first quarter of 2015 increased 5%, or $8.1 million, and was 20.8% of net sales compared to 21.5% in the prior year.

***HSN***

HSN's selling and marketing expense in the first quarter of 2015 increased 8%, or $7.9 million, primarily due to media expense for direct-response television marketing; an increase in employee costs, primarily in our call center; and an increase in healthcare costs. HSN's selling and marketing expense was 17.4% of net sales compared to 17.8% in the prior year primarily due to improved leverage of its fixed costs, primarily its on-air distribution costs.

***Cornerstone***

Cornerstone's selling and marketing expense in the first quarter of 2015 was relatively flat compared to the prior year. There was a decrease in catalog and advertising costs which was largely offset by increases in employee-related costs. Cornerstone's selling and marketing expense was 29.2% of net sales compared to 30.2% in the prior year primarily due to improved leverage of its catalog and advertising costs.

**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, | | |
|---|---|---|---|
| | 2015 | Change | 2014 |
| | (Dollars in thousands) | | |
| HSN | $ 40,426 | 7% | $ 37,767 |
| As a percentage of HSN net sales | 6.7% | (20 bp) | 6.9% |
| Cornerstone | $ 16,164 | (11)% | $ 18,143 |
| As a percentage of Cornerstone net sales | 6.7% | (110 bp) | 7.8% |
| HSNi | $ 56,590 | 1% | $ 55,910 |
| As a percentage of HSNi net sales | 6.7% | (50 bp) | 7.2% |

HSNi’s general and administrative expense in the first quarter of 2015 increased 1%, or $0.7 million, and was 6.7% of net sales compared to 7.2% in the prior year.

***HSN***

HSN's general and administrative expense in the first quarter of 2015 increased 7%, or $2.7 million, primarily due to employee-related costs, particularly for severance and performance-based incentives; warehouse-related costs and expenses incurred related to the special cash dividend paid in February 2015; partially offset by a decrease in legal fees. HSN's general and administrative expense was 6.7% of net sales compared to 6.9% in the prior year.

***Cornerstone***

Cornerstone's general and administrative expense in the first quarter of 2015 decreased 11%, or $2.0 million, primarily due to a $3.1 million charge related to a settlement in the prior year with the Consumer Product Safety Commission ("CPSC"), partially offset by employee-related costs, including performance-based incentives. Cornerstone's general and administrative expense was 6.7% of net sales compared to 7.8% in the prior year.

**Depreciation and Amortization**

| | Three Months Ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | | Change | 2014 | |
| | (Dollars in thousands) | | | | |
| HSN | $ | 7,419 | —% | $ | 7,436 |
| Cornerstone | | 3,830 | 15% | | 3,320 |
| HSNi | $ | 11,249 | 5% | $ | 10,756 |
| As a percentage of HSNi net sales | | 1.3% | (10 bp) | | 1.4% |

Depreciation and amortization in the first quarter of 2015 increased 5%, or $0.5 million, compared to the prior year. The increase was primarily due to the incremental depreciation associated with recent capital expenditures related to information technology and infrastructure.

**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, | | | | |
|---|---|---|---|---|---|
| | 2015 | | Change | 2014 | |
| | (Dollars in thousands) | | | | |
| HSN | $ | 66,190 | 12% | $ | 59,142 |
| As a percentage of HSN net sales | | 11.0% | 10 bp | | 10.9% |
| Cornerstone | $ | 6,961 | 1,032% | $ | 615 |
| As a percentage of Cornerstone net sales | | 2.9% | 260 bp | | 0.3% |
| HSNi | $ | 73,151 | 22% | $ | 59,757 |
| As a percentage of HSNi net sales | | 8.7% | 100 bp | | 7.7% |

HSNi's Adjusted EBITDA in the first quarter of 2015 increased 22%, or $13.4 million, and was 8.7% of net sales compared to 7.7% in the prior year. The increase was primarily driven by the 8% growth in net sales and 80 basis point improvement in operating expense leverage (excluding non-cash charges and the $3.1 million CPSC settlement).

***HSN***

HSN's Adjusted EBITDA increased 12%, or $7.0 million, and was 11.0% of net sales compared to 10.9% in the prior year. The increase was due to the 10% growth in net sales and 60 basis point improvement in operating expense leverage (excluding non-cash charges), partially offset by a 40 basis point decline in gross margin.

