UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2017

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 ☐

Emerging growth company ☐ If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of May 1, 2017, the registrant had 52,375,050 shares of common stock, $0.01 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2017	**2016**
Net sales	$ 785,435	$ 816,765
Cost of sales	512,298	527,287
Gross profit	273,137	289,478
Operating expenses:		
Selling and marketing	167,299	179,161
General and administrative	56,373	49,963
Depreciation and amortization	10,886	10,525
Total operating expenses	234,558	239,649
Operating income	38,579	49,829
Other income (expense):		
Interest income	213	25
Interest expense	(4,077)	(4,172)
Total other expense, net	(3,864)	(4,147)
Income before income taxes	34,715	45,682
Income tax provision	(13,467)	(17,097)
Net income	$ 21,248	$ 28,585
Net income per share:		
Basic	$ 0.41	$ 0.55
Diluted	$ 0.40	$ 0.54
Shares used in computing earnings per share:		
Basic	52,432	52,378
Diluted	52,821	52,919
Dividends declared per share	$ 0.35	$ 0.35

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

HSN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2017	**2016**
Net income	$ 21,248	$ 28,585
Other comprehensive income (loss):		
Change in fair value of derivative instrument, net of tax	327	(249)
Other comprehensive income (loss), net of tax	327	(249)
Comprehensive income	$ 21,575	$ 28,336

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

HSN, INC. AND SUBSIDIARIES

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

	March 31, 2017	December 31, 2016	March 31, 2016
ASSETS			
Current assets:			
Cash and cash equivalents	$ 48,246	$ 42,734	$ 46,785
Accounts receivable, net of allowance of $18,926, $19,086 and $19,706, respectively	236,828	335,005	217,878
Inventories	409,663	391,106	441,977
Prepaid expenses and other current assets	49,128	44,173	55,481
Total current assets	743,865	813,018	762,121
Property and equipment, net	210,382	211,106	206,344
Intangible assets, net	253,634	253,623	255,266
Goodwill	9,858	9,858	9,858
Other non-current assets	18,275	16,928	12,718
TOTAL ASSETS	$ 1,236,014	$ 1,304,533	$ 1,246,307
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable, trade	$ 217,129	$ 293,816	$ 209,933
Current maturities of long-term debt	28,125	25,000	25,000
Accrued expenses and other current liabilities	208,144	225,265	204,897
Total current liabilities	453,398	544,081	439,830
Long-term debt, less current maturities and net of unamortized deferred financing costs	495,932	484,878	592,302
Deferred income taxes	60,665	59,760	42,929
Other long-term liabilities	24,638	20,328	20,006
Total liabilities	1,034,633	1,109,047	1,095,067
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; 52,374,108, 52,239,795 and 52,283,382 issued shares March 31, 2017, December 31, 2016 and March 31, 2016, respectively	523	522	523
Additional paid-in capital	998,007	1,013,688	1,062,128
Accumulated deficit	(799,696)	(820,944)	(911,067)
Accumulated other comprehensive income (loss)	2,547	2,220	(344)
Total shareholders' equity	201,381	195,486	151,240
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,236,014	$ 1,304,533	$ 1,246,307

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, 2015	—	$ —	52,378	$ 524	$ 1,085,785	$ (939,652)	$ (95)	$ 146,562
Net income	—	—	—	—	—	118,708	—	118,708
Other comprehensive income	—	—	—	—	—	—	2,315	2,315
Stock-based compensation expense for equity awards	—	—	—	—	19,233	—	—	19,233
Cash dividends declared on common stock	—	—	—	—	(73,151)	—	—	(73,151)
Issuance of common stock from stock-based compensation awards, including tax effect of $658	—	—	219	2	(1,616)	—	—	(1,614)
Repurchases of common stock	—	—	(357)	(4)	(16,563)	—	—	(16,567)
Balance as of December 31, 2016	—	—	52,240	522	1,013,688	(820,944)	2,220	195,486
Net income	—	—	—	—	—	21,248	—	21,248
Other comprehensive income	—	—	—	—	—	—	327	327
Stock-based compensation expense for equity awards	—	—	—	—	4,704	—	—	4,704
Cash dividends declared on common stock	—	—	—	—	(18,331)	—	—	(18,331)
Issuance of common stock from stock-based compensation awards	—	—	134	1	(2,054)	—	—	(2,053)
Balance as of March 31, 2017	—	$ —	52,374	$ 523	$ 998,007	$ (799,696)	$ 2,547	$ 201,381

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

HSN, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net income	$ 21,248	$ 28,585
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,886	10,525
Stock-based compensation expense	4,704	5,376
Amortization of debt issuance costs	429	444
Deferred income taxes	(1,500)	(1,415)
Bad debt expense	6,083	4,588
Other	(249)	178
Changes in current assets and liabilities:		
Accounts receivable	92,094	84,109
Inventories	(18,557)	(13,953)
Prepaid expenses and other assets	(4,808)	(9,248)
Accounts payable, accrued expenses and other current liabilities	(87,991)	(76,725)
Net cash provided by operating activities	22,339	32,464
Cash flows from investing activities:		
Capital expenditures	(9,859)	(5,145)
Other	(794)	—
Net cash used in investing activities	(10,653)	(5,145)
Cash flows from financing activities:		
Repayments of term loan	(6,250)	(6,250)
Borrowings under revolving credit facility	110,000	45,000
Repayments of revolving credit facility	(90,000)	(55,000)
Repurchase of common stock	—	(8,671)
Cash dividends paid	(18,331)	(18,300)
Proceeds from issuance of common stock	423	586
Payments of tax withholdings related to stock-based awards	(2,016)	(1,825)
Net cash used in financing activities	(6,174)	(44,460)
Net increase (decrease) in cash and cash equivalents	5,512	(17,141)
Cash and cash equivalents at beginning of period	42,734	63,926
Cash and cash equivalents at end of period	$ 48,246	$ 46,785

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1—ORGANIZATION

Company Overview

HSN, Inc. (“HSNi”) is an interactive multi-channel retailer that markets and sells a wide range of third party and proprietary merchandise directly to consumers through various platforms including (i) television home shopping programming broadcast on the HSN television networks; (ii) catalogs, consisting primarily of the Cornerstone portfolio of leading print catalogs which includes Ballard Designs, Frontgate, Garnet Hill, Grandin Road and Improvements; (iii) websites, which consist primarily of HSN.com, joymangano.com and the five 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 sold in September 2016. See Note 14 for further discussion.

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, 2016. The consolidated balance sheet as of December 31, 2016 and the consolidated statement of shareholders' equity for the year endedDecember 31, 2016 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 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. HSNi adopted ASU 2015-11 on January 1, 2017. The adoption of ASU 2015-11 did not have a material impact to HSNi's consolidated financial statements.

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 and 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. HSNi adopted ASU 2016-09 on January 1, 2017. Amendments related to accounting for excess tax benefits and deficiencies have been adopted prospectively resulting in the recognition of $0.4 million of tax expense within HSNi's consolidated statements of earnings rather than as a reduction to additional paid in capital for the three months ended March 31, 2017. Also, excess tax benefits related to share-based payments are now included in operating cash flows rather than financing cash flows in the statement of cash flows. This change has been applied retrospectively in accordance with ASU 2016-09 and prior period amounts which are considered immaterial have been reclassified. We have previously classified cash paid for tax withholding purposes as a financing activity in the statement of cash flows; therefore there is no change related to this requirement. The amendments allow for a one-time accounting policy election to either account for forfeitures as they occur or continue to estimate forfeitures as required by previous guidance. HSNi has elected to continue estimating forfeitures under the previous guidance.

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. This standard will become effective for HSNi in the first quarter of 2018.

In 2015, HSNi established an implementation team (“team”) to assess the overall impact the adoption of ASU 2014-09 will have on its consolidated financial statements, processes, systems and controls. The team is in the process of developing its conclusions and assessing the impact of several aspects of the standard including principal versus agent considerations, identification of performance obligations and the determination of when control of goods transfers to the company’s customers. HSNi will adopt ASU 2014-09 on January 1, 2018. HSNi is still evaluating the accounting, transition method and disclosure requirements.

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 January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350) ("ASU 2017-04"). ASU 2017-04 simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. ASU No. 2017-04 is effective for HSNi in the first quarter of 2020, with early adoption permitted and is to be applied on a prospective basis. The adoption of the provisions of ASU No. 2017-04 is not expected to have a material impact on HSNi's consolidated financial position or results of operations.

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 net realizable value 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.

NOTE 3—PROPERTY AND EQUIPMENT

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

	March 31, 2017	December 31, 2016	March 31, 2016
Capitalized software	$ 256,717	$ 252,741	$ 237,202
Computer and broadcast equipment	89,708	91,119	93,557
Buildings and leasehold improvements	118,016	113,731	110,887
Furniture and other equipment	125,940	124,518	97,434
Projects in progress	27,366	27,666	51,860
Land and land improvements	10,584	10,584	10,635
	628,331	620,359	601,575
Less: accumulated depreciation and amortization	(417,949)	(409,253)	(395,231)
Total property and equipment, net	$ 210,382	$ 211,106	$ 206,344

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, 2016. 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 HSNi’s consolidated net income to operating income for HSNi's operating segments and Adjusted EBITDA (in thousands):

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	HSN	Cornerstone	Total	HSN	Cornerstone	Total
Net income			$ 21,248			$ 28,585
Income tax provision			13,467			17,097
Income before income taxes			34,715			45,682
Total other expense, net			3,864			4,147
Operating income	$ 37,512	$ 1,067	38,579	$ 49,645	$ 184	49,829
Non-cash charges:						
Stock-based compensation expense	3,392	1,312	4,704	4,039	1,337	5,376
Depreciation and amortization	7,707	3,179	10,886	7,003	3,522	10,525
Gain (loss) on disposition of fixed assets	(49)	—	(49)	3	(1)	2
Adjusted EBITDA	$ 48,562	$ 5,558	$ 54,120	$ 60,690	$ 5,042	$ 65,732

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

	Three Months Ended March 31,	
	2017	2016
Net sales:		
HSN	$ 560,529	$ 578,383
Cornerstone	224,906	238,382
Total	$ 785,435	$ 816,765

NOTE 5—EARNINGS PER SHARE

HSNi computes basic earnings per share using the weighted average number of common shares outstanding for the period. HSNi computes diluted earnings per share using the treasury stock method, which includes the weighted average number of common shares outstanding for the period plus the potential dilution that could occur if various equity awards to issue common stock were exercised or restricted equity awards were vested resulting in the issuance of common stock that could share in HSNi's earnings.

