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 June 30, 2016

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 ☐ (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 August 3, 2016, the registrant had 52,262,269 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 June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net sales	$ 854,308	$ 885,642	$ 1,671,074	$ 1,727,529
Cost of sales	542,484	549,105	1,069,772	1,090,787
Gross profit	311,824	336,537	601,302	636,742
Operating expenses:				
Selling and marketing	188,056	196,104	367,217	375,309
General and administrative	46,453	58,645	96,415	111,387
Depreciation and amortization	10,701	11,085	21,227	22,334
Asset impairment	20,400	—	20,400	—
Total operating expenses	265,610	265,834	505,259	509,030
Operating income	46,214	70,703	96,043	127,712
Other income (expense):				
Interest income	245	94	97	134
Interest expense	(4,085)	(3,974)	(8,084)	(7,311)
Total other expense, net	(3,840)	(3,880)	(7,987)	(7,177)
Income before income taxes	42,374	66,823	88,056	120,535
Income tax provision	(15,929)	(25,191)	(33,026)	(45,214)
Net income	$ 26,445	$ 41,632	$ 55,030	$ 75,321
Net income per share:				
Basic	$ 0.50	$ 0.79	$ 1.05	$ 1.43
Diluted	$ 0.50	$ 0.78	$ 1.04	$ 1.40
Shares used in computing earnings per share:				
Basic	52,394	52,683	52,386	52,628
Diluted	52,941	53,675	52,930	53,718
Dividends declared per share	$ 0.35	$ 0.35	$ 0.70	$ 10.70

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 June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net income	$ 26,445	$ 41,632	$ 55,030	$ 75,321
Other comprehensive (loss) income:				
Change in fair value of derivative instrument, net of tax	(1,238)	18	(1,487)	(482)
Other comprehensive (loss) income, net of tax	(1,238)	18	(1,487)	(482)
Comprehensive income	$ 25,207	$ 41,650	$ 53,543	$ 74,839

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)

	June 30, 2016	December 31, 2015	June 30, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$ 54,756	$ 63,926	$ 74,177
Accounts receivable, net of allowance of $17,197, $20,631 and $13,625, respectively	208,380	306,575	195,468
Inventories	416,034	428,025	448,792
Prepaid expenses and other current assets	74,131	45,402	61,241
Total current assets	753,301	843,928	779,678
Property and equipment, net	205,492	211,793	199,906
Intangible assets, net	253,622	255,268	261,863
Goodwill	9,858	9,858	9,858
Other non-current assets	13,938	13,724	10,475
TOTAL ASSETS	$ 1,236,211	$ 1,334,571	$ 1,261,780
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable, trade	$ 226,806	$ 254,704	$ 222,857
Current maturities of long-term debt	25,000	25,000	12,500
Accrued expenses and other current liabilities	183,400	235,042	183,634
Total current liabilities	435,206	514,746	418,991
Long-term debt, less current maturities and net of unamortized deferred financing costs	578,493	608,108	654,711
Deferred income taxes	38,900	44,498	52,223
Other long-term liabilities	21,754	20,657	21,405
Total liabilities	1,074,353	1,188,009	1,147,330
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; 52,266,366, 52,377,798 and 52,781,048 issued shares at June 30, 2016, December 31, 2015 and June 30, 2015, respectively	523	524	528
Additional paid-in capital	1,047,539	1,085,785	1,147,847
Accumulated deficit	(884,622)	(939,652)	(1,033,570)
Accumulated other comprehensive loss	(1,582)	(95)	(355)
Total shareholders' equity	161,858	146,562	114,450
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,236,211	$ 1,334,571	$ 1,261,780

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, 2014	—	$ —	52,426	$ 524	$ 1,710,581	$ (1,108,891)	$ 127	$ 602,341
Net income	—	—	—	—	—	169,239	—	169,239
Other comprehensive loss	—	—	—	—	—	—	(222)	(222)
Stock-based compensation expense for equity awards	—	—	—	—	18,408	—	—	18,408
Cash dividends declared on common stock	—	—	—	—	(597,864)	—	—	(597,864)
Issuance of common stock from stock-based compensation awards, including tax benefit of $12,526	—	—	900	9	13,161	—	—	13,170
Repurchases of common stock	—	—	(948)	(9)	(58,501)	—	—	(58,510)
Balance as of December 31, 2015	—	—	52,378	524	1,085,785	(939,652)	(95)	146,562
Net income	—	—	—	—	—	55,030	—	55,030
Other comprehensive loss	—	—	—	—	—	—	(1,487)	(1,487)
Stock-based compensation expense for equity awards	—	—	—	—	10,460	—	—	10,460
Cash dividends declared on common stock	—	—	—	—	(36,600)	—	—	(36,600)
Issuance of common stock from stock-based compensation awards, including income tax effect of $250	—	—	120	1	(979)	—	—	(978)
Repurchases of common stock	—	—	(232)	(2)	(11,127)	—	—	(11,129)
Balance as of June 30, 2016	—	$ —	52,266	$ 523	$ 1,047,539	$ (884,622)	$ (1,582)	$ 161,858

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

HSN, INC. AND SUBSIDIARIES

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

	Six Months Ended June 30,	
	2016	**2015**
Cash flows from operating activities:		
Net income	$ 55,030	$ 75,321
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,227	22,334
Stock-based compensation expense	10,460	9,424
Asset impairment	20,400	—
Amortization of debt issuance costs	885	1,276
Deferred income taxes	(4,705)	(3,611)
Bad debt expense	9,355	13,338
Excess tax benefits from stock-based awards	(78)	(8,251)
Other	(30)	673
Changes in current assets and liabilities:		
Accounts receivable	88,421	108,998
Inventories	(11,576)	(50,087)
Prepaid expenses and other assets	(20,291)	(17,023)
Accounts payable, accrued expenses and other current liabilities	(80,997)	(80,092)
Net cash provided by operating activities	88,101	72,300
Cash flows from investing activities:		
Capital expenditures	(17,688)	(26,242)
Other	(1,652)	6
Net cash used in investing activities	(19,340)	(26,236)
Cash flows from financing activities:		
Borrowings under term loan	—	500,000
Repayment of term loan	(12,500)	(228,125)
Borrowings under revolving credit facility	117,000	225,000
Repayment of revolving credit facility	(135,000)	(50,000)
Repurchase of common stock	(10,180)	(18,335)
Payments of debt issuance costs	—	(6,620)
Cash dividends paid	(36,600)	(561,182)
Proceeds from issuance of common stock	1,170	11,357
Tax withholdings related to stock-based awards	(1,899)	(12,218)
Excess tax benefits from stock-based awards	78	8,251
Net cash used in financing activities	(77,931)	(131,872)
Net decrease in cash and cash equivalents	(9,170)	(85,808)
Cash and cash equivalents at beginning of period	63,926	159,985
Cash and cash equivalents at end of period	$ 54,756	$ 74,177

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, joymangano.com and the seven branded websites operated by Cornerstone; (iv) mobile applications; (v) retail and outlet stores; and (vi) wholesale distribution of certain proprietary products to other retailers. HSNi’s television home shopping business, related digital sales, outlet stores and wholesale distribution are referred to herein as “HSN” and all catalog operations, including related digital sales and stores, are collectively referred to herein as “Cornerstone.” Chasing Fireflies and TravelSmith, two of the apparel brands in the Cornerstone portfolio, were classified as assets held for sale as of June 30, 2016. See Note 14 for further discussion of assets held for sale.