***Cornerstone***

Cornerstone's Adjusted EBITDA increased $6.3 million to $7.0 million primarily due to strong performance at Garnet Hill. Adjusted EBITDA was 2.9% of net sales compared to 0.3% in the prior year which was due to the 180 basis point improvement in gross margin and the 80 basis point improvement in operating expense leverage. Operating expenses (excluding non-cash charges and the $3.1 million CPSC settlement) as a percent of net sales decreased primarily due to leverage of catalog and advertising costs.

**Operating Income**

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2015 | Change | 2014 |
| | (Dollars in thousands) | | |
| HSN | $ 54,928 | 13% | $ 48,561 |
| As a percentage of HSN net sales | 9.1% | 20 bp | 8.9 % |
| Cornerstone | $ 2,081 | NM | $ (6,693) |
| As a percentage of Cornerstone net sales | 0.9% | 380 bp | (2.9)% |
| HSNi | $ 57,009 | 36% | $ 41,868 |
| As a percentage of HSNi net sales | 6.8% | 140 bp | 5.4 % |

NM = not meaningful

HSNi's operating income in the first quarter of 2015 increased 36%, or $15.1 million, and was 6.8% of net sales compared to 5.4% in the prior year. The increase was due to 8% growth in net sales and 120 basis point improvement in operating expense leverage. Operating expenses as a percent of net sales decreased primarily due to leverage of HSN's on-air distribution costs and Cornerstone's catalog costs, largely driven by the increase in sales.

**Other Income (Expense)**

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2015 | Change | 2014 |
| | (Dollars in thousands) | | |
| Interest income | $ 40 | (43)% | $ 69 |
| Interest expense | (3,337) | 89% | (1,768) |
| Total other expense, net | $ (3,297) | 94% | $ (1,699) |
| As a percentage of HSNi net sales | 0.4% | 20 bp | 0.2% |

On January 27, 2015, HSNi entered into a $1.25 billion five-year syndicated credit agreement ("Credit Agreement") which replaced a $600 million credit agreement that was set to expire in April 2017. HSNi drew $200 million from its term loan under the Credit Agreement on January 27, 2015 to repay its existing term loan of $228.1 million and drew the remaining $300 million from its term loan and $200 million under the revolving credit facility to fund a $524 million special cash dividend that was paid on February 19, 2015.

HSNi executed an interest rate swap with a notional amount of $187.5 million that took effect on January 31, 2014. The interest rate swap effectively fixes the floating LIBOR-based interest on $187.5 million of the outstanding term loan (under both credit agreements) resulting in a fixed rate of 2.3525% (based on HSNi's leverage ratio as of March 31, 2015).

Interest expense for the periods presented primarily relates to the outstanding debt balances under the credit agreements. The increase in interest expense compared to the prior year is primarily due to a higher outstanding debt balance and the write-off of $0.5 million of deferred financing fees related to the prior credit agreement. Based on our current outstanding debt balances, we expect future interest expense to increase compared to prior year periods.

**Income Tax Provision**

For the three months ended March 31, 2015, HSNi recorded a tax provision of $20.0 million, which represents an effective tax rate of 37.3%. 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%. The change in the effective tax rate for the current year compared to the prior year was primarily due to the non-deductibility of the $3.1 million settlement with the CPSC recognized in the first quarter of 2014. Excluding the impact of this item, the effective tax rate in the prior year would have been 36.9%.

**Liquidity and Capital Resources**

As of March 31, 2015, HSNi had $77.5 million of cash and cash equivalents compared to $160.0 million as of December 31, 2014 and $160.9 million as of March 31, 2014.

Net cash provided by operating activities for the three months ended March 31, 2015 was $36.3 million compared to a use of $8.7 million in the prior year, an increase of $45.0 million. The increase is primarily due to the collections of accounts receivable and improved operating performance. Collections of accounts receivable increased in the first quarter of 2015 compared to the first quarter of 2014 due to the higher outstanding balance at year end driven by the fourth quarter's sales growth and increase in customer utilization of HSN's Flexpay program.

Net cash used in investing activities for the three months ended March 31, 2015 was $13.1 million and was related to capital expenditures. The capital expenditures were primarily for investments in our distribution centers, including our warehouse automation project, information technology and infrastructure.