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

	Three Months Ended March 31,	
	2017	2016
Net income	$21,248	$28,585
Weighted average number of shares outstanding:		
Basic	52,432	52,378
Dilutive effect of stock-based compensation awards	389	541
Diluted	52,821	52,919
Net income per share:		
Basic	$ 0.41	$ 0.55
Diluted	$ 0.40	$ 0.54
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	3,814	1,919

NOTE 6—LONG-TERM DEBT

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

	March 31, 2017	December 31, 2016	March 31, 2016
Secured credit agreement expiring January 27, 2020:			
Term loan	$ 468,750	$ 475,000	$ 493,750
Revolving credit facility	60,000	40,000	130,000
Long-term debt	528,750	515,000	623,750
Unamortized deferred financing costs	(4,693)	(5,122)	(6,448)
Long-term debt, net of unamortized deferred financing costs	524,057	509,878	617,302
Less: current maturities	(28,125)	(25,000)	(25,000)
Long-term debt, less current maturities and net of unamortized deferred financing costs	$ 495,932	$ 484,878	$ 592,302

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. 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.

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 March 31, 2017 with a leverage ratio of 1.9x and an interest coverage ratio of 20.0x.

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 $528.8 million outstanding long-term debt balance as of March 31, 2017 was 2.45%. 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 $7.2 million as of March 31, 2017. The ability to draw funds under the revolving credit facility is dependent upon meeting the aforementioned financial covenants. As of March 31, 2017, 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 $472.6 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 March 31, 2017, 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 March 31, 2017 and 2016 were income of approximately $0.3 million and a loss of approximately $0.2 million, respectively, and were included in other comprehensive income (loss).

The fair values of the interest rate swaps at March 31, 2017 and December 31, 2016 were assets of $4.1 million and $3.6 million, respectively, and were recorded in "Other non-current assets." The fair value of the interest rate swaps at March 31, 2016 was a liability of $0.6 million and was recorded in "Other long-term liabilities" in the consolidated balance sheets. HSNi estimates that approximately $0.5 million of unrealized income included in accumulated other comprehensive income 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 financial assets and liabilities which are measured at fair value on a recurring basis in the consolidated balance sheets (in thousands):

	March 31, 2017			
	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
Assets:				
Interest rate swaps	$ 4,077	$ —	$ 4,077	$ —

	December 31, 2016			
	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
Assets:				
Interest rate swaps	$ 3,577	$ —	$ 3,577	$ —

	March 31, 2016			
	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap	$ 552	$ —	$ 552	$ —

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 carrying amount of the term loan and revolving credit facility outstanding under the Credit Agreement approximates fair value as these instruments have variable interest rates which approximate current market rates (level 2 criteria).

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 expense 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, excess tax benefits and deficiencies related to share-based awards and 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 are 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 and permanent and temporary differences. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or the tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in tax expense for the current quarter.

For the three months ended March 31, 2017, HSNi recorded a tax provision of $13.5 million which represents an effective tax rate of 38.8%. For the three months ended March 31, 2016, HSNi recorded a tax provision of $17.1 million which represents an effective tax rates of 37.4%.

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. Currently, HSNi’s 2013 through 2015 tax returns are under audit by the state of Florida. HSNi does not anticipate any material adjustments to our tax liabilities as a result of the 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 March 31,	
	2017	2016
Selling and marketing	$ 1,588	$ 1,808
General and administrative	3,116	3,568
Stock-based compensation expense before income taxes	4,704	5,376
Income tax benefit	(1,240)	(1,876)
Stock-based compensation expense after income taxes	$ 3,464	$ 3,500

As of March 31, 2017, there was approximately $38.5 million of unrecognized compensation cost, net of estimated forfeitures, related to all equity-based awards which is currently expected to be recognized on a straight-line basis over a weighted average period of approximately 2.3 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 March 31, 2017, there were approximately 0.5 million shares of common stock available for grants under the Plan.

During the first quarter of 2017, HSNi granted 96,439 performance share units ("PSUs") to certain executive employees. PSUs cliff 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 three months ended March 31, 2017 is as follows:

	Three Months Ended March 31, 2017	
	Number of Awards Granted	Weighted Average per Share Fair Value
Maximum value stock appreciation rights (a)	1,144,049	$6.36
Restricted stock units	291,420	$38.14
Performance share units (b)	192,878	$57.36
Employee stock purchase plan options	31,729	$8.63
Dividend equivalents due to quarterly dividend	8,940	-

(a) Maximum value SARs are similar to traditional SARs, except these instruments contain a predetermined cap of 200% on the maximum earnings potential a recipient can expect to receive upon exercise.

(b) PSUs are reflected at the maximum 200% potential value.

The fair values of the options granted under the HSN, Inc. 2010 Employee Stock Purchase Plan are estimated on the grant date using the Black-Scholes option pricing model. The fair values of the maximum value stock appreciation rights and PSUs are 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 three months ended March 31, 2017 are as follows:

	Three Months Ended March 31, 2017		
	Maximum Value Stock Appreciation Rights	Employee Stock Purchase Plan Options	Performance Share Units
Volatility factor	27.4 %	38.7 %	30.0 %
Risk-free interest rate	1.79 %	0.65 %	1.40 %
Expected term	4.7	0.5	2.9
Dividend yield	3.6 %	4.1 %	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 three months ended March 31, 2017, there were no share repurchases. During the three months ended March 31, 2016, HSNi acquired approximately 181,000 shares of its outstanding common stock for $8.7 million at an average price of $48.04. All shares were retired immediately following purchase. As of March 31, 2017, approximately 2.7 million shares remain authorized for repurchase under the program.

Dividend Policy

In the first quarter of 2017, 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 March 22, 2017 to HSNi's shareholders of record as of March 8, 2017.

In the second quarter of 2017, HSNi's Board of Directors approved a quarterly cash dividend of$0.35 per common share. The dividend will be paid on June 21, 2017 to HSNi's shareholders of record as of June 7, 2017.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes the cumulative gains and losses of derivative instruments that qualify as cash flow hedges. The following table provides a rollforward of accumulated other comprehensive income (loss) (in thousands):

	Three Months Ended March 31,	
	2017	2016
Accumulated other comprehensive income (loss) as of January 1,	$ 2,220	$ (95)
Other comprehensive loss before reclassifications	(242)	(603)
Amounts reclassified from accumulated other comprehensive income to interest expense in the consolidated statements of operations	742	200
Income tax (expense) benefit	(173)	154
Other comprehensive income (loss), net of tax	327	(249)
Accumulated other comprehensive income (loss) as of March 31,	$ 2,547	$ (344)

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.

NOTE 13—COSTS ASSOCIATED WITH AN EXIT ACTIVITY

As part of its supply chain optimization initiative, 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. HSNi expects the closure to be completed in 2018.

HSNi 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, $3.2 million of which were recognized in fiscal 2015.

A summary of HSNi's liability associated with exit activities, which is recorded in "Other long-term liabilities" as of March 31, 2017 and "Accrued expenses and other current liabilities" as of March 31, 2016 in the accompanying consolidated balance sheets, are presented in the following table (in thousands):

	Employee Related Costs	
	2017	2016
Balance at January 1	$ 3,100	$ 3,221
Provisions	—	—
Payments	(63)	—
Adjustments	—	—
Balance at March 31	$ 3,037	$ 3,221

NOTE 14—DIVESTITURES

On September 8, 2016, HSNi completed the sale of substantially all of the assets and certain liabilities of Chasing Fireflies and TravelSmith, two of the apparel brands included within the Cornerstone segment for a sale price of $1 million. The sales agreement included contingent consideration of $2 million that was based on the achievement of certain performance metrics in 2016 which were not achieved. No value was assigned to the contingent consideration as it was not considered probable of being earned.

The assets and liabilities of the two brands were classified as held for sale as of June 30, 2016 which resulted in a non-cash asset impairment charge of $20.4 million recorded in the second quarter of 2016 within the Cornerstone segment. During the year ended December 31, 2016, Cornerstone recorded an additional pre-tax loss on sale of $10.8 million. The transaction included cash charges of approximately $3.5 million related to transactions costs and employee and lease liabilities.

HSNi entered into a transition services agreement with the buyer to provide fulfillment and various back office support services through February 2017. Fees earned by HSNi under this transition services agreement of approximately $0.9 million for the three months ended ended March 31, 2017 are recorded in net sales in the consolidated statements of operations.

HSNi determined the sale of these businesses would not represent a strategic shift in its business nor would 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.

NOTE 15—SUBSEQUENT EVENT

On April 26, 2017, HSNi announced Mindy Grossman, the Company's Chief Executive Officer, had resigned effective May 24, 2017 and she will not stand for reelection to the Board of Directors at the Annual Meeting of Shareholders on May 24, 2017. The Board has retained a national search firm to assist with the search for a successor that will include both internal and external candidates. In addition, until a successor is named, the Board has established the Office of the Chief Executive consisting of Rod R. Little, Chief Financial Officer, William C. Brand, Chief Marketing Officer of HSNi and President of HSN; and Judy A. Schmeling, Chief Operating Officer of HSNi and President of Cornerstone Brands, Inc. Mr. Little will be acting as the Company's interim principal executive officer.

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, 2016 and the following:

- 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;
- the influence of the macroeconomic environment and its impact on consumer confidence and spending levels;
- failure to attract and retain television viewers and/or changes in consumer viewing habits of our programming;
- consolidation and/or divestiture in the cable industry, increases in on-air distribution costs and failure to secure a suitable programming tier of carriage and channel placement for the HSN television network programming;
- changes to international and national trade laws, regulations and policies (particularly those related to or restricting global trade) could significantly impair HSNi's profitability;
- interruption, lack of redundancy or difficulties implementing new or upgraded technology in our systems or infrastructure could affect our ability to broadcast, operate websites, process and fulfill transactions, respond to customer inquiries and/or maintain cost efficient operations;
- 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 in states where we do not currently do so;
- 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;
- changes in product shipping and handling costs particularly if we are unable to offset them;
- changes in consumer expectations for reduced shipping charges and faster delivery times particularly if we are unable to meet them;
- 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
- our chief executive officer transition, and our ability to appoint a new chief executive officer with the required level of experience and expertise in a timely manner; or the loss of any additional 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

Overview of Results

HSNi’s net sales in the first quarter of 2017 decreased 4% to $785.4 million. Net sales at HSN decreased 3% to $560.5 million and Cornerstone’s net sales decreased 6% to $224.9 million. The prior year period included the benefit of an additional day for leap year within the HSN segment and the net sales from two Cornerstone brands that were divested in September 2016. Excluding these effects, HSNi's net sales decreased 1%; HSN's net sales decreased 2%; and Cornerstone's net sales increased 1%. Both segments were impacted by a challenging and highly competitive retail environment. We also continued to experience increased pressure on shipping and handling revenues in both the HSN and Cornerstone segments, a trend we expect to continue through 2017.