HSN offerings primarily consist of jewelry, fashion (apparel & accessories), beauty & health (including beauty, wellness and fitness), and home & other (including home, electronics, culinary and other). 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, 2015. The consolidated balance sheet as of December 31, 2015 and the consolidated statement of shareholders' equity for the year endedDecember 31, 2015 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

Recently Adopted Accounting Standard Updates

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 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. The new standard is limited to the presentation of debt issuance costs and does not affect their recognition and measurement. ASU 2015-03 is effective for periods beginning after December 15, 2015, including interim periods within that annual period. HSNi retrospectively adopted ASU 2015-03 in the first quarter of 2016 resulting in the reclassification of its debt issuance costs from "Other non-current assets" to a deduction from "Long-term debt, less current maturities and net of unamortized deferred financing costs" in the consolidated balance sheets. See Note 6 for additional information regarding the deferred issuance costs.

In April 2015, the FASB issued ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05"), which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. HSNi prospectively adopted ASU 2015-05 on January 1, 2016 and will apply this guidance to all arrangements entered into or materially modified after the effective date.

Accounting Standard Updates Not Yet Adopted

In May 2014, the FASB issued ASU 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. Additionally, ASU 2014-09 will disallow the capitalization of direct-response advertising costs which will impact the timing of recognition of Cornerstone's catalog production and distribution costs. In July 2015, the FASB approved a one-year deferral of the effective date of ASU 2014-09. This standard will now become effective for HSNi in the first quarter of 2018. Early adoption is permitted in the first quarter of 2017. HSNi is in the process of assessing the impact of the adoption of ASU 2014-09 to its consolidated financial statements and is evaluating the accounting, transition method, disclosure requirements and timing of adoption.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (Topic 330) ("ASU 2015-11"). The amendments, which apply to inventory that is measured using any method other than the last-in, first-out (LIFO) or retail inventory method, require that entities measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and should be applied on a prospective basis; however, early adoption is permitted. HSNi will adopt ASU 2015-11 on January 1, 2017. HSNi is currently assessing the potential impact ASU 2015-11 will have to its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 requires lessees to reflect most leases on their balance sheet as assets and obligations. The effective date for the standard is for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The standard is to be applied on a modified retrospective method. HSNi is currently assessing the timing of adoption of ASU 2016-02 and the impact it will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718) ("ASU 2016-09"). This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The effective date for the standard is for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. HSNi is currently assessing the timing of adoption of ASU 2016-09 and the impact it will have on its consolidated financial statements and related disclosures.

Reclassifications

Reclassifications were made to prior period amounts to conform to the current year's presentation. Changes included the reclassification of certain operating expenses in the consolidated statement of operations and reclassification of deferred income taxes and deferred financing costs in the consolidated balance sheets due to the implementation of recent accounting standard updates. Current deferred tax assets of $29.8 million in the June 30, 2015 consolidated balance sheet were reclassified as non-current and netted against non-current deferred tax liabilities as a result of retrospectively adopting ASU 2015-17, Balance Sheet Classification of Deferred Taxes, in the fourth quarter of 2015.

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):

	June 30, 2016	December 31, 2015	June 30, 2015
Capitalized software	$ 238,511	$ 234,249	$ 227,804
Computer and broadcast equipment	93,066	91,533	92,995
Buildings and leasehold improvements	109,640	108,656	105,777
Furniture and other equipment	97,913	96,512	95,141
Projects in progress	56,860	55,294	40,842
Land and land improvements	10,635	10,597	10,543
	606,625	596,841	573,102
Less: accumulated depreciation and amortization	(401,133)	(385,048)	(373,196)
Total property and equipment, net	$ 205,492	$ 211,793	$ 199,906

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 reportable 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, 2015. 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 June 30, 2016			Three Months Ended June 30, 2015		
	HSN	Cornerstone	Total	HSN	Cornerstone	Total
Adjusted EBITDA	$ 66,280	$ 16,121	$ 82,401	$ 68,194	$ 21,831	$ 90,025
Stock-based compensation expense	(3,867)	(1,217)	(5,084)	(3,617)	(1,151)	(4,768)
Depreciation and amortization	(7,275)	(3,426)	(10,701)	(7,590)	(3,495)	(11,085)
Distribution center closure (a)	—	—	—	(3,032)	—	(3,032)
Asset impairment (b)	—	(20,400)	(20,400)	—	—	—
Loss on disposition of fixed assets	—	(2)	(2)	(430)	(7)	(437)
Operating income	$ 55,138	$ (8,924)	46,214	$ 53,525	$ 17,178	70,703
Total other expense, net			(3,840)			(3,880)
Income before income taxes			42,374			66,823
Income tax provision			(15,929)			(25,191)
Net income			$ 26,445			$ 41,632

(a) In the second quarter of 2015, HSN recorded a $3.0 million charge associated with the planned closure of one of its distribution centers as part of its supply chain optimization initiative. See Note 13 for further information.

(b) In the second quarter of 2016, Cornerstone recorded a non-cash impairment charge of $20.4 million associated with the assets held for sale. See Note 14 for further information.

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	HSN	Cornerstone	Total	HSN	Cornerstone	Total
Adjusted EBITDA	$ 126,971	$ 21,163	$ 148,134	$ 134,384	$ 28,791	$ 163,175
Stock-based compensation expense	(7,906)	(2,554)	(10,460)	(7,226)	(2,198)	(9,424)
Depreciation and amortization	(14,278)	(6,949)	(21,227)	(15,008)	(7,326)	(22,334)
Distribution center closure (a)	—	—	—	(3,032)	—	(3,032)
Asset impairment (b)	—	(20,400)	(20,400)	—	—	—
Loss on disposition of fixed assets	(4)	—	(4)	(665)	(8)	(673)
Operating income	$ 104,783	$ (8,740)	96,043	$ 108,453	$ 19,259	127,712
Total other expense, net			(7,987)			(7,177)
Income before income taxes			88,056			120,535
Income tax provision			(33,026)			(45,214)
Net income			$ 55,030			$ 75,321

(a) In the second quarter of 2015, HSN recorded a $3.0 million charge associated with the planned closure of one of its distribution centers as part of its supply chain optimization initiative. See Note 13 for further information.