Net cash used in financing activities for the three months ended March 31, 2015 was $105.6 million and was primarily related to the funding of HSNi's capital return plan. HSNi paid a special cash dividend of $10.00 per common share in February 2015 and a quarterly dividend of $0.35 per common share in March 2015, representing aggregate payments of $542.7 million. HSNi also paid $7.0 million for approximately 0.1 million shares of common stock repurchased during the three months ended March 31, 2015. HSNi borrowed $700 million under the Credit Agreement to repay the $228.1 million term loan that was outstanding under the prior credit agreement and to fund the payment of the special cash dividend. Additionally, HSNi had a cash inflow of $3.8 million from stock option proceeds that was offset by a cash outflow of $3.9 million used to cover withholding taxes for stock-based awards. HSNi also had $3.9 million of excess tax benefits from stock-based awards.

On January 27, 2015, HSNi entered into a $1.25 billion five-year syndicated Credit Agreement. The Credit Agreement replaced the existing $600 million credit agreement that was set to expire in April 2017. The Credit Agreement, which includes a $750 million revolving credit facility and a $500 million term loan, may be increased up to $1.75 billion subject to certain conditions and expires January 27, 2020. HSNi drew $200 million from its term loan under the Credit Agreement on January 27, 2015 to repay in full its existing term loan of $228.1 million and drew the remaining $300 million from its term loan and $200 million under the revolving credit facility on February 18, 2015 to fund the $524 million special cash dividend that was paid on February 19, 2015.

In connection with the termination of the prior credit agreement, $0.5 million of the $2.4 million of unamortized deferred financing costs were expensed in the first quarter of 2015. The remaining balance of $1.9 million and the $6.6 million in capitalized financing costs related to the Credit Agreement will be amortized to interest expense over the five-year term of the Credit Agreement.

The Credit Agreement includes various covenants, limitations and events of default customary for similar facilities including a maximum leverage ratio of 3.50x and a minimum interest coverage ratio of 3.00x. Loans under the Credit Agreement bear interest at a per annum rate equal to a LIBOR rate plus a predetermined margin that ranges from 1.25% to 2.25% or the Base Rate (as defined in the Credit Agreement) plus a predetermined margin that ranges from 0.25% to 1.25%. HSNi can elect to borrow at either a LIBOR rate or the Base Rate and the predetermined margin is determined by HSNi's leverage ratio. HSNi pays a commitment fee ranging from 0.20% 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 $4.6 million as of March 31, 2015. 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, 2015, 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 $570.4 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 (under both credit agreements) 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.

Effective January 27, 2015, HSNi's Board of Directors authorized a new 4 million share repurchase program which allows HSNi to purchase shares of its common stock from time to time through privately negotiated and/or open market transactions. The timing of any repurchases and actual number of shares repurchased 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. During the three months ended March 31, 2015, HSNi repurchased approximately 118,000 shares of common stock at a cost of $7.9 million, or an average cost of $66.70 per share. As of March 31, 2015, approximately 3.9 million shares remain authorized for repurchase under the program.

HSNi anticipates it will need to make capital and other expenditures in connection with the development and expansion of its operations. Our capital expenditures for fiscal 2015 are planned at approximately $65 million to $75 million and primarily relate to investments in our distribution centers, including our warehouse automation project; information technology; and digital commerce. 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.

In the second quarter of 2015, HSNi's Board of Directors approved a cash dividend of $0.35 per common share. The dividend will be paid on June 17, 2015 to HSNi's record holders as of June 3, 2015.

**Contractual Obligations and Commercial Commitments**

As a result of entering into the Credit Agreement in January 2015, certain contractual obligations of HSNi (including long-term debt and interest on debt) have significantly changed from the amounts disclosed in the Company's Form 10-K for the year ended December 31, 2014. The following table presents HSNi's long-term debt and related interest obligations as of March 31, 2015:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total Amounts Committed | Less Than 1 Year | 1 - 3 Years | 3 - 5 Years | More Than 5 Years |
| | (In thousands) | | | | |
| Long-term debt, including current maturities (a) | $ 675,000 | $ 6,250 | $ 53,125 | $ 615,625 | $ — |
| Interest on debt (a)(b) | 53,571 | 12,796 | 22,569 | 18,206 | — |
| Total contractual obligations | $ 728,571 | $ 19,046 | $ 75,694 | $ 633,831 | $ — |

(a) Long-term debt and related interest are based on HSNi's debt that was outstanding as of March 31, 2015 under its $1.25 billion Credit Agreement.
(b) Includes interest on variable rate debt estimated using the rate in effect as of March 31, 2015, net of the impact of the interest rate swap.