Digital commerce remains an essential part of our strategy to optimize the content of all our brands across multiple distributed commerce platforms. HSNi digital sales penetration represents 54% of our business. Sales from mobile devices, including smart phones and tablets, grew 11% and represent 24% of our total business. We will continue to invest in digital technologies to enable us to offer a highly personalized and engaging experience based on customer profile, preferences and usage.

In September 2016, HSNi completed the divestiture of two of the under-performing apparel brands within the Cornerstone portfolio, TravelSmith and Chasing Fireflies, allowing us to exclusively focus on improving the performance of our strategic brands. The results of TravelSmith and Chasing Fireflies are included in the results of HSNi and Cornerstone through the date of the divestiture.

As part of our distributed commerce strategies, we continued to invest in Cornerstone's experiential retail stores in key markets to expand consumer touch points with our brands. We have seen increased demand and higher lifetime-value customers in the regions where our retail stores are located. During the first quarter of 2017, we opened one new Ballard Designs retail store and have plans to open one Frontgate and two additional Ballard Designs retail stores in 2017.

HSNi continued implementation of its supply chain optimization initiative which includes the automation and consolidation of certain HSNi distribution centers. HSN began phasing in its expanded automation capabilities in its Piney Flats, Tennessee distribution center in the third quarter of 2016. HSN incurred additional costs of approximately $4 million in the first quarter of 2017 related to the implementation in the form of increased labor, operational inefficiencies and increased consulting costs. These costs negatively impacted gross profit by $2.4 million and operating expenses by $1.6 million. We expect that approximately $6 million of additional related charges will be incurred in 2017, with approximately half impacting gross profit. Upon the project's completion, we expect to realize financial and operational benefits of the supply chain optimization initiative in the form of increased labor efficiencies, more efficient space utilization, lower transportation costs and faster customer deliveries.

As part of the supply chain optimization, HSN will be closing its Roanoke, Virginia distribution center which is expected to occur in 2018. 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, which were recognized in fiscal 2015. See Note 13 of Notes to Consolidated Financial Statements for further discussion of the planned closure of the Roanoke, Virginia distribution center.

HSNi's net income in the first quarter of 2017, decreased 26% to $21.2 million. The decrease in net income was primarily due to gross profit compression as a result of the lower sales, heightened promotional activity in shipping and handling and the additional costs incurred related to the supply chain optimization implementation. The decrease was partially offset by lower operating expenses as a result of the divested businesses.

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 March 31,		
	2017	Change	2016
	(Dollars in thousands)		
HSN	$ 560,529	(3)%	$ 578,383
Cornerstone	224,906	(6)%	238,382
Total HSNi net sales	$ 785,435	(4)%	$ 816,765

HSNi net sales in the first quarter of 2017 decreased 4%, or $31.3 million, due to a 3% decline at HSN and a 6% decline at Cornerstone. Excluding the results of the divestitures and the benefit of the additional day for leap year at HSN from the prior year, HSNi net sales in the first quarter of 2017 decreased 1%, or $11.4 million, compared to the prior year period. Digital sales were flat to prior year while penetration increased 200 basis points to 53.8%. Mobile sales grew 11% and as a percentage of digital sales were 44.7%, up from 40.5% in the prior year. Gross units shipped in the first quarter of 2017 decreased 8% to 13.8 million while the average price point increased 5% to $62.99.

HSN

HSN net sales in the first quarter of 2017 decreased 3%, or $17.9 million. Excluding the benefit of having an additional day for leap year in the first quarter of 2016, HSN's net sales decreased 2%. Digital sales grew 3% and penetration increased 290 basis points to 46.7%. Mobile sales grew 12% and as a percentage of digital sales were 54.0%, up from 49.9% in the prior year. Sales grew in apparel & accessories, kitchen and home, offset by decreases in other categories. Shipping and handling revenues decreased primarily due to an August 2016 reduction in HSN's standard shipping rates and an increase in shipping and handling promotions. The return rate improved 160 basis points from 16.8% to 15.2% primarily due to a shift in sales mix to categories with lower return rates as well as continuing to experience lower than historical return rates in many product categories. Average price point increased 4% to $56.49 driven by changes in product mix. Units shipped decreased 8% to 11.2 million.

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

	Three Months Ended March 31,	
	2017	2016
Jewelry	8.0%	8.6%
Fashion (apparel & accessories)	16.7%	15.6%
Beauty & Health (including beauty, wellness and fitness)	25.5%	26.6%
Home & Other (including home, electronics, kitchen and other)	49.8%	49.2%
Total	100.0%	100.0%

Cornerstone

Cornerstone net sales in the first quarter of 2017 decreased 6%, or $13.5 million. Digital sales decreased 5% while penetration increased 60 basis points to 71.5%. Mobile sales grew 7% and as a percentage of digital sales were 29.6%, up from 26.4% in the prior year. Catalog circulation was 66.1 million, a decrease of 21% compared to prior year. The return rate was 14.0% compared to 13.2% in the prior year. Units shipped decreased 11% and average price point increased 8%. Cornerstone added one retail store during the first quarter of 2017 with a total of 17 stores open as of March 31, 2017 compared to 14 stores as of March 31, 2016. Cornerstone expects to open an additional three retail stores in 2017.

The divestiture of TravelSmith and Chasing Fireflies which occurred in September 2016 impacted the comparability between periods of net sales and of certain sales-related operating metrics. Excluding the divestitures, net sales increased 1%; units shipped increased 2% and average price point increased 2%. Excluding the divestitures, digital sales grew 2% with penetration increasing 120 basis points; mobile sales grew 15% and as a percentage of digital sales increased 330 basis points. Excluding the divestitures, catalog circulation decreased 14% which was largely due to timing and the strategic decision to allocate additional spend towards digital advertising.

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

	Three Months Ended March 31,	
	2017	2016 (b)
Home brands (Ballard Designs, Frontgate, Grandin Road and Improvements) (a)	81.5%	76.7%
Apparel brands (Chasing Fireflies, Garnet Hill and TravelSmith) (a)	18.5%	23.3%
Total	100.0%	100.0%

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

(b) The first quarter of 2016 includes the results of Chasing Fireflies and TravelSmith.

Cost of Sales and Gross Profit

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

	Three Months Ended March 31,				
	2017		Change	2016	
	(Dollars in thousands)				
Gross profit:					
HSN	$	191,132	(4)%	$	199,285
As a percentage of HSN net sales		34.1%	(40 bps)		34.5%
Cornerstone	$	82,005	(9)%	$	90,193
As a percentage of Cornerstone net sales		36.5%	(130 bps)		37.8%
HSNi	$	273,137	(6)%	$	289,478
As a percentage of HSNi net sales		34.8%	(60 bps)		35.4%

bp = basis points

HSN

Gross profit for HSN in the first quarter of March 31, 2017 decreased 4%, or $8.2 million. Gross profit as a percentage of net sales decreased 40 basis points to 34.1% primarily due to a decrease in shipping revenues and higher fulfillment costs, partially offset by an increase in product margins. The increase in fulfillment costs of approximately 40 basis points was primarily associated with the ongoing implementation of HSNi's supply chain optimization initiative which resulted in higher labor costs and operational inefficiencies during the quarter. Product margins were favorably impacted in the first quarter of 2017 by less clearance activity; however, HSN is carrying excess inventories in certain product categories that could create future margin pressure in the form of markdowns.

Cornerstone

Gross profit for Cornerstone in the first quarter of 2017 decreased 9%, or $8.2 million. Gross profit as a percentage of net sales decreased 130 basis points to 36.5%. Excluding the divestitures, gross profit as a percentage of net sales decreased 3% primarily due to a decrease in shipping margins as a result of increased promotional activity in the home brands, partially offset by higher product margins primarily driven by strategic pricing initiatives.

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.

	Three Months Ended March 31,		
	2017	Change	2016
	(Dollars in thousands)		
HSN	$ 102,432	(3)%	$ 105,570
As a percentage of HSN net sales	18.3%	-	18.3%
Cornerstone	$ 64,867	(12)%	$ 73,591
As a percentage of Cornerstone net sales	28.8%	(210 bps)	30.9%
HSNi	$ 167,299	(7)%	$ 179,161
As a percentage of HSNi net sales	21.3%	(60 bps)	21.9%

HSNi's selling and marketing expense in the first quarter of March 31, 2017 was $167.3 million, a decrease of $11.9 million from prior year, and was 21.3% of net sales compared to 21.9% in the prior year.

HSN

HSN's selling and marketing expense in the first quarter of 2017 decreased $3.1 million compared to the prior year and was 18.3% of net sales, consistent with the prior year. The decrease in expense is primarily due to higher advertising and media costs in the prior year related to the expansion of HSN's wholesale business and direct-response television marketing; lower employee-related costs primarily in our sales and customer service center; and a decrease in on-air distribution costs; partially offset by an increase in digital marketing expense.

Cornerstone

Cornerstone's selling and marketing expense in the first quarter of 2017 decreased $8.7 million and was 28.8% of net sales compared to 30.9% in the prior year. Excluding the divestitures, selling and marketing expense was consistent with the prior year; however, in connection with Cornerstone's strategy to focus more on digital marketing, there was a decrease in catalog costs that were offset by increases in expenses related to digital marketing and the additional retail 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.

	Three Months Ended March 31,		
	2017	Change	2016
	(Dollars in thousands)		
HSN	$ 43,481	17%	$ 37,068
As a percentage of HSN net sales	7.8%	140 bps	6.4%
Cornerstone	$ 12,892	—%	$ 12,895
As a percentage of Cornerstone net sales	5.7%	30 bps	5.4%
HSNi	$ 56,373	13%	$ 49,963
As a percentage of HSNi net sales	7.2%	110 bps	6.1%

HSNi’s general and administrative expense in the first quarter of 2017 increased 13%, or $6.4 million, and was 7.2% of net sales compared to 6.1% in the prior year.