(b) In the second quarter of 2016, Cornerstone recorded a non-cash impairment charge of $20.4 million associated with the assets held for sale. See Note 14 for further information.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales:				
HSN	$ 557,163	$ 572,304	$ 1,135,547	$ 1,172,796
Cornerstone	297,145	313,338	535,527	554,733
Total	$ 854,308	$ 885,642	$ 1,671,074	$ 1,727,529

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$26,445	$41,632	$55,030	$75,321
Weighted average number of shares outstanding:				
Basic	52,394	52,683	52,386	52,628
Dilutive effect of stock-based compensation awards	547	992	544	1,090
Diluted	52,941	53,675	52,930	53,718
Net income per share:				
Basic	$ 0.50	$ 0.79	$ 1.05	$ 1.43
Diluted	$ 0.50	$ 0.78	$ 1.04	$ 1.40
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	1,849	550	1,884	538

NOTE 6—LONG-TERM DEBT

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

	June 30, 2016	December 31, 2015	June 30, 2015
Secured credit agreement expiring January 27, 2020:			
Term loan	$ 487,500	$ 500,000	$ 500,000
Revolving credit facility	122,000	140,000	175,000
Long-term debt	609,500	640,000	675,000
Unamortized deferred financing costs	(6,007)	(6,892)	(7,789)
Long-term debt, net of unamortized deferred financing costs	603,493	633,108	667,211
Less: current maturities	(25,000)	(25,000)	(12,500)
Long-term debt, less current maturities and net of unamortized deferred financing costs	$ 578,493	$ 608,108	$ 654,711

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. The remaining balance of $1.9 million along with the $6.6 million in capitalized financing costs related to the Credit Agreement are being amortized to interest expense over the five-year term of the Credit Agreement. Capitalized financing costs, net of accumulated amortization, are presented as a deduction from the corresponding debt liability for all periods presented.

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 (both as defined in the Credit Agreement). HSNi was in compliance with all such covenants as of June 30, 2016 with a leverage ratio of 1.8x and an interest coverage ratio of 24.0x. 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. The Credit Agreement also contains provisions that limit the ability of HSNi to make Restricted Payments, defined as cash dividends, distribution of other property, repurchase of the Company's common stock, prepayment or redemption of debt, etc., however, so long as the Company's leverage ratio is below 3.00x after giving pro forma effect to any proposed Restricted Payments, the amount of such Restricted Payments are not limited. In the event the Company's leverage ratio is equal to or greater than 3.00x or after giving pro forma effect to any proposed Restricted Payments, then such Restricted Payments are limited to $150 million in any such fiscal year. The current cash dividend of $1.40 annually per share represents a Restricted Payment of approximately $73.2 million. 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 $609.5 million outstanding long-term debt balance as of June 30, 2016 was 2.29%. 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 $7.0 million as of June 30, 2016. The ability to draw funds under the revolving credit facility is dependent upon meeting the aforementioned financial covenants. As of June 30, 2016, 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 $621.0 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 uses interest rate swap contracts to eliminate the cash flow risk on a portion of its variable rate debt. HSNi pays at a fixed rate and receives payments at a variable rate based on one-month LIBOR. The swaps effectively fix the floating LIBOR-based interest of our outstanding LIBOR-based debt. The interest rate swaps were designated and qualified as cash flow hedges; therefore, the effective portions of the changes in fair value are recorded in accumulated other comprehensive income (loss). Any ineffective portions of the changes in fair value of the interest rate swaps will be immediately recognized in earnings in the consolidated statements of operations.

The interest rate swaps effectively convert $187.5 million of our variable rate term loan to a fixed-rate of 0.8525% through April 2017, and then increases to $250.0 million in April 2017 with a maturity date in January 2020 with a fixed rate of 1.05% (in both cases the swapped fixed rate is exclusive of the credit spread under the Credit Agreement). Based on HSNi's leverage ratio as of June 30, 2016, the all-in fixed rate was 2.3525%. The changes in fair value of the interest rate swaps (inclusive of reclassifications to net income and net of tax) for the three months ended June 30, 2016 and 2015 were a loss of approximately $1.2 million and income of less than $0.1 million, respectively, and were included in other comprehensive income (loss). The changes in fair value of the interest rate swap (inclusive of reclassifications to net income and net of tax) for the six months ended June 30, 2016 and 2015 were losses of approximately $1.5 million and $0.5 million, respectively, and were included in other comprehensive income (loss).

The fair values of the interest rate swaps at June 30, 2016, December 31, 2015 and June 30, 2015 were liabilities of $2.5 million, $0.2 million and $0.6 million, respectively, and were recorded in "Other long-term liabilities" in the consolidated balance sheets. HSNi estimates that approximately $0.8 million of unrealized losses included in accumulated other comprehensive loss related to these swaps will be realized and reported in earnings within the next twelve months. See Note 8 for discussion of the fair value measurements concerning these interest rate swaps.

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):

	June 30, 2016			
	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
Liabilities:				
Interest rate swaps	$ 2,528	$ —	$ 2,528	$ —

	December 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	$ 169	$ —	$ 169	$ —

	June 30, 2015			
	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap	$ 568	$ —	$ 568	$ —

HSNi's interest rate swaps are carried on the balance sheet at fair value. The swaps are entered into 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):

	June 30, 2016				
			Fair Value Measurement Category		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Term loan expiring January 27, 2020	$ 487,500	$ 487,500	$ —	$ 487,500	$ —
Revolving credit facility	$ 122,000	$ 122,000	$ —	$ 122,000	$ —

	December 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	$ 140,000	$ 140,000	$ —	$ 140,000	$ —

	June 30, 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	$ —

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 assesses the impairment of goodwill and indefinite-lived intangible assets at fair value at least annually during the fourth quarter and whenever events or circumstances indicate that the carrying value may not be fully recoverable. HSNi also measures certain assets, such as property and equipment and definite-lived intangible assets, at fair value on a non-recurring basis. As of June 30, 2016, the assets and liabilities of Chasing Fireflies and TravelSmith were considered to be a disposal group held for sale. Therefore, the disposal group was measured at its fair value less the estimated costs to sell which resulted in a non-cash asset impairment charge of $20.4 million that was recognized during the three months ended June 30, 2016.

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 or unusual items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur.

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

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

For the three and six months ended June 30, 2016, HSNi recorded tax provisions of $15.9 million and $33.0 million, respectively, which represents effective tax rates of 37.6% and 37.5%. For the three and six months ended June 30, 2015, HSNi recorded tax provisions of $25.2 million and $45.2 million, respectively, which represents effective tax rates of 37.7% and 37.5%.

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. New York State concluded an income tax examination of the years ended December 31, 2011 through December 31, 2013. No material adjustment to our tax liabilities resulted from this examination.

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 this agreement, each of the companies included in the spin-off (the "Spincos") was indemnified by IAC for additional tax liabilities related to consolidated or combined federal and state tax returns prepared and filed by IAC prior to the spin-off. However, each Spinco agreed to, among other things, assume any additional tax liabilities related to their separately filed state income tax returns. All examinations have concluded or statutes of limitations have expired related to IAC's consolidated or combined federal and state tax returns for years including HSNi operations prior to the spin-off.

The Tax Sharing Agreement also provides, among other things, that each Spinco indemnifies 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 any post spin-off (i) act or failure to act by such Spinco described in the covenants in the Tax Sharing Agreement, (ii) acquisition of equity, securities, or assets of such Spinco or a member of its group, and (iii) 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. This indemnification remains effective until IAC's tax returns for the two year period after the spin-off are no longer subject to examination.