**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

At March 31, 2015 and 2014, HSNi's outstanding long-term debt was $675.0 million and $237.5 million, respectively, all of which pays interest at a variable rate, generally tied to LIBOR. Changes in interest rates on our variable rate debt could affect our earnings. We are managing our future interest rate exposure through an interest rate swap with a notional amount of $187.5 million and a fixed rate of 0.8525% that took effect January 2014. A hypothetical 100 basis point increase in interest rates on the portion of our variable rate debt that was outstanding as of March 31, 2015 and that was not effectively hedged by the fixed-rate interest rate swap would increase our annual interest expense by approximately $4.9 million.

## 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, 2015. 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, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

In April 2015, a purported stockholder of the Company filed a putative class action complaint in the Court of Chancery of the State of Delaware against the Company, the members of our Board of Directors and Bank of America Corporation (“BAC”). The complaint is captioned David Shaev Profit Sharing Account v. HSN, Inc. et al., C.A. No. 10919-CB. The complaint alleges, among other things, that the members of our Board of Directors breached their fiduciary duties, and that BAC aided and abetted such breaches, in connection with the Credit Agreement dated as of January 27, 2015 (the “Credit Agreement”). The complaint alleges that the Credit Agreement contains a so-called “dead hand proxy put” provision that (a) defines the election of a majority of directors whose initial nomination arose from an actual or threatened proxy contest to be an event of default that triggers the lenders’ right to accelerate payment of the debt outstanding under the Credit Agreement; and (b) thereby coerces stockholders and entrenches the members of the Board of Directors. The complaint seeks, among other things, declaratory and injunctive relief, as well as an award of costs and disbursements including attorney’s and experts’ fees. We believe we have meritorious defenses to the claims asserted in the lawsuit. While an estimate of the possible loss, if any, or the range of loss cannot be made, we do not believe it will be material.

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, employment matters 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, 2014, 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 Securities**

On January 27, 2015, our Board of Directors authorized us to repurchase up to 4 million shares of our common stock, principally to offset dilution related to HSNi's equity compensation programs. 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 thefirst quarter of 2015:

| 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 |
|---|---|---|---|---|---|
| January 1, 2015 - January 31, 2015 | — | $ | — | — | — |
| February 1, 2015 - February 28, 2015 | — | $ | — | — | — |
| March 1, 2015 - March 31, 2015 | 118,371 | $ | 66.70 | 118,371 | 3,881,629 |
| | 118,371 | $ | 66.70 | 118,371 | |

## 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, 2015, formatted in XBRL (eXtensible Business Reporting Language) and filed electronically herewith: (i) Consolidated Statements of Operations for the Three Months Ended March 31, 2015 and 2014, (ii) Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014, (iii) Consolidated Balance Sheets as of March 31, 2015, December 31, 2014 and March 31, 2014, (iv) Consolidated Statements of Shareholders' Equity for the Three Months Ended March 31, 2015 and Year Ended December 31, 2014, (v) Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014, 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 6, 2015 | By: | /S/ JUDY A. SCHMELING |
| | | **Judy A. Schmeling,**<br>**Chief Operating Officer and Chief Financial Officer**<br>**(Duly Authorized Officer and Principal Financial Officer)** |

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO**
**RULE 13a-14(a) and RULE 15d-14(a)**
**OF THE SECURITIES EXCHANGE ACT, AS AMENDED**

I, Mindy Grossman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2015 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 6, 2015

/S/ MINDY GROSSMAN

**Mindy Grossman**
**Chief Executive Officer**

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO**
**RULE 13a-14(a) and RULE 15d-14(a)**
**OF THE SECURITIES EXCHANGE ACT, AS AMENDED**

I, Judy A. Schmeling, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2015 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 6, 2015

/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 March 31, 2015 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 6, 2015

/S/ MINDY GROSSMAN

**Mindy Grossman**
**Chief Executive Officer**

**EXHIBIT 32.2**

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

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

(1) the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015 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 6, 2016

/S/ JUDY A. SCHMELING

**Judy A. Schmeling**
**Chief Operating Officer and Chief Financial Officer**