HSN

HSN's general and administrative expense in the first quarter of 2017 increased 17%, or $6.4 million, and was 7.8% of net sales compared to 6.4% in the prior year. The increase is primarily due to an increase in employee-related costs, additional consulting costs of $1.6 million incurred from the supply chain optimization implementation and a $1.4 million increase in bad debt expense.

Cornerstone

Cornerstone's general and administrative expense in the first quarter of 2017 was consistent with prior year and was 5.7% of net sales, compared to 5.4% in the prior year. Within general and administrative expense, there was a decrease in expense as a result of the divestitures, offset by an increase in incentive-based employee compensation.

Depreciation and Amortization

	Three Months Ended March 31,		
	2017	Change	2016
	(Dollars in thousands)		
HSN	$ 7,707	10%	$ 7,003
Cornerstone	3,179	(10)%	3,522
HSNi	$ 10,886	3%	$ 10,525
As a percentage of HSNi net sales	1.4%	10 bps	1.3%

Depreciation and amortization in the first quarter of 2017 increased 3%, or $0.4 million. The increase in HSN's depreciation expense is primarily related to the assets associated with the supply chain optimization.

Operating Income

	Three Months Ended March 31,		
	2017	Change	2016
	(Dollars in thousands)		
HSN	$ 37,512	(24)%	$ 49,645
As a percentage of HSN net sales	6.7%	(190 bps)	8.6%
Cornerstone	$ 1,067	479%	$ 184
As a percentage of Cornerstone net sales	0.5%	40 bps	0.1%
HSNi	$ 38,579	(23)%	$ 49,829
As a percentage of HSNi net sales	4.9%	(120 bps)	6.1%

HSNi's operating income in the first quarter of 2017 decreased 23%, or $11.2 million, and was 4.9% of net sales compared to 6.1% in the prior year. The decrease was due to a 4% decrease in net sales and 60 basis point decline in gross profit as a percentage of net sales, partially offset by a $5.1 million decrease in operating expenses.

HSN

HSN's operating income in the first quarter of 2017 decreased 24%, or $12.1 million, and was 6.7% of net sales, compared to 8.6% the prior year. The decrease was due to a 3% decrease in net sales, 40 basis point decline in gross profit as a percentage of net sales and $4 million increase in operating expenses. The supply chain optimization implementation resulted in an additional $4 million in costs which negatively impacted gross profit by $2.4 million and operating expenses by $1.6 million.

Cornerstone

Cornerstone's operating income in the first quarter of 2017 increased $0.9 million to $1.1 million and was 0.5% of net sales compared to 0.1% in the prior year. Excluding TravelSmith and Chasing Fireflies, operating income decreased $3.9 million due to lower performance in the home brands and the absorption of approximately $1 million in fixed costs previously allocated to the divested businesses.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure. Please refer to Note 4 of the Notes to Consolidated Financial Statements for a discussion of the usefulness of this metric and for the reconciliation of operating income to Adjusted EBITDA for HSNi's operating segments and to HSNi's consolidated net income.

	Three Months Ended March 31,		
	2017	Change	2016
	(Dollars in thousands)		
HSN	$ 48,562	(20)%	$ 60,690
As a percentage of HSN net sales	8.7%	(180 bps)	10.5%
Cornerstone	$ 5,558	10%	$ 5,042
As a percentage of Cornerstone net sales	2.5%	40 bps	2.1%
HSNi	$ 54,120	(18)%	$ 65,732
As a percentage of HSNi net sales	6.9%	(110 bps)	8.0%

HSNi's Adjusted EBITDA in the first quarter of 2017 decreased 18%, or $11.6 million, and was 6.9% of net sales compared to 8.0% in the prior year. The decrease in Adjusted EBITDA was due a 4% decrease in net sales and 60 basis point decrease in gross profit as a percentage of net sales, partially offset by a $4.7 million decrease in operating expenses (excluding non-cash charges identified in Note 4 to Notes to Consolidated Financial Statements). Operating expenses as a percentage of net sales excluding certain non-cash charges (identified in Note 4 to Notes to Consolidated Financial Statements) were 27.9% compared to 27.4% in the prior year.

HSN

HSN's Adjusted EBITDA in the first quarter of 2017 decreased 20%, or $12.1 million, and was 8.7% of net sales compared to 10.5% in the prior year. Adjusted EBITDA includes approximately $4 million of additional costs related to the supply chain optimization implementation. Operating expenses as a percentage of net sales (excluding non-cash charges identified in Note 4 to Notes to Consolidated Financial Statements) were 25.4% compared to 24.0% in the prior year.

Cornerstone

Cornerstone's Adjusted EBITDA in the first quarter of 2017 increased 10%, or $0.5 million, and was 2.5% of net sales compared to 2.1% in the prior year. Excluding non-cash charges (identified in Note 4 to Notes to Consolidated Financial Statements), operating expenses as a percentage of net sales were 34.0% compared to 35.7% in the prior year.

Excluding TravelSmith and Chasing Fireflies, Adjusted EBITDA decreased $4.1 million and was 2.5% of net sales compared to 4.3% in the prior year. The decrease was due to lower performance in the home brands and the absorption of approximately $1 million in fixed costs that were previously allocated to the divested businesses. Excluding the divestitures and non-cash charges (identified in Note 4 to Notes to Consolidated Financial Statements), operating expenses as a percentage of net sales were 34.0% compared to 33.6% in the prior year.

Other Income (Expense)

	Three Months Ended March 31,		
	2017	Change	2016
	(Dollars in thousands)		
Interest income	$ 213	736%	$ 25
Interest expense	(4,077)	(2)%	(4,172)
Total other expense, net	$ (3,864)	(7)%	$ (4,147)
As a percentage of HSNi net sales	0.5%	-	0.5%

Interest expense for the first quarter ended March 31, 2017 was $4.1 million, relatively unchanged from the prior year, due to lower average outstanding debt balances being offset by a higher average interest rate. The interest rate swaps as of March 31, 2017 and 2016 effectively converted $187.5 million of our variable rate term loan to a fixed rate. Beginning in April 2017, the interest rate swaps will effectively convert $250.0 million of our variable rate term loan to a fixed rate. See further discussion in Liquidity and Capital Resources.

Income Tax Provision

For the three months ended March 31, 2017 and March 31, 2016, HSNi recorded a tax provision of $13.5 million and $17.1 million, which represents effective tax rates of 38.8% and 37.4%, respectively. The change in the effective tax rate was primarily due to the adoption of ASU 2016-09 on January 1, 2017 which impacted how the tax effects of share-based awards are recognized. The adoption of ASU 2016-09 introduces a degree of volatility to HSNi's interim and annual effective tax rate. The excess or deficiencies in the tax benefits of share-based compensation are impacted by the value of the Company's shares at the time when awards are vested or exercised.

As a result of the resignation of Mindy Grossman, Chief Executive Officer, effective May 24, 2017, the Company is expecting it could incur additional income tax expense in the third quarter of 2017 related to certain vested equity awards that are out-of-the-money as of May 2, 2017. If these awards expire unexercised, it could result in an effective tax rate for the third quarter of 2017 of up to 46%, resulting in an annual effective tax rate of approximately 39%.

Liquidity and Capital Resources

As of March 31, 2017, HSNi had $48.2 million of cash and cash equivalents compared to $42.7 million as of December 31, 2016 and $46.8 million as of March 31, 2016.

Net cash provided by operating activities for the three months ended March 31, 2017 was $22.3 million compared to $32.5 million in the prior year, a decrease of $10.2 million, which was primarily due to a decrease in operating performance and changes in working capital. Working capital was negatively impacted in 2017 by the timing of accounts payable. Inventories were a higher use of cash due to the inventory growth at Cornerstone as a result of the additional retail stores as well as the timing of inventory receipts. Cash provided by accounts receivables in 2017 increased compared to the prior year due to a higher outstanding accounts receivable balance at the end of 2016 compared to 2015, partially offset by higher utilization and expanded offers of HSN's Flexpay offering in the three months ended March 31, 2017. HSN expects to continue to use its offering of Flexpay, when appropriate, as a tool to drive profitable revenue growth.

Net cash used in investing activities for the three months ended March 31, 2017 was $10.7 million and was related to capital expenditures primarily for investments in Cornerstone's retail store expansion, information technology, and infrastructure.

Net cash used in financing activities for the three months ended March 31, 2017 was $6.2 million. Borrowings of HSNi's long-term debt net of repayments during the current quarter, including for the term loan and revolving credit facility, were $13.8 million. HSNi paid quarterly cash dividends of $0.35 per share, representing an aggregate payment of $18.3 million.

On January 27, 2015, HSNi entered into a $1.25 billion five-year syndicated 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. As of March 31, 2017, total debt of $528.8 million was outstanding.

The Credit Agreement includes various covenants, limitations and events of default customary for similar facilities including a maximum leverage ratio of 3.50x and a minimum interest coverage ratio of 3.00x. HSNi was in compliance with all such covenants as of March 31, 2017 with a leverage ratio of 1.9x and an interest coverage ratio of 20.0x. 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 quarter cash dividend of $0.35 per share, or approximately $1.40 on an annualized basis, represents a Restricted Payment of approximately $18.3 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 $7.2 million million as of March 31, 2017. The ability to draw funds under the revolving credit facility is dependent upon meeting the aforementioned financial covenants, which may limit HSNi's ability to draw the full amount of the facility. As of March 31, 2017, 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 $472.6 million.

To reduce our future exposure to rising interest rates under our credit facility, we entered into interest rate swaps that effectively converted $187.5 million of our variable rate term loan to a fixed-rate of 0.8525% through April 2017, and then increased 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 March 31, 2017, 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 4 million share repurchase program which allows HSNi to purchase shares of its common stock from time to time through privately negotiated and/or open market transactions. The timing of any repurchases and actual number of shares repurchased depends on a variety of factors, including the stock price, corporate and regulatory requirements, restrictions under HSNi's debt obligations and other market and economic conditions. During the three months ended March 31, 2017, there were no shares repurchased. As of March 31, 2017, approximately 2.7 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 2017 are expected to be approximately $55 million to $60 million and primarily relate to investments in information technology, approximately $12 million for Cornerstone's retail expansion; our distribution centers, including our warehouse automation project; and digital commerce. HSNi's ability to fund its cash and capital needs will be affected by its ongoing ability to generate cash from operations, the overall capacity and terms of its financing arrangements as discussed above, and access to the capital markets. HSNi believes that its cash on hand, its anticipated operating cash flows, its available unused portion of the revolving credit facility and its access to capital markets will be sufficient to fund its operating needs, capital, investing and other commitments and contingencies for the foreseeable future.