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Selling and marketing	$ 1,702	$ 1,598	$ 3,510	$ 3,152
General and administrative	3,382	3,170	6,950	6,272
Stock-based compensation expense before income taxes	5,084	4,768	10,460	9,424
Income tax benefit	(1,765)	(1,707)	(3,641)	(3,358)
Stock-based compensation expense after income taxes	$ 3,319	$ 3,061	$ 6,819	$ 6,066

As of June 30, 2016, there was approximately $31.6 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 2.0 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 anti-dilution provisions of the Plan related to the special cash dividend paid in February 2015) 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 June 30, 2016, there were approximately 1.6 million shares of common stock available for grants under the Plan.

During the first quarter of 2016, HSNi granted approximately 92,000 performance share units ("PSUs") to certain executive employees. PSUs vest after a three year performance period. PSUs have rights to receive dividend equivalents that vest concurrently with the underlying PSUs once the requisite service has been rendered. Vesting percentages range between 0% and 200% of the target award based on HSNi's Total Shareholder Return relative to a peer group at the end of the performance period. The compensation expense for these PSUs is based on the fair value of the awards measured at the grant date and is expensed ratably over the vesting term.

A summary of the stock-based awards granted during the six months ended June 30, 2016 is as follows:

	Six Months Ended June 30, 2016	
	Number of Awards Granted	Weighted Average per Share Fair Value
Stock appreciation rights	928,990	$7.31
Restricted stock units	258,676	$45.54
Performance share units	92,290	$54.06
Employee stock purchase plan options	29,965	$12.18
Dividend equivalents due to quarterly dividend	9,394	-

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 fair value of PSUs is estimated on the grant date using a Monte-Carlo simulation pricing model which estimates the potential outcome of reaching the market condition based on simulated future stock prices. The weighted average assumptions used in the valuation of each for the six months ended June 30, 2016 are as follows:

	Six Months Ended June 30, 2016		
	Stock Appreciation Rights	Employee Stock Purchase Plan Options	Performance Share Units
Volatility factor	26.3%	34.4%	25.2%
Risk-free interest rate	1.23%	0.49%	0.89%
Expected term	4.5	0.5	2.9
Dividend yield	3.1%	2.8%	0.0%

NOTE 11—SHAREHOLDERS' EQUITY

Share Repurchase Program

Effective January 27, 2015, HSNi's Board of Directors approved a 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 six months ended June 30, 2016, HSNi acquired approximately 232,000 shares of its outstanding common stock for $11.1 million at an average price of $47.92. All shares were retired immediately following purchase. As of June 30, 2016, approximately 2.8 million shares remain authorized for repurchase under the program.

Dividend Policy

In the second quarter of 2016, HSNi's Board of Directors approved a quarterly cash dividend of $0.35 per common share resulting in a payment of $18.3 million on June 15, 2016 to HSNi's shareholders of record as of June 1, 2016.

In the third quarter of 2016, HSNi's Board of Directors approved a quarterly cash dividend of $0.35 per common share. The dividend will be paid on September 22, 2016 to HSNi's shareholders of record as of September 7, 2016.

Accumulated Other Comprehensive (Loss) Income

Accumulated other comprehensive (loss) income 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) (in thousands):

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Accumulated other comprehensive (loss) income as of January 1,	$ (95)	$ 127
Other comprehensive loss before reclassifications	(2,775)	(1,414)
Amounts reclassified from accumulated other comprehensive income (loss) to interest expense in the consolidated statements of operations	395	637
Income tax benefit	893	295
Other comprehensive loss, net of tax	(1,487)	(482)
Accumulated other comprehensive (loss) income as of June 30,	$ (1,582)	$ (355)

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, tax or other 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 legal, tax or other 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.

NOTE 13—COSTS ASSOCIATED WITH AN EXIT ACTIVITY

As part of its supply chain optimization initiative designed to increase operational efficiencies and enhance customer service, HSNi announced in June 2015 its plan to close the HSN distribution center in Roanoke, Virginia and expand the capabilities of its distribution center in Piney Flats, Tennessee. The closure will involve the eventual elimination of approximately 350 positions at the Virginia facility. HSNi expects the closure to occur in accordance with an eighteen-month transition plan and be substantially completed by 2017.

HSN expects to incur approximately $4 million to $5 million in total charges related to the closure. These charges include approximately $3 million to $4 million in employee-related expenses, including severance payments and retention incentives.

A summary of HSNi’s liability associated with exit activities, which is recorded in “Accrued expenses and other current liabilities” in the accompanying consolidated balance sheets, are presented in the following table (in thousands):

	Employee Related Costs
Balance at January 1, 2016	$ 3,221
Provisions	—
Payments	(10)
Adjustments	—
Balance at June 30, 2016	$ 3,211

NOTE 14—ASSETS HELD FOR SALE AND SUBSEQUENT EVENT

During the second quarter of 2016, HSNi committed to a plan to sell Chasing Fireflies and TravelSmith, two of the apparel brands included within the Cornerstone segment. HSNi determined the sale of these businesses would not represent a strategic shift in its business nor will it have a major effect on its consolidated results of operations, financial position or cash flows. Accordingly, the disposal group is not presented in the consolidated financial statements as a discontinued operation.

The net assets and liabilities of Chasing Fireflies and TravelSmith were measured at their fair value less the estimated costs to sell resulting in a non-cash asset impairment charge of $20.4 million recorded in the second quarter of 2016. This impairment charge is recorded in the consolidated statements of operations in the line item “Asset impairment.” The assets are largely represented by $23.6 million of inventory and, net of impairment charges of $20.4 million, total $9.8 million and have been reclassified to “Prepaid expenses and other current assets” and approximately $5.5 million of current liabilities have been reclassified to “Accrued expenses and other current liabilities" as of June 30, 2016 in the accompanying balance sheet.

In July 2016, HSNi entered into a non-binding letter of intent with an exclusivity period of 30 days to sell its TravelSmith and Chasing Fireflies businesses.

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: future financial performance, 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, 2015 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;
- failure to attract and retain television viewers and secure a suitable programming tier of carriage and channel placement for the HSN television network programming;
- 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, audits, claims and assessments;
- 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 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 June 30,			Six Months Ended June 30,		
	2016	Change	2015	2016	Change	2015
	(Dollars in thousands)			(Dollars in thousands)		
HSN	$ 557,163	(3)%	$ 572,304	$ 1,135,547	(3)%	$ 1,172,796
Cornerstone	297,145	(5)%	313,338	535,527	(3)%	554,733
Total HSNi net sales	$ 854,308	(4)%	$ 885,642	$ 1,671,074	(3)%	$ 1,727,529

HSNi net sales in the second quarter of 2016 decreased 4%, or $31.3 million, due to a 3% sales decline at HSN and a 5% decline at Cornerstone. HSNi's results were impacted by its deliberate actions to reposition the business while navigating through a highly promotional retail environment and the impact of a weaker season in the outdoor category. HSNi expects it will continue to be impacted in the third quarter of 2016 by the competitive retail landscape as well as potential viewership distractions such as the presidential election process and the Summer Olympics. Digital sales, which remain a key area of strategic focus as HSNi pursues opportunities to optimize its content across multiple distributed commerce platforms, grew 2%

compared to the prior year. Digital sales penetration increased 270 basis points to 52.6%. Gross units shipped in the second quarter of 2016 decreased 3% to 14.2 million and the average price point decreased 1% to $66.40.

HSNi net sales in the six months ended June 30, 2016 decreased 3%, or $56.5 million, due to a 3% sales decline at HSN and a 3% decline at Cornerstone. Digital sales grew 2% with penetration increasing 280 basis points to 52.1%. Gross units shipped in the six months ended June 30, 2016 decreased 2% to 29.2 million and the average price point decreased 2% to $63.11.

HSN

HSN net sales in the second quarter of 2016 decreased 3%, or $15.1 million. Sales grew in electronics and beauty, offset by decreases in other product categories and in shipping and handling revenues. Approximately one-third of the decline in net sales was attributable to the conclusion of a direct-response television marketing campaign in the prior quarter. Shipping and handling revenues decreased primarily due to an increase in shipping and handling promotions, a trend we expect to continue. Digital sales grew 5% with penetration increasing 330 basis points to 43.6%. The return rate improved 60 basis points from 18.0% to 17.4%. Units shipped decreased 2% to 11.1 million and average price point decreased 2% to $57.26.

HSN net sales in the six months ended June 30, 2016 decreased 3%, or $37.2 million. Sales grew in electronics, wellness and culinary largely driven by increases in air-time on the HSN networks, offset by decreases in other categories and in shipping and handling revenues. Approximately half of the decline in net sales was attributable to the conclusion of a direct-response television marketing campaign during the prior quarter. Shipping and handling revenues decreased primarily due to an increase in shipping and handling promotions. Digital sales grew 4% and penetration increased 320 basis points to 43.7%. The return rate improved 70 basis points from 17.8% to 17.1% primarily due to a shift in sales mix to categories with lower return rates. Units shipped decreased 1% to 23.2 million and average price point decreased 4% to $55.66.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Jewelry	9.2%	9.6%	8.8%	9.4%
Fashion (apparel & accessories)	18.3%	18.4%	16.9%	16.7%
Beauty & Health (including beauty, wellness and fitness)	24.0%	24.8%	25.3%	25.6%
Home & Other (including home, electronics, culinary and other) (a)	48.5%	47.2%	49.0%	48.3%
Total	100.0%	100.0%	100.0%	100.0%

(a) Includes product sold through direct-response television marketing.

Cornerstone

Cornerstone net sales in the second quarter of 2016 decreased 5%, or $16.2 million, driven by weakness in the outdoor category within the home brands and by lower catalog circulation. The home brands, particularly in the luxury market, were impacted by a highly competitive environment leading to increased promotional activity to drive sales demand. Digital sales decreased 2% but penetration increased 200 basis points to 69.4%. Catalog circulation decreased 6% to 80.7 million driven by a strategic decision to reduce circulation in certain brands. The return rate was 12.5% compared to 12.7% in the prior year. Cornerstone had 14 retail and outlet stores open as of June 30, 2016 compared to 11 in the prior year.

Cornerstone net sales in the six months ended June 30, 2016 decreased 3%, or $19.2 million, driven by lower catalog circulation. Catalog circulation was 164.4 million, a decrease of 3% compared to prior year. Digital sales were relatively unchanged but digital sales penetration increased 200 basis points to 69.7%. The return rate was 12.8% compared to 13.0% in the prior year.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Home brands (Ballard Designs, Frontgate, Grandin Road and Improvements) (a)	83.5%	83.1%	80.5%	79.7%
Apparel brands (Chasing Fireflies, Garnet Hill and TravelSmith) (a)	16.5%	16.9%	19.5%	20.3%
Total	100.0%	100.0%	100.0%	100.0%

(a) Classification is based on the brands' primary product category of which it sells; however, each brand sells products from other categories, to a lesser extent.

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 June 30,					Six Months Ended June 30,				
	2016		Change	2015		2016		Change	2015	
	(Dollars in thousands)					(Dollars in thousands)				
Gross profit:										
HSN	$	197,115	(6)%	$	209,273	$	396,400	(5)%	$	416,802
As a percentage of HSN net sales		35.4%	(120 bps)		36.6%		34.9%	(60 bps)		35.5%
Cornerstone	$	114,709	(10)%	$	127,264	$	204,902	(7)%	$	219,940
As a percentage of Cornerstone net sales		38.6%	(200 bps)		40.6%		38.3%	(130 bps)		39.6%
HSNi	$	311,824	(7)%	$	336,537	$	601,302	(6)%	$	636,742
As a percentage of HSNi net sales		36.5%	(150 bps)		38.0%		36.0%	(90 bps)		36.9%

bp = basis points

HSN

Gross profit for HSN in the second quarter of 2016 decreased 6%, or $12.2 million. Gross profit as a percentage of net sales decreased 120 basis points to 35.4% primarily due to an increase in shipping promotions, higher inventory reserves and changes in product mix. The change in the rate was also negatively impacted by favorable settlements of vendor claims in the prior year. HSN continues to carry excess inventories in certain product categories that could create future margin pressure in the form of markdowns.

Gross profit for HSN in the six months ended June 30, 2016 decreased 5%, or $20.4 million. Gross profit as a percentage of net sales decreased 60 basis points to 34.9% primarily due to an increase in shipping promotions and higher inventory reserves.

Cornerstone

Gross profit for Cornerstone in the second quarter of 2016 decreased 10%, or $12.6 million. Gross profit as a percentage of net sales decreased 200 basis points to 38.6% primarily due to lower product and shipping margins driven by higher promotional activity, most notably in the home brands.

Gross profit for Cornerstone in the six months ended June 30, 2016 decreased 7%, or $15.0 million. Gross profit as a percentage of net sales decreased 130 basis points to 38.3% primarily due to lower product and shipping margins driven by higher promotional activity, most notably in the home brands.

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; on-air distribution costs, including costs to purchase media for direct-response television marketing; and marketing partnership programs. Advertising and promotional expenditures primarily include catalog production and distribution costs and online marketing, including fees paid to search engine companies and third-party distribution partners, as well as other advertising and promotional campaigns. Certain prior period amounts previously included in general and administrative expense have been reclassified to selling and marketing expense to conform to the current year's presentation.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	Change	2015	2016	Change	2015
	(Dollars in thousands)			(Dollars in thousands)		
HSN	$ 100,872	(3)%	$ 103,750	$ 206,441	(1)%	$ 209,485
As a percentage of HSN net sales	18.1%	-	18.1%	18.2%	30 bps	17.9%
Cornerstone	$ 87,184	(6)%	$ 92,354	$ 160,776	(3)%	$ 165,824
As a percentage of Cornerstone net sales	29.3%	(20 bps)	29.5%	30.0%	10 bps	29.9%
HSNi	$ 188,056	(4)%	$ 196,104	$ 367,217	(2)%	$ 375,309
As a percentage of HSNi net sales	22.0%	(10 bps)	22.1%	22.0%	30 bps	21.7%

HSNi's selling and marketing expense in the second quarter of 2016 was $188.1 million, a decrease of 4% from prior year and was22.0% of net sales compared to 22.1% in the prior year. HSNi's selling and marketing expense in the six months ended June 30, 2016 was $367.2 million, a decrease of 2% from prior year and was22.0% of net sales compared to 21.7% in the prior year.