In the second quarter of 2017, HSNi's Board of Directors approved a cash dividend of $0.35 per common share. The dividend will be paid on June 21, 2017 to HSNi's record holders as of June 7, 2017.

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, 2016. No material changes have occurred in HSNi's market risks since December 31, 2016.

ITEM 4. CONTROLS AND PROCEDURES

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of March 31, 2017. 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 endedMarch 31, 2017 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, 2016, 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 other than as set forth below.

We are undergoing a chief executive officer transition, which could cause disruption to our business, and our failure to appoint a new chief executive officer with the required level of experience and expertise in a timely manner could have an adverse impact on our operations and business strategy.

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.

As of March 31, 2017, there were 2,695,579 shares available for repurchase. During the first quarter of 2017, there were no repurchases.

Refer to Note 6 of 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

None

ITEM 6. EXHIBITS

Exhibit No.	Description of Document	Method of Filing
10.1	HSN, Inc. Employee Stock Purchase Plan, as Amended August 20, 2012	Filed herewith
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act	Filed herewith
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act	Filed herewith
101	The following financial information from HSNi's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017, formatted in XBRL (eXtensible Business Reporting Language) and filed electronically herewith: (i) Consolidated Statements of Operations for the Three Months Ended March 31, 2017 and 2016, (ii) Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2017 and 2016, (iii) Consolidated Balance Sheets as of March 31, 2017, December 31, 2016 and March 31, 2016, (iv) Consolidated Statements of Shareholders' Equity for the Three Months Ended March 31, 2017 and Year Ended December 31, 2016, (v) Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2016, and (vi) Notes to the Consolidated Financial Statements.	Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 3, 2017	By:	/S/ Rod Little
		Rod Little **Chief Financial Officer** **(Duly Authorized Officer and Principal Financial Officer)**

EXHIBIT 10.1

HSN, INC.
EMPLOYEE STOCK PURCHASE PLAN
as amended August 20, 2012

The following constitute the provisions of the HSN, Inc. Employee Stock Purchase Plan (the "***Plan***"), as adopted by HSN, Inc. ("***HSNi***") and its Designated Subsidiaries described in Section 2 of this Plan (collectively, with HSNi, the "***Company***").

1. Introduction.

(a) ***Purpose.*** The purpose of the Plan is to enable the Company to obtain and retain the services of employees. In addition, the Plan provides a convenient, meaningful opportunity for eligible Employees to purchase Common Stock of HSNi, thereby increasing participating Employees' personal interest in the Company's success.

(b) ***Portion of Plan to Comply with Code Section 423.*** The Company intends to have a portion of the Plan qualify as an "employee stock purchase plan" within the meaning of Code section 423; and intends that such portion of the Plan be treated as a separate plan. Such portion of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner that is consistent with Code section 423.

(c) ***Portions of Plan Not Complying with Code Section 423.*** Section 20 of this Plan, and any additional provisions adopted by the Committee pursuant thereto, are intended by HSNi to allow creation of separate portions of the Plan providing for the offering of Common Stock other than through the portion of the Plan governed by Code section 423, for purchase by individuals who are either (i) generally not subject to income taxation by the United States, or (ii) employed by non-corporate Subsidiaries that are not eligible to be Designated Subsidiaries because they are described in clause (ii) of the definition of Subsidiary below.

2. **Definitions.**

(a) "***Account***" means an account established pursuant to Section 6(b) and maintained on the books and records of the Company to record the amount of all remaining Contributions accumulated with respect to a Participant as a result of deductions made from such Participant's paychecks for the purpose of purchasing Shares under the Plan.

(b) "***Applicable Laws***" shall mean all applicable laws, rules, regulations and requirements, including, but not limited to, corporate and securities laws of any of the United States, United States federal securities laws, the Code, the rules of any stock exchange or quotation system on which Shares are listed or quoted; and the applicable laws, rules, regulations and requirements of any other country or jurisdiction where Options are granted under the Plan or where Employees reside or provide services, as such laws, rules, regulations and requirements shall be in effect from time to time.

(c) "***Board***" means the Board of Directors of HSNi.

(d) "***Business Day***" means any day (other than a Saturday or Sunday) on which the Nasdaq Global Select Market is permitted to be open for trading.

(e) "***Code***" means the Internal Revenue Code of 1986, as amended from time to time.

(f) "***Commencement Date***" means the first calendar day of each Contribution Period of the Plan.

(g) "***Committee***" means the Compensation and Human Resources Committee of the Board, or any successor committee of the Board with similar responsibilities; provided, however, that the Board shall have the power to take any action that may be taken by the Committee under this Plan, except to the extent such action would not comply with any Applicable Laws.

(h) "***Common Stock***" means the common stock, par value $0.01 per share, of HSNi.

(i) "***Company***" means collectively, HSNi and the Designated Subsidiaries (but only while a Designated Subsidiary is so designated).

(j) "***Compensation***" means total cash compensation received by a Participant from the Company. Compensation shall be limited to amounts received by a Participant during the period he or she is participating in the Plan and includes salary, wages, overtime premiums, bonuses and other incentive payments, amounts contributed by the Participant to any benefit plan maintained by the Company (including any Code section 125 plan, Code section 401(k) plan or any other deferred compensation plan), overtime pay, commissions, draws against commissions, shift differentials, sick pay, vacation pay, holiday pay, and shutdown pay, except to the extent that the exclusion of any such item (or a subset of any such items) is specifically directed by the Plan Administrator for all Participants in a manner that does not violate Code section 423. "**Compensation**" does not include any remuneration paid in a form other than cash, fringe benefits (including car allowances, tuition assistance and relocation payments), employee discounts, expense reimbursement or allowances, long-term disability payments, workers' compensation payments, welfare benefits, and any contributions that the Company or any other Subsidiary makes to any benefit plan (including any 401(k) plan or any other welfare or retirement plan), nor income realized as a result of participation in any stock option, restricted stock, stock purchase or similar plans of the Company or any other Subsidiary.

(k) "***Continuous Status as an Employee***" means, with respect to an Employee, a period of employment by the Company without any interruption or termination of his or her service as an Employee of the Company. Continuous Status as an Employee shall not be considered interrupted in the case of (i) medical leave; (ii) leave allowed under the Family and Medical Leave Act; (iii) personal leave; (iv) military leave; (v) jury duty; (vi) any other leave of absence approved by the Plan Administrator; provided, however, that such leave does not exceed the respective time period designated by Company policy, unless re-employment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; or (vii) transfers between locations of the Company, between HSNi and any of the Designated Subsidiaries, or between any of the Designated Subsidiaries. See the definition of "Employee" for the effect of any Designated Subsidiary ceasing to be a Designated Subsidiary.

(l) "***Contribution Period***" means any period of six consecutive months specified in Section 4(a), which shall be subject to change pursuant to Section 4(b); provided, however, that no Contribution Period shall exceed 27 months.

(m) "***Contributions***" means all amounts credited to the Account of a Participant pursuant to the Plan.

(n) ***"Designated Subsidiaries***" means all Subsidiaries that are either corporations described in clause (i) of the definition of Subsidiary below, or are treated as corporations under the Code as described in clause (iii) of that definition; and in either case have been designated by the Committee from time to time in its sole discretion as employers that are eligible to participate in the portion of the Plan that is subject to Code section 423. This definition of Designated Subsidiaries shall be interpreted consistently with Code section 424(f).

(o) "***Employee***" means any individual who is a common-law employee of the Company for purposes of tax withholding under Code section 3401(c), including an officer or director who is also such an employee, but excluding any individual whose customary employment is (i) less than 20 hours per week or (ii) for not more than 5 months in any calendar year. If the Committee determines that any Designated Subsidiary shall no longer be a Designated Subsidiary, or a Designated Subsidiary ceases to be a Designated Subsidiary because it is no longer a Subsidiary, the employees of such Designated Subsidiary shall automatically cease to be Employees or Participants as of the effective date of such event.

(p) "***ESPP Broker***" means the licensed broker-dealer or other financial services firm designated from time to time by the Plan Administrator in accordance with Section 9(a) to assist in administering this Plan.

(q) "***Exchange Act***" means the Securities Exchange Act of 1934, as amended.

(r) "***Fair Market Value***" means, with respect to the Common Stock on a given date, the last reported sale price for the Common Stock for such date, or if such date is not a Business Day, the last reported sale price for the Common Stock for the last Business Day preceding such date, as quoted on the Nasdaq Global Select Market; provided, however, that if the Common Stock ceases to be listed for trading on the Nasdaq Global Select Market or another exchange, "Fair Market Value" of the Common Stock for a given date shall mean the value determined in good faith by the Committee.

(s) "***Financial Hardship***" means an immediate and heavy financial need of the Participant (including the Participant's spouse or other dependents) as determined by the Plan Administrator, in its sole and absolute discretion, which may include, but are not limited to, the following: (i) certain medical expenses; (ii) costs relating to the purchase of a principal residence; (iii) tuition and related educational fees and expenses; (iv) payments necessary to prevent eviction from, or foreclosure on, a principal residence; (v) burial or funeral expenses; and (vi) certain expenses for the repair of damage to the Participant's principal residence. A financial need may be immediate and heavy even if it was reasonably foreseeable or voluntarily incurred by the Participant.

(t) "***HSNi***" means HSN, Inc., a Delaware corporation.

(u) "***New Purchase Date***" shall have the meaning set forth in Section 13.

(v) "***Option***" shall mean a right granted to a Participant under Section 7, as of the Commencement Date of a Contribution Period, to purchase Shares as of the Purchase Date in that Contribution Period.

(w) "***Participant***" means any Employee who is eligible and has elected to participate in the Plan accordance with Sections 3 and 5, and who has not withdrawn from the Plan or whose participation in the Plan is not otherwise terminated.

(x) "***Plan***" means this HSN, Inc. Employee Stock Purchase Plan, as it may be amended from time to time.

(y) "***Plan Administrator***" means the Committee, or if and to the extent the Committee designates one or more employees of the Company to administer the Plan in accordance with Section 14, such employee(s) shall be the Plan Administrator; provided, however, that, notwithstanding any such delegation, the Committee shall have the power to take any action that may be taken by the Plan Administrator under this Plan, except to the extent such action would not comply with any Applicable Laws.

(z) "***Purchase Date***" means the last calendar day of each Contribution Period of the Plan.

(aa) "***Purchase Price***" means, with respect to a Contribution Period, an amount equal to 85% (or such other percentage as the Committee may establish from time to time before any Commencement Date, though in no case may such percentage be less than 85%) of the Fair Market Value of a Share on the Commencement Date or on the Purchase Date, whichever is lower, subject to such additional limitations which may be set by the Committee from time to time.

(ab) "***Reserves***" means the sum of (i) the number of Shares covered by Options granted under the Plan that have not yet been exercised and (ii) the number of Shares that have been authorized for issuance under the Plan but have not yet been placed under an Option.

(ac) "***Share***" means a share of Common Stock, as adjusted in accordance with Section 12.

(ad) "***Subsidiary***" means any of the following entities:

(i) a corporation, domestic or foreign, of which not less than 50% of the total combined voting power of all classes of stock is held by HSNi or any such corporate subsidiary of HSNi, whether or not such corporation now exists or is hereafter organized or acquired by HSNi or another such subsidiary of HSNi;

(ii) an unincorporated business entity, domestic or foreign, such as a limited liability company or partnership, in which HSNi or another Subsidiary holds directly or indirectly not less than 50% of the total combined voting power with respect to all classes of equity ownership of such entity; or

(iii) an unincorporated business entity described in the preceding clause (ii) that either (A) has duly elected under applicable Treasury Regulations to be an association treated as a corporation for United States federal income tax purposes, and such election continues in effect; or (B) is disregarded as a separate entity for United States federal income tax purposes, has not made an election described in the preceding clause (A) and, pursuant to applicable Treasury Regulations, its assets are considered to be owned by HSNi or another Subsidiary that is a corporation or is treated as one under the preceding clause (A); whether or not such unincorporated business entity now exists or is hereafter organized or acquired by HSNi or another Subsidiary of HSNi.

3. **Eligibility.**

(a) ***Eligible Employees.*** Any individual who is an Employee, immediately after he or she has completed 90 calendar days of Continuous Status as an Employee, shall become eligible to participate in the Plan on the first day of the month coincident with or next following completion of such period of service, subject to the requirements of the following paragraph (b), Sections 5(a) and 11, and the limitations imposed by Code section 423(b). Except as otherwise provided in the following paragraph (b), each Employee who is eligible to participate in this Plan shall have the same rights and privileges under the Plan.

(b) ***Limitations on Option Grants to Eligible Employees.*** Notwithstanding any contrary provisions of the Plan, no Employee shall be granted an Option under the Plan (except for Options granted under any portion of the Plan not intended to be subject to the requirements of Code section 423):

(i) if, immediately after the grant, such Employee (together with any other person whose HSNi stock would be attributed to such Employee pursuant to section 424(d) of the Code) would own capital stock of HSNi or of any Subsidiary that is a corporation (or is treated as one under the Code) and/or hold outstanding options to purchase stock possessing in the aggregate 5% or more of the total combined voting power or value of all classes of issued and outstanding stock of HSNi or of any such Subsidiary; or

(ii) if such Option would permit his or her rights to purchase stock under all employee stock purchase plans (described in section 423 of the Code) of HSNi or of any Subsidiary that is a corporation (or is treated as one under the Code) to accrue at a rate that exceeds $25,000 of the Fair Market Value of such stock (determined at the time such Option is granted), or that exceeds 5,000 Shares, for each calendar year in which such Option is outstanding at any time. The annual 5,000 share limitation in the preceding sentence shall be further measured as of each Contribution Period that may be then in effect for the Plan (for example, the limit would be 2,500 shares per Contribution Period in the case of two six month Contribution Periods in a calendar year).

Without limiting the Committee's authority under Section 19, it shall have the power to amend the Plan by changing the conditions for eligibility to participate in the Plan with respect to future grants of Options, without shareholder approval, if such change is announced at least 20 Business Days before the next Commencement Date on which Options are to be granted, and only if such eligibility conditions comply with the requirements of Code section 423(b)(4).

4. **Contribution Periods.**

(a) ***Initial Contribution Periods.*** Subject to the following paragraph (b), the Plan shall be implemented by a series of consecutive Contribution Periods commencing on January 1 and July 1 each year and ending on the following June 30 and December 31, respectively. The first Contribution Period under this Plan shall commence on July 1, 2010, and shall end on December 31, 2010. The Plan shall continue until terminated in accordance with Section 13 or Section 19.

(b) ***Changes.*** The Committee shall have the power to change the duration and/or frequency of Contribution Periods with respect to future purchases of Shares, without shareholder approval, if such change is announced to all Employees who are eligible under Section 3 at least five Business Days before the Commencement Date of the first Contribution Period to be affected by the change; provided, however, that no Contribution Period shall exceed 27 months.

5. **Participation.**

(a) ***Enrollment Process.*** An eligible Employee may become a Participant by following the established enrollment procedure as directed by the Plan Administrator, or any other entity designated by the Plan Administrator, before the Commencement Date of the applicable Contribution Period, unless an earlier or later time for completing the enrollment procedure is set by the Plan Administrator for all eligible Employees with respect to a given Contribution Period. Each eligible Employee who elects to participate for a Contribution Period shall determine the percentage of his or her future Compensation, subject to the limits in Sections 3(b)(ii) and 6(a), to be deducted from his or her paychecks after the Commencement Date for that Contribution Period and allocated to his or her Account as Contributions pursuant to the Plan.

(b) ***Payroll Contributions.*** Any such payroll deductions for a Contribution Period shall commence from the first payroll following its Commencement Date and shall end on the last payroll paid on or before the Purchase Date of the Contribution Period, unless sooner terminated as provided in Section 10. A Participant who has elected to participate during a Contribution Period shall automatically participate in future Contribution Periods at the same rate of Contributions until the Participant's rate of Contributions is changed pursuant to Section 6, or the Participant withdraws from the Plan or ceases to be an Employee as provided in Section 10.

6. **Method of Payment of Contributions.**

(a) ***Contribution Amounts.*** Subject to the limitations of Sections 3(b) and 11, a Participant shall elect to have Contributions made as payroll deductions on each payday during the Contribution Period in any percentage of his or her Compensation that is not less than 1% and not more than 15% (or such other maximum percentage as the Committee may establish from time to time before any Commencement Date) of such Participant's Compensation on each payday during the Contribution Period. Contribution amounts shall be withheld in whole percentages only.

(b) ***Accounts.*** Accounts will be maintained for each Participant in the Plan. All payroll deductions made by a Participant as Contributions shall be credited to his or her Account. A Participant may not make any additional payments into his or her Account. A Participant's Account balance shall remain the property of the Participant at all times, subject to the limitations of Sections 16 and 17, but the funds deducted from his or her paychecks may be commingled with the general funds of the Company, except to the extent such commingling may be prohibited by any Applicable Laws. No interest shall accrue on the Contributions or the Account balance of a Participant in the Plan, unless otherwise determined necessary by the Plan Administrator for the Accounts of Participants in the portion of the Plan that is not intended to qualify under Code section 423.

(c) ***Contribution Changes by a Participant.*** A Participant may discontinue his or her participation in the Plan as provided in Section 10.

(i) Unless otherwise provided by the Plan Administrator, a Participant may decrease the rate of his or her Contributions once during a Contribution Period by following the established administrative procedures as directed by the Plan Administrator to authorize a decrease in the payroll deduction rate. The decrease in rate shall be effective as soon as administratively feasible following the date the rate change election is received by the Company or any other entity designated by the Plan Administrator. However, any decrease in a Participant's rate of Contributions for a Contribution Period must be made at least 30 Business Days before the end of the Contribution Period, or it will not be effective until the next following Contribution Period.

(ii) Unless otherwise provided by the Plan Administrator, a Participant may not increase the rate of his or her Contributions during a Contribution Period. A Participant may only increase the rate of his or her Contributions with respect to a future Contribution Period by following the established administrative procedures as directed by the Plan Administrator to authorize an increase in the payroll deduction rate of Contributions. Any such rate increase shall be effective as of the Commencement Date of the next Contribution Period following a reasonable period (set by the Plan Administrator) after the date of its receipt by the Company, or any other entity designated by the Plan Administrator.

(d) ***Contribution Changes by the Company.*** Notwithstanding the foregoing, to the extent necessary to comply with Section 3(b), Section 11 and Code section 423(b)(8), the Plan Administrator may in its sole discretion direct the Company to reduce a Participant's payroll deductions for Contributions during any Contribution Period. If that occurs, any such Participant's payroll deductions shall re-commence, at the Contributions rate provided in the Participant's most recently submitted enrollment materials, at the beginning of the first Contribution Period that is scheduled to end in the next succeeding calendar year, unless any such limit continues to apply in that Contribution Period or the Participant terminates his or her payroll deductions as provided in Section 10.

7. ***Grant of Options.*** On the Commencement Date of each Contribution Period, each eligible Employee participating in such Contribution Period shall be granted the right and option to purchase (an "**Option**"), on the next Purchase Date, a number of Shares determined by dividing (a) such Employee's Contributions accumulated before such Purchase Date and retained in the Participant's Account as of the Purchase Date, by (b) the applicable Purchase Price, subject to the limitations set forth in Sections 3(b) and 11.

No Participant shall have any interest or voting right in Shares covered by any Option granted to him or her under this Plan until the Option has been exercised.

8. ***Exercise of Options.*** Unless a Participant withdraws from the Plan or ceases to be an eligible Employee as provided in Sections 3 and Section 10, his or her Option for a Contribution Period shall be exercised automatically on the Purchase Date of the Contribution Period; and the maximum number of Shares (which may include a fractional Share) subject to the Option will be purchased at the applicable Purchase Price with the accumulated Contributions remaining in his or her Account. The Shares purchased upon exercise of an Option hereunder shall be deemed to be transferred to the Participant on the Purchase Date. During a Participant's lifetime, his or her Options shall be exercisable only by the Participant; and shall not be exercisable after his or her death.