HSN

HSN's selling and marketing expense in the second quarter of 2016 decreased $2.9 million compared to the prior year primarily due to a decrease in media expense related to direct-response television marketing and lower employee compensation, partially offset by higher on-air distribution costs driven by expanded carriage of HSN2. Selling and marketing expense was 18.1% of net sales, consistent with the prior year.

HSN's selling and marketing expense in the six months ended June 30, 2016 decreased $3.0 million compared to the prior year primarily due to a decrease in media expense related to direct-response television marketing and lower employee compensation expense, offset by higher on-air distribution costs driven by expanded carriage of HSN2 and increased advertising costs related to the expansion of HSN's wholesale business. Selling and marketing expense was 18.2% of net sales compared to 17.9% in the prior year largely due to the timing of advertising costs to support the expansion of the wholesale business.

Cornerstone

Cornerstone's selling and marketing expense in the second quarter of 2016 decreased $5.2 million and was 29.3% of net sales compared to 29.5% in the prior year. The decrease was due to a 6% decrease in catalog circulation and lower advertising costs, partially offset by an increase in expenses related to Cornerstone's additional retail and outlet stores. Ballard Designs is scheduled to open an additional store in the third quarter of 2016.

Cornerstone's selling and marketing expense in the six months ended June 30, 2016 increased $5.0 million and was 30.0% of net sales compared to 29.9% in the prior year. The decrease was due to a 3% decrease in catalog circulation and lower advertising costs, partially offset by an increase in expenses related to Cornerstone's additional retail and outlet stores.

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. Certain prior period amounts previously included in general and administrative expense have been reclassified to selling and marketing expense to conform to the current year's presentation.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	Change	2015	2016	Change	2015
	(Dollars in thousands)			(Dollars in thousands)		
HSN	$ 33,831	(24)%	$ 44,407	$ 70,898	(15)%	$ 83,855
As a percentage of HSN net sales	6.1%	(170 bps)	7.8%	6.2%	(100 bps)	7.2%
Cornerstone	$ 12,622	(11)%	$ 14,238	$ 25,517	(7)%	$ 27,532
As a percentage of Cornerstone net sales	4.2%	(30 bps)	4.5%	4.8%	(20 bps)	5.0%
HSNi	$ 46,453	(21)%	$ 58,645	$ 96,415	(13)%	$ 111,387
As a percentage of HSNi net sales	5.4%	(120 bps)	6.6%	5.8%	(60 bps)	6.4%

HSNi’s general and administrative expense in the second quarter of 2016 decreased 21%, or $12.2 million, and was 5.4% of net sales compared to 6.6% in the prior year. HSNi’s general and administrative expense in the six months ended June 30, 2016 decreased 13%, or $15.0 million, and was 5.8% of net sales compared to 6.4% in the prior year.

HSN

HSN's general and administrative expense in the second quarter of 2016 decreased 24%, or $10.6 million, and was 6.1% of net sales compared to 7.8% in the prior year. The decrease is primarily due to lower employee-related costs, particularly for performance-based incentives, a decrease in bad debt expense and $3.0 million in costs accrued in the prior year for the planned closure of its Virginia distribution center.

HSN's general and administrative expense in the six months ended June 30, 2016 decreased 15%, or $13.0 million, and was 6.2% of net sales compared to 7.2% in the prior year. The decrease is primarily due to lower employee-related costs, particularly for performance-based incentives and severance, a decrease in bad debt expense and $3.0 million in costs accrued in the prior year for the planned closure of its Virginia distribution center.

HSN’s general and administrative expenses for 2015 include $3.0 million related to the planned closure of its Roanoke, Virginia distribution center. The facility closure is planned to occur in 2017 as part of HSNi’s supply chain optimization initiative that will include the consolidation of two distribution centers and is designed to increase operational efficiencies and enhance customer service. As part of this initiative, HSNi will be expanding the capabilities of its Piney Flats, Tennessee distribution center through automation of the facility. HSNi expects to incur approximately $4 million to $5 million in total charges related to the closure of the Virginia facility. These charges include approximately $3 million to $4 million in employee-related expenses, including severance payments and retention incentives. The project has experienced certain implementation delays; however, we expect to realize the financial benefits associated with the supply chain optimization initiative, including labor and transportation savings, when implemented. HSNi expects to utilize much of these savings to remain competitive in the marketplace, including initiatives to drive future sales growth and enhance customer service.

Cornerstone

Cornerstone's general and administrative expense in the second quarter of 2016 decreased 11%, or $1.6 million, due to decreases in employee-related costs, primarily performance-based incentives, and consulting costs. Cornerstone's general and administrative expense was 4.2% of net sales, compared to 4.5% in the prior year.

Cornerstone's general and administrative expense in the six months ended June 30, 2016 decreased 7%, or $2.0 million, due to decreases in employee-related costs, primarily performance-based incentives, and consulting costs. Cornerstone's general and administrative expense was 4.8% of net sales, compared to 5.0% in the prior year.

Depreciation and Amortization

	Three Months Ended June 30,					Six Months Ended June 30,				
	2016		Change	2015		2016		Change	2015	
	(Dollars in thousands)					(Dollars in thousands)				
HSN	$	7,275	(4)%	$	7,590	$	14,278	(5)%	$	15,008
Cornerstone		3,426	(2)%		3,495		6,949	(5)%		7,326
HSNi	$	10,701	(3)%	$	11,085	$	21,227	(5)%	$	22,334
As a percentage of HSNi net sales		1.3%	-		1.3%		1.3%	-		1.3%

Depreciation and amortization in the second quarter of 2016 decreased 3%, or $0.4 million. Depreciation and amortization in the six months ended June 30, 2016 decreased 5%, or $1.1 million. The capital expenditures related to HSN's warehouse automation project is expected to be put into service in the second half of 2016.

Asset Impairment

During the second quarter of 2016, HSNi committed to a plan to sell Chasing Fireflies and TravelSmith, two of the apparel brands included within the Cornerstone segment. The assets and liabilities of the two brands were classified as held for sale as of June 30, 2016 and measured at their fair values less the estimated selling costs. As a result, Cornerstone recorded a non-cash asset impairment charge of $20.4 million in the second quarter of 2016.

Net sales for Chasing Fireflies and TravelSmith were $16.5 million and $31.5 million for the three and six month periods ended June 30, 2016, respectively, and were $99.6 million for the year ended December 31, 2015. The pre-tax operating loss for the two brands, excluding asset impairment charges, was approximately $4 million and $9 million for the three and six month periods ended June 30, 2016 and $12 million for the year ended December 31, 2015. Included in these results are fixed costs (approximately $7 million on an annual basis) which will be wholly or partially reabsorbed by the remaining Cornerstone brands following the divestitures. See Note 14 of Notes to Consolidated Financial Statements for further discussion.