9. **Delivery of Shares, Holding Periods and Dividends.**

(a) ***Delivery of Shares to ESPP Broker.*** As promptly as practicable after the Purchase Date of each Contribution Period, the number of Shares purchased by each Participant upon exercise of his or her Option shall be issued by HSNi and deposited into a brokerage account established in the Participant's name with the ESPP Broker, for and on behalf of the Participant, in accordance with procedures established from time to time by the Plan Administrator. The terms of such ESPP Broker account shall be as provided herein and at the sole discretion of the Plan Administrator; and a Participant's participation in the Plan is expressly conditioned on his or her acceptance of such terms.

(b) ***Conditions Preceding Issuance of Shares***. Shares shall not be issued with respect to an Option unless the exercise of the Option and the issuance and delivery of such Shares pursuant thereto shall comply with all Applicable Laws, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, applicable state securities laws and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for HSNi with respect to such compliance. As a further condition to the exercise of an Option, HSNi may require the Participant exercising the Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel HSNi, such a representation is required by any of the Applicable Laws mentioned above.

(c) ***Disposition of Shares; Holding Period under Code Section 423*** Any ESPP Broker account established to hold a Participant's Shares shall be titled solely in the name of the Participant, unless the Participant is notified by the Plan Administrator that the account may be titled or re-titled jointly with another person, consistent with the policies of the ESPP Broker and Applicable Law. After satisfying any holding period that may be required by Section 9(d), the Participant may dispose of the Shares in his or her ESPP Broker account, whether by sale, exchange, gift or other transfer of title, in which case applicable transaction fees will be charged. However, in the absence of such disposition or a transfer upon the Participant's death pursuant to Section 15, the Shares must remain in the Participant's ESPP Broker account for a period of at least 18 months from the Purchase Date for those Shares, regardless of the Participant's Continuous Status as an Employee. After such time, the Participant, at his or her option, may elect to (i) keep the Shares in the ESPP Broker account; (ii) request a DRS transfer (book entry registration without a certificate) or (iii) transfer, at the Participant's expense, all or some of the Shares credited to the Participant's ESPP Broker account to an account with another broker chosen by the Participant.

However, any Participant who is not subject to United States taxation may, at any time and without regard to the 18-month holding period specified in the preceding paragraph for any Shares, move any of his or her Shares from his or her ESPP Broker account to an account with another broker chosen by the Participant.

(d) ***Other Holding Periods.*** The Committee shall have the sole and absolute discretion to impose a minimum holding period on Shares purchased under this Plan, during which each Participant's right to transfer or otherwise dispose of Shares will be restricted for a specified period of time. Any such holding period may be imposed or increased only for Shares purchased during Contribution Periods that begin after all eligible Employees have been given notice of the new or increased holding period, which notice shall be given at least five Business Days before the Commencement Date of the first Contribution Period in which Shares that will be subject to such new or increased holding period may be purchased. Commencing with the first Contribution Period beginning on July 1, 2010 and continuing until such time as the Committee shall determine otherwise, the Committee has instituted a six month holding period commencing on the Purchase Date and continuing for a period of six months thereafter. In the event of a Financial Hardship, a Participant may seek a waiver of such minimum holding period by making a written request to the Plan Administrator. Whether a Participant is granted a full or partial waiver under this provision shall be subject to the sole and absolute discretion of the Plan Administrator and would be based on the facts and circumstances of each situation.

(e) ***Dividends.*** Dividends paid in the form of cash, Shares or other non-cash consideration with respect to the Common Stock in a Participant's ESPP Broker account established under this Section 9 shall be credited to such ESPP Broker account. However, if a Participant holding Shares in any ESPP Broker account is subject to United States withholding taxes on any dividends payable with respect to the Shares, all cash dividends payable on those Shares shall be paid by HSNi net of the applicable United States withholding taxes on such dividends, which taxes shall be withheld by HSNi and paid to the appropriate United States tax authorities. The Company or any other Subsidiary employing each Participant shall annually notify the Participant, as part of its periodic reporting obligations under Applicable Laws, of the amount of such withholding applicable to dividends on the Participant's Shares in an ESPP Broker account, in order to enable the Participant to apply for any applicable tax credit in each country in which the Participant is subject to taxes on such dividends.

10. **Withdrawal; End of Employee Status.**

(a) ***Withdrawal.*** In the event of a Financial Hardship, a Participant may seek to withdraw from the Plan by making a written request to the Plan Administrator, or other entity designated by the Plan Administrator. Whether a withdrawal request is granted under this provision shall be subject to the sole and absolute discretion of the Plan Administrator and would be based on the facts and circumstances of each situation. However, any withdrawal request must be made before the end of a Contribution Period and by following the established administrative procedures as directed by the Plan Administrator, or such withdrawal request shall not be effective until the next following Contribution Period. If a withdrawal request is approved by the Plan Administrator during a Contribution Period, all of the Participant's Contributions credited to his or her Account for that Contribution Period will be paid to him or her, his or her Option granted for that Contribution Period will be automatically terminated, and the Participant may not make any further Contributions for the purchase of Shares until he or she re-enrolls. Upon withdrawal from the Plan, a Participant may not re-enroll in the Plan until the next Contribution Period after the Contribution Period in which the withdrawal was effective. In order to re-enroll, a Participant must follow the procedures described in Section 5(a).

(b) ***End of Employee Status.*** Upon termination of the Participant's Continuous Status as an Employee before the Purchase Date of a Contribution Period for any reason including his or her death or retirement, or if the Participant remains employed by a Subsidiary that ceases to be a Designated Subsidiary before that Purchase Date, the Contributions credited to his or her Account for that Contribution Period will be returned to him or her or, in the case of his or her death, to the person or persons entitled thereto under Section 15; and his or her Option for that Contribution Period will be automatically terminated. Whether the Participant's Continuous Status as an Employee has been terminated shall be determined by the Plan Administrator in its sole discretion.

(c) ***Other Plans.*** A Participant's withdrawal from the Plan shall not have any effect upon his or her eligibility to participate in any similar plan that may hereafter be adopted by the Company or any other Subsidiary.

11. **Limit on Shares Available under this Plan.**

(a) ***Maximum Number.*** Subject to adjustment as provided in Section 12, the maximum number of Shares that may be offered and issued under the Plan shall be 750,000 Shares. If any Option granted under the Plan shall for any reason terminate without having been exercised, at a time when such maximum number of Shares has not been reached, the Shares not purchased under such Option shall again become available for offering and issuance under the Plan.

(b) ***Application of Limit.*** If the Plan Administrator determines that, on a given Purchase Date, the number of Shares with respect to which Options are to be exercised will exceed (i) the number of Shares that were available for sale under the Plan on the Commencement Date of the applicable Contribution Period, or (ii) the number of Shares available for sale under the Plan on such Purchase Date, the Plan Administrator may in its sole discretion provide that the Company shall make a pro rata allocation of the Shares available for purchase on such Commencement Date or Purchase Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all Participants on such Purchase Date. If such event occurs at the beginning of a Contribution Period, the Company shall appropriately reduce the payroll deductions to be made pursuant to the Participants' authorizations for that Contribution Period, and the Company shall give notice of such reduction to each Participant affected thereby. If such event occurs at the end of a Contribution Period, the Company shall refund to each affected Participant any Contributions made for that Contribution Period that cannot be used to purchase Shares.

12. **Adjustments Upon Changes in Capitalization.**

(a) ***Adjustments.*** Subject to any required action by the shareholders of HSNi, and subject to Section 13, upon (or, as may be necessary to effect the adjustment, immediately prior to) a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock (including any such change in the number of Shares effected in connection with a change in domicile of HSNi), a merger, consolidation or reorganization or any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock, or an exchange of Common Stock or other securities of HSNi, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock, the Committee shall equitably and proportionately adjust (i) the number of Shares constituting the Reserves, as well as the maximum number of Shares that may be purchased by a Participant in a calendar year pursuant to Section 3(b)(ii); (ii) the maximum number of Shares set forth in Section 11; (iii) the price per Share covered by each Option that has not yet been exercised; and/or (iv) the securities, cash or other property deliverable upon exercise or payment of any outstanding Options, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by the Plan and the then-outstanding Options and otherwise to account for the effects of the transaction. The Committee's determination with respect to the adjustment shall be final, binding and conclusive. Except as expressly provided herein, no issue by HSNi of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares reserved hereunder or subject to an Option hereunder.

(b) ***Compliance with Applicable Laws***. It is intended that, if possible, any adjustments contemplated by the preceding paragraph be made in a manner that satisfies Applicable Laws (including, without limitation and as applicable in the circumstances, Code sections 424 and 409A) and accounting requirements (so as to not trigger any charge to earnings with respect to such adjustment).

(c) ***Authority of Committee.*** Without limiting the generality of Section 14, any good faith determination by the Committee as to whether an adjustment is required in the circumstances pursuant to this Section 12, and the extent and nature of any such adjustment, shall be conclusive and binding on all persons.

13. **Effect of Sale, Merger or Liquidation**. If either (a) HSNi or its shareholders enter into an agreement to dispose of all or substantially all of the assets or outstanding capital stock of HSNi by means of a sale, merger or reorganization in which HSNi will not be the surviving corporation (other than a reorganization effected primarily to change the state in which HSNi is incorporated, a merger or consolidation with a wholly-owned Subsidiary that is a corporation (or is treated as one under the Code), or any other transaction in which there is no substantial change in the shareholders of HSNi or their relative stock holdings, regardless of whether HSNi is the surviving corporation) or (b) HSNi is liquidated, then the Contribution Period in progress at the time of such transaction or liquidation shall be shortened and a new Purchase Date shall be set (the "**New Purchase Date**"), as of which date the Contribution Period then in progress will terminate. The New Purchase Date shall be on or before the date of consummation of such transaction or liquidation, and the Plan Administrator shall notify each Participant in writing, at least 10 Business Days before the New Purchase Date, that the Purchase Date for his or her Option has been changed to the New Purchase Date and that his or her Option will be exercised automatically on the New Purchase Date, unless before such date, the Participant has withdrawn from the Plan for that Contribution Period as provided in Section 10.

14. **Administration**. The Plan Administrator shall supervise and administer the Plan and shall have full power to adopt, amend and rescind any rules deemed desirable and appropriate for the administration of the Plan and not inconsistent with the Plan, to construe and interpret the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The Plan Administrator may delegate ministerial duties to such of the Company's other employees, outside entities and outside professionals as the Plan Administrator so determines.

15. **Death of Participant**. If Participant dies, the Company shall deliver any Shares and cash in the Participant's Account to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such Shares and/or cash to the

spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. **Transferability**. Neither Contributions credited to a Participant's Account nor any rights with regard to the exercise of an Option may be assigned, transferred, pledged or otherwise disposed of in any way (other than as provided in Section 15) by the Participant or any person entitled to the Account balance or such rights under Section 15. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw the Account balance in accordance with Section 10. Furthermore, no balance in a Participant's Account or Shares that have not been delivered shall be subject to any debts, contracts, liabilities, engagements or torts of the Participant or any person entitled to the Account balance or such Shares under Section 15.

17. **Use of Funds**. All Contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose; and the Company shall not be obligated to segregate such Contributions. The Plan is unfunded and shall not create nor be construed to create a trust or separate fund of any kind or a fiduciary relationship among the Company, the Board, the Committee, the Plan Administrator and any Participant. To the extent a Participant acquires a right to receive payment from the Company pursuant to the Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

18. **Reports**. Account statements will be made available (at times directed by the Plan Administrator) to participating Employees by the Company and/or the ESPP Broker. For each Contribution Period, those statements will set forth the amounts of Contributions, the per Share Purchase Price, the number of Shares purchased, the remaining Account balance, if any, and the balance of any ESPP Broker account.

19. **Amendment or Termination of Plan**.

(a) ***General Authority of Committee.*** The Committee may at any time terminate the Plan, or may from time to time amend the Plan in any manner it deems necessary or advisable; provided, however, that no such action shall adversely affect any Options then outstanding under the Plan unless such action is required to comply with Applicable Laws; and provided, further, that no such action of the Board shall be effective without the approval of HSNi's shareholders if such approval is required by Applicable Laws. Upon the termination of the Plan, any balance in a Participant's Account shall be refunded to him or her as soon as practicable thereafter, unless the Committee terminates the Plan on a Purchase Date or by the Committee's setting a New Purchase Date with respect to a Contribution Period then in progress.

(b) ***Administrative Amendments and Similar Actions.*** Without shareholder approval and without regard to whether any Participant rights may be considered to have been adversely affected, the Committee shall be entitled to change the Contribution Periods, limit the frequency and/or number of changes in the amount deducted during a Contribution Period, establish the exchange ratio applicable to amounts deducted in a currency other than United States dollars, permit payroll deductions in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed payroll deduction elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each Participant properly correspond with amounts deducted from the Participant's Compensation, and establish such other limitations or procedures as the Committee determines in its sole discretion to be advisable and consistent with the Plan.

(c) ***Exhaustion of Reserves.*** The Plan shall automatically terminate on the date when all of the Shares that were reserved under Section 11 for issuance under this Plan have been purchased by Participants under the Plan.

20. **International Participants and Employees of Non-corporate Subsidiaries.**

(a) ***Adoption of Special Provisions by Certain Subsidiaries.*** The Committee shall have the power and authority to allow any of HSNi's Subsidiaries other than Designated Subsidiaries to adopt and join in one of the following portions of this Plan that is not intended to comply with Code section 423, as described in Section 1(c):

(i) A portion for employees of any such Subsidiary who are generally not subject to income taxation by the United States (the **Non-U.S. Portion**"), or

(ii) A portion for employees who are employed by any non-corporate Subsidiary that is not eligible to be a Designated Subsidiary because it is described in clause (ii) of the definition of Subsidiary (the "**Non-corporate Portion**").

(b) ***Terms and Conditions for Any Non-U.S. Portion of the Plan.*** If the Committee allows any Subsidiary other than a Designated Subsidiary to adopt the Non-U.S. Portion of the Plan, the Committee may allow certain employees of such Subsidiaries who work or reside outside of the United States an opportunity to acquire Shares in accordance with such special terms and conditions as the Committee may adopt from time to time, which terms and conditions may modify the terms and conditions set forth elsewhere in this Plan, with respect to such employees, to the extent permitted under the following paragraph (d). Without limiting the authority of the Committee, the special terms and conditions that may be adopted with respect to any foreign country need not be the same for all foreign countries; and may include but are not limited to the right to participate, procedures for elections to participate, the payment of any interest with respect to amounts received from or credited to Accounts held for the benefit of such employees who elect to participate, the purchase price of any Shares to be acquired, the length of any Contribution Period, the maximum amount of contributions, credits or Shares that may be acquired by any such participating employees, and a participating employee's rights in the event of his or her death, disability, withdrawal from participation in the purchase of Shares under the Non-U.S. Portion of the Plan, or termination of employment.

(c) ***Terms and Conditions for Any Non-corporate Portion of the Plan*** If the Committee allows any non-corporate Subsidiary to adopt the Non-corporate Portion of the Plan, the Committee may allow certain employees of such Subsidiaries an opportunity to acquire Shares in accordance with such special terms and conditions as the Committee may adopt from time to time, which terms and conditions may modify the terms and conditions set forth elsewhere in this Plan, with respect to such employees, to the extent permitted under the following paragraph (d). Without limiting the authority of the Committee, the special terms and conditions that may be adopted with respect to any non-corporate Subsidiary need not be the same for all non-corporate Subsidiaries; and may include but are not limited to the right to participate, procedures for elections to participate, the payment of any interest with respect to amounts received from or credited to Accounts held for the benefit of such employees who elect to participate, the purchase price of any Shares to be acquired, the length of any Contribution Period, the maximum amount of contributions, credits or Shares that may be acquired by any such participating employees, and a participating employee's rights in the event of his or her death, disability, withdrawal from participation in the purchase of Shares under the Non-corporate Portion of the Plan, or termination of employment.

(d) ***Compliance with Applicable Laws; Effect of Code Section 409A.*** Any purchases of Common Stock made pursuant to the provisions of this Section 20 shall not be subject to the requirements of Code section 423, but shall be made pursuant to any other Applicable Laws; provided, however, the granting of any Options under this Section 20 shall be completed and administered only in a manner that is intended to either (i) comply with Code section 409A, or (ii) be exempt from taxation imposed by Code section 409A(a)(1)(A) or (B), so as to prevent any such taxation being imposed on participants receiving any such grant. For example, Options granted under this Section 20 may either:

(i) comply with Code section 409A by either specifying exercise prices that are not less than the fair market value of the Common Stock at the date of grant, or specifying Purchase Dates that are fixed dates or made contingent upon the occurrence of certain earlier or later payment events permitted under Code section 409A, in either case when the Options are granted; or

(ii) be exempt from Code section 409A if granted under the Non-U.S. Portion of the Plan to certain non-resident alien individuals employed by Subsidiaries that are not Designated Subsidiaries and operate outside the United States, to the extent the latter type of grant is treated under section 1.409A-1(b)(8) of the Treasury Regulations as not providing deferred compensation for such individuals.

21. **Notices.** All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. **Term of Plan; Effective Date.** The Plan shall become effective upon approval by HSNi's shareholders and adoption by HSNi. It shall continue in effect until all of the Reserves are exhausted or such earlier time as the Plan is terminated pursuant to Section 19.

23. **Governing Law.** Except as otherwise explicitly stated in this Plan, the validity, construction and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Florida and applicable United States federal laws.

24. **Severability.** If any provision of the Plan is or becomes invalid, illegal, or unenforceable in any jurisdiction or would disqualify the Plan under any law, such provision shall be construed or deemed amended to conform to Applicable Laws; or if it cannot be so construed or deemed amended without materially altering the intent of the Plan, such provision shall be stricken as to such jurisdiction, and the remainder of the Plan shall remain in full force and effect.

25. **No Rights as an Employee.** Nothing in the Plan shall be construed to give any individual (including an Employee or Participant) the right to remain in the employ of HSNi or any Subsidiary, nor to affect the right of HSNi or any Subsidiary to terminate the employment of any individual (including the Employee or Participant) at any time with or without cause. Nothing in this Plan shall confer on any person any legal or equitable right against HSNi or any Subsidiary, or give rise to any cause of action at law or in equity against HSNi or any Subsidiary. Neither the Options granted, any Shares purchased hereunder nor any other benefits conferred hereby, including the right to purchase Common Stock at a discount, shall form any part of the wages or salary of any eligible Employee for purposes of any severance pay or termination damages, irrespective of the reason for termination of employment. Under no circumstances shall any individual ceasing to be an Employee be entitled

to any compensation for any loss of any right or benefit under this Plan that such Employee might otherwise have enjoyed, but for ceasing to be an Employee, whether such compensation is claimed by way of damages for wrongful or unfair dismissal, breach of contract or otherwise.

26. **Taxes.** Participants are responsible for the payment of all income taxes, employment, social insurance, welfare and other taxes under Applicable Laws relating to any amounts deemed under the laws of the country of their residency or of the organization of the Subsidiary employing such Participant to constitute income arising out of the Plan, the purchase and sale of Shares pursuant to the Plan and the distribution of Shares or cash to the Participant in accordance with this Plan. Each Participant hereby authorizes HSNi or any Designated Subsidiary that pays Compensation to the Participant to make appropriate tax withholding deductions from that Compensation with respect to any Contributions authorized by the Participant, which deductions shall be in addition to any payroll deductions made as Contributions pursuant to Section 6, and to pay such withheld taxes to the appropriate tax authorities in the relevant country or countries in order to satisfy any of the above tax liabilities of the Participant under Applicable Laws.

27. **Acceptance of Terms.** By participating in the Plan, each Participant shall be deemed to have accepted all the conditions of the Plan and the terms and conditions of any rules and regulations adopted by the Committee or the Plan Administrator; and shall be fully bound thereby.

Approved by the Compensation and Human Resources Committee and Board of Directors of HSN, Inc. on February 24, 2010.

EXHIBIT 31.1

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

I, Mindy Grossman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2017 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: May 3, 2017

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, Rod Little, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2017 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: May 3, 2017

By: /s/ Rod Little
Rod Little
Chief Financial Officer

EXHIBIT 32.1

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

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

(1) the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017 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: May 3, 2017

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

(1) the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017 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: May 3, 2017

By: /s/ Rod Little

Rod Little

Chief Financial Officer