In July 2016, HSNi entered into a non-binding letter of intent with an exclusivity period of 30 days to sell its Chasing Fireflies and TravelSmith businesses. Assuming the parties can reach a final agreement, HSNi expects the transaction to close in the third quarter of 2016. Future cash expenditures of approximately $2 million, consisting primarily of estimated selling costs that have been accrued and included in the fair value measurement of the assets held for sale as of June 30, 2016, are expected to be incurred in the third quarter of 2016.

Operating Income (Loss)

	Three Months Ended June 30,					Six Months Ended June 30,				
	2016		Change	2015		2016		Change	2015	
	(Dollars in thousands)					(Dollars in thousands)				
HSN	$	55,138	3%	$	53,525	$	104,783	(3)%	$	108,453
As a percentage of HSN net sales		9.9 %	50 bps		9.4%		9.2 %	-		9.2%
Cornerstone	$	(8,924)	(152)%	$	17,178	$	(8,740)	(145)%	$	19,259
As a percentage of Cornerstone net sales		(3.0)%	(850 bps)		5.5%		(1.6)%	(510 bps)		3.5%
HSNi	$	46,214	(35)%	$	70,703	$	96,043	(25)%	$	127,712
As a percentage of HSNi net sales		5.4 %	(260 bps)		8.0%		5.7 %	(170 bps)		7.4%

HSNi's operating income in the second quarter of 2016, which includes a non-cash asset impairment charge of $20.4 million discussed above, decreased35%, or $24.5 million, and was 5.4% of net sales compared to 8.0% in the prior year. HSN's operating income in the second quarter of 2016 increased 3%, or $1.6 million, and was 9.9% of net sales compared to 9.4% in the prior year. The increase was driven by improved operating expense leverage partially offset by decreases in net sales and in gross profit as a percentage of net sales. Cornerstone's operating loss in the second quarter of 2016 was $8.9 million compared to operating income of $17.2 million in the prior year. The decrease is due to the $20.4 million non-cash asset impairment charge and the $12.6 million decrease in gross profit attributable to the 5% decrease in net sales and lower gross profit rate.

HSNi's operating income in the six months ended June 30, 2016 decreased 25%, or $31.7 million, and was 5.7% of net sales compared to 7.4% in the prior year. HSN's operating income in the six months ended June 30, 2016 decreased 3%, or $3.7 million, and was 9.2%, consistent with the prior year. The decline was driven by decreases in net sales and in gross profit as a percentage of net sales, partially offset by improved operating expense leverage. Cornerstone's operating loss in the six months ended June 30, 2016 was $8.7 million compared to operating income of $19.3 million in the prior year. The decrease is due to the $20.4 million non-cash asset impairment charge and the $15.0 million decrease in gross profit attributable to the 3% decrease in net sales and lower gross profit rate.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure. Please refer to Note 4 of the Notes to Consolidated Financial Statements for the reconciliation of Adjusted EBITDA to operating income.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	Change	2015	2016	Change	2015
	(Dollars in thousands)			(Dollars in thousands)		
HSN	$ 66,280	(3)%	$ 68,194	$ 126,971	(6)%	$ 134,384
As a percentage of HSN net sales	11.9%	-	11.9%	11.2%	(30 bps)	11.5%
Cornerstone	$ 16,121	(26)%	$ 21,831	$ 21,163	(26)%	$ 28,791
As a percentage of Cornerstone net sales	5.4%	(160 bps)	7.0%	4.0%	(120 bps)	5.2%
HSNi	$ 82,401	(8)%	$ 90,025	$ 148,134	(9)%	$ 163,175
As a percentage of HSNi net sales	9.6%	(60 bps)	10.2%	8.9%	(50 bps)	9.4%

HSNi's Adjusted EBITDA in the second quarter of 2016 decreased 8%, or $7.6 million, and was 9.6% of net sales compared to 10.2% in the prior year. The decline was primarily due to the decrease in net sales and decline in gross profit as a percentage of net sales, partially offset by improved operating expense leverage. HSNi has focused on managing operating expenses through ongoing talent realignment, operational efficiencies and through strategic rationalization of Cornerstone's catalog circulation. As a result, operating expenses as a percentage of net sales (excluding non-cash charges and the $3.0 million charge in the prior year related to the planned closure of one of HSN's distribution centers) were 26.9% compared to 27.8% in the prior year.

HSNi's Adjusted EBITDA in the six months ended June 30, 2016 decreased 9%, or $15.0 million, and was 8.9% of net sales compared to 9.4% in the prior year. The decline was primarily due to the decrease in net sales and decline in gross profit as a percentage of net sales, partially offset by improved operating expense leverage. Operating expenses as a percentage of net sales (excluding non-cash charges and the $3.0 million charge in the prior year related to the planned closure of one of HSN's distribution centers) were 27.1% compared to 27.4% in the prior year.

HSN

HSN's Adjusted EBITDA for the second quarter of 2016 decreased 3%, or $1.9 million, and was 11.9% of net sales, consistent with prior year. The decline was primarily due to the decrease in net sales and decline in gross profit as a percentage of net sales, partially offset by improved operating expense leverage. Operating expenses as a percentage of net sales (excluding non-cash charges and the $3.0 million charge in the prior year related to the planned closure of one of HSN's distribution centers) were 23.5% compared to 24.7% in the prior year.

HSN's Adjusted EBITDA for the six months ended June 30, 2016 decreased 6%, or $7.4 million, and was 11.2% of net sales compared to 11.5% in the prior year. The decline was primarily due to the decrease in net sales and decline in gross profit as a percentage of net sales, partially offset by improved operating expense leverage. Operating expenses as a percentage of net sales (excluding non-cash charges and the $3.0 million charge in the prior year related to the planned closure of one of HSN's distribution centers) were 23.7% compared to 24.1% in the prior year.

Cornerstone

Cornerstone's Adjusted EBITDA for the second quarter of 2016 decreased 26%, or $5.7 million, and was 5.4% of net sales compared to 7.0% in the prior year. The decline was primarily due to a decrease in net sales and decline in gross profit as a percentage of net sales, partially offset by improved operating expense leverage. Operating expenses (excluding non-cash charges) decreased $6.8 million and were 33.2% of net sales compared to 33.6% in the prior year.

Cornerstone's Adjusted EBITDA for the six months ended June 30, 2016 decreased 26%, or $7.6 million, and was 4.0% of net sales compared to 5.2% in the prior year. The decline was primarily due to a decrease in net sales and decline in gross profit as a percentage of net sales, partially offset by improved operating expense leverage. Operating expenses (excluding non-cash charges) decreased $7.4 million and were 34.3% of net sales compared to 34.4% in the prior year.

Other Income (Expense)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	Change	2015	2016	Change	2015
	(Dollars in thousands)			(Dollars in thousands)		
Interest income	$ 245	161%	$ 94	$ 97	(28)%	$ 134
Interest expense	(4,085)	3%	(3,974)	(8,084)	11%	(7,311)
Total other expense, net	$ (3,840)	(1)%	$ (3,880)	$ (7,987)	11%	$ (7,177)
As a percentage of HSNi net sales	0.4%	-	0.4%	0.5%	10 bps	0.4%

Interest expense for the second quarter ended June 30, 2016 was $3.8 million, relatively unchanged from the prior year. Interest expense for the six months ended June 30, 2016 increased $0.8 million compared to the prior year primarily due to a higher average outstanding debt balance driven by the funding of a special cash dividend in February 2015 and an increase in the interest rate, partially offset by the write-off of $0.5 million of deferred financing fees in the prior year related to the credit agreement that was terminated in January 2015.

Income Tax Provision

For the three and six months ended June 30, 2016, HSNi recorded a tax provisions of $15.9 million and $33.0 million, which represents effective tax rates of 37.6% and 37.5%, respectively. For the three and six months ended June 30, 2015, HSNi recorded a tax provisions of $25.2 million and $45.2 million, which represents effective tax rates of 37.7% and 37.5%, respectively.

Liquidity and Capital Resources

As of June 30, 2016, HSNi had $54.8 million of cash and cash equivalents compared to $63.9 million as of December 31, 2015 and $74.2 million as of June 30, 2015.

Net cash provided by operating activities for the six months ended June 30, 2016 was $88.1 million compared to $72.3 million in the prior year, an increase of $15.8 million, primarily due to changes in working capital related to inventories and accounts receivables. There were lower investments in inventories in 2016 driven by the higher than planned inventory levels at the end of 2015. The decrease in inventories as of June 30, 2016 compared to December 31, 2015 was impacted by the reclassification of approximately $23.6 million of inventory as assets held for sale as of June 30, 2016. As discussed in Note 14 of the Notes to the Consolidated Financial Statements, these assets were included in "Prepaid expenses and other current assets" in the June 30, 2016 Consolidated Balance Sheet. Cash provided by accounts receivables in 2016 decreased compared to the prior year due to higher utilization of HSN's Flexpay offering in 2016 and the lower outstanding accounts receivable balance at the end of 2015 compared to 2014. HSN expects to continue to increase its offering of Flexpay, when appropriate, as a tool to drive profitable revenue growth.

Net cash used in investing activities for the six months ended June 30, 2016 was $19.3 million and was related to capital expenditures primarily for investments in our distribution centers, including our warehouse automation project, information technology, Cornerstone's retail store expansion and infrastructure.

Net cash used in financing activities for the six months ended June 30, 2016 was $77.9 million. Net repayments of HSNi's long-term debt during the current quarter, including for the term loan and revolving credit facility, were $30.5 million. HSNi paid quarterly cash dividends totaling $0.70 per share in the first half of 2016, representing an aggregate payment of $36.6 million. HSNi also paid $10.2 million for approximately 0.2 million shares of common stock repurchased during the six months ended June 30, 2016.

On January 27, 2015, HSNi entered into a $1.25 billion five-year syndicated Credit Agreement. The Credit Agreement replaced the prior $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 $500 million from its term loan and $200 million under the revolving credit facility, both under the Credit Agreement, in the first quarter of 2015 to repay in full its existing term loan of $228.1 million and to fund the $524 million special cash dividend that was paid in February 2015.

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 June 30, 2016 with a leverage ratio of 1.8x and an interest coverage ratio of 24.0x. 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. The Credit Agreement also contains provisions that limit the ability of HSNi to make Restricted Payments, defined as cash dividends, distribution of other property, repurchase of the Company's common stock, prepayment or redemption of debt, etc., however, so long as the Company's leverage ratio is below 3.00x after giving pro forma effect to any proposed Restricted Payments, the amount of such Restricted Payments are not limited. In the event the Company's leverage ratio is equal to or greater than 3.00x or after giving pro forma effect to any proposed Restricted Payments, then such Restricted Payments are limited to $150 million in any such fiscal year. The current cash dividend of$1.40 annually per share represents a Restricted Payment of approximately $73.2 million. 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 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 $7.0 million as of June 30, 2016. 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 June 30, 2016, 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 $621.0 million.

To reduce our future exposure to rising interest rates under our credit facility, we entered into interest rate swaps that effectively convert $187.5 million of our variable rate term loan to a fixed-rate of 0.8525% through April 2017, and then increases to $250.0 million through January 2020 with a fixed rate of 1.05% (in both cases the swapped fixed rate is exclusive of the credit spread under the Credit Agreement). Based on HSNi's leverage ratio as of June 30, 2016, the all-in fixed rate was2.3525%. 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 six months ended June 30, 2016, HSNi repurchased approximately 232,000 shares of common stock at a cost of $11.1 million, or an average cost of$47.92 per share. As of June 30, 2016, approximately 2.8 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 2016 are expected to be approximately $50 million to $60 million and primarily relate to investments in information technology, Cornerstone's retail expansion and infrastructure. 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 third quarter of 2016, HSNi's Board of Directors approved a cash dividend of$0.35 per common share. The dividend will be paid on September 22, 2016 to HSNi's record holders as of September 7, 2016.

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, 2015. No material changes have occurred in HSNi's market risks since December 31, 2015.

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 June 30, 2016. 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 June 30, 2016 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, 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, 2015, 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 thesecond quarter of 2016:

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
April 1, 2016 - April 30, 2016	—	$ —	—	2,871,724
May 1, 2016 - May 31, 2016	8,886	$ 48.01	8,886	2,862,838
June 1, 2016 - June 30, 2016	42,848	$ 47.43	42,848	2,819,990
	51,734	$ 47.53	51,734	

Refer to Note 6 to the Notes to Consolidated Financial Statements and Management’s Discussion and Analysis- Liquidity and Capital Resources for a discussion of restrictions on the payment of dividends.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

In July 2016, HSNi entered into a non-binding letter of intent with an exclusivity period of 30 days to sell its TravelSmith and Chasing Fireflies businesses. Assuming the parties can reach a final agreement, HSNi expects the transaction to close in the third quarter of 2016. See Note 14 of Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language) and filed electronically herewith: (i) Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2016 and 2015, (ii) Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2016 and 2015, (iii) Consolidated Balance Sheets as of June 30, 2016, December 31, 2015 and June 30, 2015, (iv) Consolidated Statements of Shareholders' Equity for the Six Months Ended June 30, 2016 and Year Ended December 31, 2015, (v) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015, 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: August 4, 2016	By:	/S/ JUDY A. SCHMELING
		Judy A. Schmeling, **Chief Operating Officer and Chief Financial Officer** **(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 June 30, 2016 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.

Date: August 4, 2016

By: /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 June 30, 2016 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.

Date: August 4, 2016

By: /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 June 30, 2016 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.

Date: August 4, 2016

By: /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 June 30, 2016 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.

Date: August 4, 2016

By: /s/ Judy A. Schmeling

Judy A. Schmeling

Chief Operating Officer and Chief Financial Officer